Electricity sector needs revamp

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India is still struggling to come to grips with the devastating spin-offs of Covid-19, including the slump in economy. Like other sectors, the power sector too has taken a severe hit, with lowered electricity consumption due to semi-operation of industries. In fact, the dynamic trading price of electricity fell to a three-year low of 60p recently, an indicator of the drop in demand.

At the same time, the decision of several multinational companies following the pandemic, to shift manufacturing base from China, presents India with a wonderful opportunity to revive the economy. The convergence of national will can invigorate the domestic manufacturing ecosystem, and with it, the demand for electricity. With countries striving to meet United Nations' Sustainable Development Goal (SDG) 7—affordable and clean energy for all—India can tap into the renewable energy (RE) manufacturing business, and become a leading hub.

Focus on Make in India

The pandemic has brought various activities in the power sector to a standstill. There is an urgent need to revamp the sector and recover revenues by focusing on on-demand creation through Make in India objectives in the commercial and industrial sectors.

At present, India's manufacturing capacity for solar photovoltaic and wind turbines is around 10 GW and 3 GW respectively, with a majority of installations sourcing products from China. We should align our ambitious RE targets (175 GW by 2021-22 and 450 GW by 2030) by ramping up indigenous solar and wind manufacturing. These are energy-intensive processes. Thus, they will not just help increase plant capacity utilisation (plant load factor) but also benefit both generation and distribution companies.

Currently, India imports 80-90 per cent of solar modules from China. The existing indigenous cell and module manufacturing capacities are at 3.3 GW and 10 GW respectively. The key to fulfilling India's ambitious target lies in a vertical integration of the manufacturing value chain of solar, i.e., from wafer to the finished product. The government should encourage new market players by bringing down RE bidding prices through financial measures such as partial risk mitigation mechanisms, land acquisition framework for wind and solar parks, and low-rate debt.

Currently, the distribution companies (DISCOMs) and generating companies (GENCOs) are riding on pan-India revenue losses of ₹30,000 crores and ₹25,000 crores, respectively. The growing cash deficit due to the decrease in demand and revenue erosion will progressively burden the DISCOMs. As it is, they are reeling under the 'must-buy' compulsions under long-term purchase agreements, maintenance of critical infrastructure, and cut-offs for minimum overheads with critical employee workforce. That aside, the waiving off of fixed charges for the commercial and industrial sectors, and the loss of tariff realisation due to availability of only digital payment modes, has only aggravated the situation The DISCOMs already have an outstanding debt of ₹88,311 crores till January 2020.

Restricted commercial and industrial activities of late have seen the operational plant load factor falling from 63% to 35%–40%. The financial situation of the generating companies is further compounded by the decision of the Central Electricity Regulatory Commission (CERC) to waive off the late payment surcharge for DISCOMs by one-third (1% instead of 1.5%) and to offer short-term respite with a 3-month moratorium. This will translate to a top up income loss of 6% per annum for transmission companies such as National Thermal Power Corporation (NTPC) and Power Grid Corporation. At the generation end, the impact is equally grim with plants facing the likely scenario of shutting down due to high variable costs. GENCOs are also losing monies over fixed and fuel cost obligations, due to an overall reduction in demand.

With distribution and generation companies struggling to stay afloat, the Union Government should consider measures such as ease of borrowing, advance release of annual revenue subsidy, discount offers for digital payments, and options for one-time settlement of arrears. Besides liquidity injections, the Government should also contemplate directing safeguarding duties collected on imported cell and modules to a fund to support indigenous manufacturers. This will truly help realise the Government's vision of an 'aatmanirbhar' future.

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