Problems plaguing Thermal Power Generators

What is the issue?

With a coal-supply demand gap, and international coal prices rising, cash-strapped thermal power generators are left with critical stocks.

What is the status of India's coal sector?

- India is the second largest producer of coal, with reserves that could last up to 100 years.
- Until FY20, domestic sources contributed to about 90% of the power sector's coal receipts while the remaining was filled by imports.
- But by FY22, the reliance on imports diminished to 3.8% which built pressure on domestic supplies.
- Coal imported for blending purposes by power plants that run on indigenous coal also declined in the last financial year.
- This dip in imports can be attributed to the skyrocketing prices of coal in the international markets (price of imported coal is nearly 5-6 times higher than domestic supply).

> *About 79 of the 150 plants that depend on domestic coal had critical stocks (<25% of the required stock) as of June 15. Eight import-based coal plants were also at critical levels.*

Why does India have a recurring power crisis?

- Despite the huge reserves, the shortage of coal supplies continues to be an issue, year after year.
- **Stagnant production**- The domestic production of coal stagnated between FY18 and FY21 and revived only in FY22.
- **Rise in temperature**- The rise temperature also triggered the demand for power.
- **Economic recovery**- As the economy recovered, the power demand breached the 200 MW level on several occasions.
- **Global factors**- Unseasonal rains in Indonesia, Covid-induced production cuts in Australia, and rising power demands in China have ensured a once-in-a-lifetime bull run in coal prices.

What are the perennial bottlenecks?

- **Cost of power-** To bridge the gap in coal shortage, the Power Ministry has asked the power-generating companies (gencos) to use imported coal for 10% of their requirement.
- However, States are wary of using imported coal as it would raise the cost of power substantially.
- **Longstanding dues**- Discoms, often dubbed as the weakest link in the power sector chain,

owe long-standing dues to the tune of Rs. 1.16 lakh crore to the gencos.

- **Delayed payments**- Delays in payments by discoms create a working capital crunch for generating companies which in turn inhibits them from procuring an adequate quantity of coal.
- **Lower revenue generation**- The revenue generated by discoms is much lower than their costs as evident from the gap between the average cost of supply and average revenue realised.
- **Non-revision of tariffs**- Apart from providing power at cheaper rates, some State governments do not revise tariffs periodically.
- **Delayed compensation**- the delay in getting compensation from the government also compounds the woes of cash-strapped discoms.

According to the 2019-20 report by the Power Finance Corporation, discoms had accumulated losses up to Rs. 5.07 lakh crore and were unable to pay generators on time.

References

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