Crisis in the Power Generation Sector

What is the issue?

\n\n

\n
- By 2030, India aims to have 40% of its electricity generation capacity to be of renewable origin.
\n
- Increasing competitiveness of renewable will affect the demand for conventional thermal power and threaten the profitability of the current investments.
\n

\n\n

What does the statistics say?

\n\n

\n
- Currently, in the private sector, around 25 Gw of thermal power capacity is operational with another 25 Gw expected to come up in the next three to five years, entailing an investment of Rs 2.5 lakh crore.
\n
- The “Plant load factor”, which is a measure of the output of a power plant compared to the maximum output it could produce, has continuously been reducing due to sluggish demand.
\n
- The average Plant Load Factor (PLF) for coal-based power plants has steadily declined from 79% in 2008 to sub 60% levels in 2016
\n
- The situation is expected to worsen because lower PLFs will lead to lower profitability and impair project viability.
\n
- Adding to the woes is worsening asset quality and rising NPAs of banks, which for the “power generation sector” is 5.9% of total outstanding dues of Rs.473,815 crore.
\n

\n\n

What impact will a rapid shift to renewable have?

\n\n

\n
- The shift to renewables is likely to render a part of the assets in conventional energy generation idle, or result in them being used at a much lower than their maximum capacity.
\n
- The investments in these plants being sunk, it would be no longer possible to recover any returns from them although their useful life is still not over.
\n
- The Chief Economic Advisor - Arvind Subramanian, has cautioned that overemphasis on renewable energy could erode the viability of thermal power plants and aggravate the NPA problem.
\n
- So, it is important to ensure that the pace of investments in RE should be in sync with other economic considerations.
\n

\n\n

How can the stress in the industry be addressed?

\n\n

\n
- Revitalising stranded assets by focus on both demand and supply is essential to address the NPA glut in the generation sector.
\n
- The government needs to lead electricity demand creation especially given that low PLFs are a result of more supply chasing less demand.
\n
- **Demand Side -** Implementing the ‘Power for All’ and 100% metering of existing and new consumers on a war footing will contribute in this regard.
\n
- To do so, states can explore options such as direct benefit transfer and offer metered connections free or at concessional rates.
\n
- As demand picks up over the over the years (medium & long term), proper procurement planning can ensure thermal projects meet the base load.
\n
- **Supply Side –** Considering the situation in the industry, new investment in Thermal is out of the question.
\n

- The NTPC, instead of focusing on investing in new capacities, could look at taking over joint venture plants that were set up along with states and work to enhancing their efficiencies.
\n
- **Decommissioning –** At the national level, 34 Gw thermal assets are more than 25 years old.
\n
- Present environmental norms require these plants to be decommissioned and there is no merit in making fresh investments to upgrade them into super critical plants.
\n

\n\n

\n\n

Source: Business Standard

\n

