

Crisis in Power Sector

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About the Author:

Mr. Anil Swarup is an experienced administrator as well as a successful orator with the ability to grab everyone's attention. He was the former Secretary of School Education (2016-2018) and the Secretary of Ministry of Coal. With his history and experience in the coal sector, he brought about several reforms to ensure transparency in the auction of Natural Resources and an unmatched increase in Coal production. He has also formulated and administered one of the largest social sector health insurance scheme for more than 30 million poor in India.

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The scenario:

The power sector is in serious trouble. No, this is not 2014 when it was indeed in trouble. This is 2018. Look at the following indicators:-

1. Rs. 1.74 lakh crores worth of stressed assets with the banks are from power generating companies. This amount is increasing by the day.
2. Thirty-four power plants are stressed (32 in the private sector and 2 in public). The capacity of these stressed thermal power plants is around 40,000 MWs.
3. Shortage of coal supply and Fuel Supply Agreement. The number of critical plants for want of adequate coal stands at 26 on the 9th of October, 2018 as per Central Electricity Authority data.

The causes

The Parliamentary Standing Committee has identified the following major reasons for the crisis:-

- (a) Coal supply shortage: Cancellation of allotted coal blocks in 2014 by the Supreme Court.
- (b) Setting up of projects without fuel linkages.

Purchase Agreements are made available by States (out of the stressed commissioned capacity of 24,405 MWs, there are PPAs only for 16,129 MWs).

2. The inability of the promoters to infuse equity & working capital.
3. Contractual and tariff-related disputes.
4. Inadequate funding by Banks and Financial institutions. (Some instances where the projects are complete but the banks haven't sanctioned working capital)
5. Delays in project implementation, leading to cost overrun.

There are some other aspects also that have contributed to the current crisis:

- i. Aggressive and uneconomic bidding in coal blocks auctions by power generating companies. In view of the coal shortage and uncertainty about the future availability of coal, the user entities didn't want to take any further chance. The users wanted coal blocks "at any cost" only to discover subsequently about the actual cost they had to pay.
- ii. Across the board cancellation of coal blocks allocation under the Supreme Court orders had a much greater impact than expected. As it was later discovered, there were no takers for a number of blocks because their viability depended

upon the user industry existing in the near vicinity.

- iii. Mining in a number of coal blocks, stuck up for the requirement of clearances. This had always been a problem in the country and continues to impact progress.
- iv. With the cross-subsidization of renewable energy, the coal-based thermal energy sector has had to bear the cost of the ambitious targets set out for renewable energy.
- v. The variety of cess imposed on coal has put additional burden on the coal-based power plants

Action so far:

The focus so far had been to grapple with some of the issues for selecting a few generation companies in the following manner:

1. Special linkages for some of the entities by Coal India
2. Recent move to allow cost pass-through to certain entities, to alleviate the burden of increased import-price.

All these piecemeal efforts are not likely to generate a substantial impact on the power sector that is facing with severe crisis though it would reduce some of the entities from the cost-burden, that too would come at someone else's cost.

Moreover, the hydro-electric power generation has not kept pace with the requirements. The grid balancing that could have been done through hydro-electric power for renewable energy is now being "enforced" on the coal-based power plants, and they have been "asked" to back down at a substantial cost to "accommodate" solar power transmission. There is a cost to it, and someone has to bear it. Sadly, the thermal power plants have had to bear this cost.

Possible way forward:

There are two sets of issues that afflict the sector:

1. Demand-side issues
2. Supply-side issues

The demand for power exists, but the DISCOMs (Distribution Companies) are unable to articulate this demand as they are themselves in a financial mess. UDAY (Ujjwal DISCOM Assurance Yojana) requires to be implemented in letter and spirit to get the DISCOMs out of the trouble in a manner as has been done in Gujarat even before the dawn of "UDAY." It is do-able, but the similar commitment & political will have to be demonstrated by the other states. Few initiatives have been taken, but a lot more needs to be done. The DISCOMS holds the key to the power sector.

The supply-side issues will have to be tackled differently and in a comprehensive manner. Let us look at some of them:

- i. Coal India must increase the supply of coal by the following strategy pursued during 2014-15 & 2015-16 when coal production witnessed an unprecedented increase. The factors that impact coal production relate to land acquisition, environment, and forest clearances, and evacuation of coal. Most of the issues that impact the first two factors relate to the actions by respective state governments. Hence, the strategy will have to centre around going down to coal-bearing states to resolve such issues. It has been done in the past. There is no reason why it can't be done now.
- ii. Facilitate various clearances for the coal blocks that were auctioned/allocated. These clearances haven't moved forward in the past couple of years. The revival of the Project Monitoring Group (PMG) at the centre and pursue clearances aggressively. This too has been done in the past and be done again.
- iii. Setting-up a high-level and empowered committee to examine each stressed-projects & work out a rehabilitation package. The only financial restructuring will not help, so the package has to be a comprehensive one. This could even entail change of ownership/management and/or adequate sanction of funds that are required for the projects. The committee

should also be empowered to settle disputes if any. Until and unless such a central mechanism is created, the issues will not be resolved.

- iv. The power generating companies should not be saddled with the burden of cross-subsidizing the renewable energy sector. Promoting renewable energy is laudable, but it has a cost, and this has to be borne by society (through taxation) and not be entities that are already in trouble.

The time is of the essence, and with each passing day, the problem will become even more complicated. Since all governments in the past have been notorious for delays, and this government is different. The present team in the Ministry is different. It comprises a team with proven competence. R K Singh was a highly rated civil servant & Ajay Bhalla contributed substantially to the turnaround of the coal-sector. They are capable of turning around the power-sector as well. Hopefully, they will be able to achieve that for the national interest of the country.

