



Concerns in Power Sector

What is the issue?

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Concerns in discoms and power prices call for the government to make the right intervention to regulate the market and production pattern.

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What are the concerns to be addressed?

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- **Debt** - The much publicised UDAY programme called for a reduction of debts in the discom balance sheets.
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- However, in many ways, this only meant a transfer of debt from discoms to the state treasury.
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- This has thus resulted in a superficial reduction in the cost of power at the discom level.
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- Despite giving the impression of a new lease of life for discoms, there is little change in their tariff structure and losses continue to pile up.
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- **Cost** - Discoms pay pre-agreed fixed cost to generating companies.
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- However, this is based on the plant availability criteria and even if they do not take off the contracted capacity, the pre agreed cost is paid.
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- This results in discoms far fewer units to purchase and lead to pushing up the power purchase cost per unit.
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- Hence, the average cost of supply for discoms is higher.
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- **Oversupply** - The Electricity Act 2003 opened up the power sector to a

number of players for offering choices and boosting competition.

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- Henceforth, industrial and commercial consumers could buy cheap power from the open market, rather than being limited to buy from the local utility monopoly.

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- Open Access has led to the entry of many new private players.

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- The resultant increased installed capacity is leading to oversupply in open market capacities.

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- This forces the generators to supply power at near-variable costs which are just enough to keep the plant running.

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- As prices fall, plants shut down, causing stranded assets and creating NPAs in the banking system.

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What are the possible solutions?

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- India should focus on

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- i. maximising capacity utilisation of existing thermal assets

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- ii. promoting renewables and hydros

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- iii. lowering power generation costs

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- iv. gradual retirement of inefficient plants

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- v. addressing existing excess capacities

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- The issues of shortage of water and fuel for under-used plant capacities should be addressed by the government.

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- The Government should also work towards creating a level playing field for

discoms and generators.

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- Equitable clauses in the model Power Purchase Agreement should be created for securing the interests of both.

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- Government regulation of State-owned discoms should be reduced to let them have control over the power pricing and market play.

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- Prioritising the interventions, to adopt renewables and to suspend thermals at the right time, should be the government's mandate.

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Source: Business Line

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