Protecting the Power Sector

What is the issue?

- Most of the industrial units are either shut or operating at a fraction of their capacity, due to Covid-19 led nationwide lockdown.
- One consequence is that demand for electricity has fallen sharply, hitting a five-month low on just the first day of the national lockdown.

Why is there such a fall in demand?

- Industrial demand, together with the off take from Indian Railways (passenger services have been suspended) constitutes 40% of national power demand.
- The other issue is that the industrial segment of the market is the paying section, which helps cross-subsidise domestic power consumption.

What is bad with the timing?

- These issues comes at a bad time for electricity distribution companies (discoms) which owe over Rs 80,000 crore to generation companies.
- The number of consumers not able to pay their power dues will increase in this period, further hampering the discoms' liquidity situation.
- If discoms are unable to buy power from generation companies, there is a real possibility of widespread load shedding.
- This would hamper the output of those working from home and might have serious public-health effects if hospitals, quarantine centres, etc., find themselves without power to run lifesaving equipment.

What did the government do?

- The government has stepped in to improve the situation by announcing a package targeted at the power sector. This would include,
    1. A moratorium on debt repayment for 3 months,
    2. An instruction to the generating companies that they should continue to supply to discoms and
    3. Relaxation of the payment security mechanisms built into newer power-

purchase agreements (PPAs).

- This might help manage the situation for some time. Yet both on a temporary and on a permanent basis, a more solid solution is needed.

What sectors will be affected?

- India's fragile banking sector is over-exposed to the power sector.
- So, a breakdown here will have severe effects on the broader economy and cripple India's recovery from the sudden stop imposed by the national lockdown.
- Also suffering is a part of the power sector - the renewable energy sector.
- Capacity addition in the sector has been hit by a double setback.

What are the two setbacks?

- There is an **interruption in the supply** of new components, that depends upon global supply chains.
- This has affected the speed of capacity build-up as well as the financial indicators of the sector.
- **Scarcity of dollars** for emerging-market companies at the moment means that the renewables sector is having trouble raising money and repaying its debts.
- This section of the power sector requires special attention, given the government's ambitious targets.

What could be done?

- The Union government could shell out the money required to
    1. Guarantee the revenue flow for renewables and
    2. Buy out the power-purchase agreements attached to older and less efficient and environmentally-friendly generators.
- This will free discoms to make newer and more sensible PPAs, which will have to be backed by the state government's own guarantees.

Source: Business Standard



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