

Power Watch – January 2017

POWER SECTOR ROUNDUP 2016

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POWER SECTOR ROUNDUP 2016

In 2016 the government tried hard to revive the sector, to promote green energy and secure last mile connectivity so that power reaches the poorest of the poor. But weak demand leading to lower utilisation of existing capacities, grid constraints for renewable power and reluctance by many states to completely adhere to the spirit of UDAY have not helped improve the health of ailing discoms, which puts a strain across the entire power value chain. Some key highlights for 2016 were:

Meeting the demand

The power demand continued to grow at an average of almost 5 per cent over 2015 despite slipping in recent months to of 2.5 per cent as a result of slow industrial growth. It's imperative for macroeconomic conditions to improve in India to facilitate higher demand to improve the power sector scenario.

Growing renewables space

The renewable energy space continued to witness accelerated growth that is primarily attributable to solar and wind capacity addition. Aided by reduction in module prices, the tariffs continue to fall and achieving grid parity is no longer a distant dream. The tariff fell to Rs 5/kWh last year largely as foreign players bid aggressively. This year rooftop solar bids have gone as low as at Rs 3/kWh and have set another benchmark for the industry.

Achieving fuel sufficiency

Domestic coal supplies have improved considerably this year resulting in a limited need for imported coal benefitting India's Current Account Deficit. This is a noteworthy achievement as no plant has reported generation loss due to non-availability of coal this year. Coal availability for the power sector under e-auction has also improved significantly; the relative price gap between linkage and e-auction coal has narrowed down and has become more affordable.

Reviving the distribution sector

The UDAY scheme launched last year to help financial turnaround and revival of discoms has been implemented this year. 17 states have 'in-principle' agreed to join the scheme. While the condition of other utilities continues to remain critical, it has been noticed that 28 of 40 utilities did not file for tariff revisions with the regulator on time this year.

2017 – The year ahead and expectations

For the power sector to revive completely and become more attractive for fresh investments, it is important for the announced reforms to be implemented successfully. For 2017, we expect the following:

Successful implementation of UDAY: 2017 will see the implementation of reforms by states as per the roadmap envisaged under UDAY. It's important for the state to ensure timely tariff revision and T&D loss reduction so that this doesn't become just another financial restructuring scheme like in the past.

Meeting India's renewable energy targets: To be able to meet the stiff targets set by the Indian government, it would be important to mitigate inherent risks associated with projects from an investors comfort perspective. Once these risks are taken care of, more capital will find its way towards making fresh investments for new projects.

Improvement of coal quality: The outcomes from the initiative of independent third party coal sampling will be important to help in better grade determination and better estimate of specific heat rates for coal fired power plants.

Support for peaking plants: To cater to peaking power demand and help the ailing hydro and gas based generation, it is important to have a clearly articulated policy direction for them.

It is unreasonable to expect a quick fix solution for the above issues. But if the State and Central government machineries can continue to align their efforts, it will result in creating a win-win scenario not only for private investors but also for end customers.