Coronavirus: Government must play an active role in minimizing impact on power sector

The government should initiate several steps to ensure that the power sector sails through this difficult time.

Sanjay Banga President, Transmission & Distribution, Tata Power

The COVID 19 outbreak has today become a major threat for the entire mankind with more than 196 countries and territories affected worldwide. While the hospitality and aviation industries are among the worst hit, the power sector being part of essential services is trying hard in this difficult time to keep lights on in every home.

While there is a positive side to the business in the form of its regulated nature -- covering the entire domain of generation, transmission and distribution segments -- the returns are normally protected for the shareholders of the business. The same has been proven during the financial crisis in 2008 as well as the crisis we are facing now as compared to other sectors. However, there are multiple issues, which would need the attention of the government. Otherwise, the growth path of the economy is certainly going to be hampered.

Further, those outside the purview of the regulated scenario such as private generators are likely to be the worst hit with demand going down post the Coronavirus lockdown in most states and now with the national lockdown announced for a period of 21 days. Delhi and Mumbai have already faced a demand drop of almost30 per cent post the lockdowns with other regions falling suit. At the national level, there is a drop of around 20 per cent in demand in the last one week. Reduced generation is likely to hamper other sectors like coal as well. State-owned Coal India will see a reduced uptake from generation plants in the near future. Thermal generation in India has already witnessed low plant load factors of 54-59 per cent but the continued situation of the outbreak is likely to move the same further down, and this will largely impact the private generators who have no long term PPAs. This summer will be different with energy prices not having any upward trend.

The immediate threat to the power sector today is to maintain liquidity. Here we are talking about discoms who are already under financial stress and still struggling with high AT&C losses, non-cost reflective tariffs etc. Most of the distribution utilities are already grappling with theft, metering and collection issues, which lead to huge losses for them. India has on an average AT&C losses of 19-20 per cent as compared to developed nations where the figures are usually in the range of 4-5 per cent.

With the COVID-19 outbreak, the personnel on the ground who are responsible for Revenue Cycle Management i.e. meter reading, bill distribution, collection, checking meter quality, replacing faulty meter, preventing theft through enforcement activities, disconnecting defaulters by going to their homes, is largely getting affected with consumers resisting any entry into their premises due to the fear of contracting the virus. The masses are also fearful of going to the collection counters of the utilities to make payments. Most of the discoms have closed the collection centers for safeguarding their employees and resorted to basic operational requirement of maintaining round-the-clock supply. In such a situation, only the utilities who have embraced technology for automated meter reading and digital payment options will be able to survive. Unfortunately, the technology adoption levels vary across discoms in India and those still dependent on the manual ways of reading, billing and collecting are likely to be hit the most making their situation worse.

The crisis, which seems likely to continue at this moment for a longer time, will hamper the financial position of the utility further by increasing their losses due to low collection and billing efficiency and increasingly reduce their ability to make payments to the generation companies in a timely manner. Further, with their continued financial distress, it may not be possible for many banks to offer LC on behalf of the Discoms to the generation companies.

In addition, with the commercial and industrial (C&I) establishments under lockdown or with limited production or footfalls, the residential consumption is increasing as mostly people are working from home. This means that cross-subsidizing consumption is reducing, and the subsidized consumption is increasing. In Italy, demand from C&I consumers has dropped by 70 per cent in the last one month. This will lead to revenue loss to the utilities as per their annual tariff orders and is likely to increase the ACS-ARR gap in times to come if the situation prevails for a longer duration. In addition, the ability to make timely payments by the industries and commercial establishments is also reducing as their revenue sources are being curtailed. For the first time, utilities are likely to observe lower collection efficiency from these consumers as well. To add further to this problem, few states have announced no penalty for late payment of bills, which has resulted in delayed payments to the utilities while there is no waiver of LPSC on bills raised by generation and transmission companies to discoms. This will further aggravate the situation in the next few weeks.

In the present situation, the government should initiate several steps to ensure that the power sector sails through this difficult time.

The government must extend the credit period for payment to Generation and Transmission companies by Discoms or the payment should be based on their collection efficiency or, in other words, their capacity to pay for next three months until we overcome the present situation and things move to normalcy. The same would also imply relaxing the norms for upfront LC requirement towards generators particularly in this period of crisis. A similar provision may also be incorporated for generators sourcing coal from CIL.

The government must also ensure that the state governments pay subsidy in advance to all the Discoms and state regulators will allow any costs incurred by Discoms additionally to maintain reliable services at the time of crisis in the subsequent tariff order. Further, penalties towards Performance Assurance should be relaxed for cases not in the control of the utilities due to the ongoing crisis.

Relaxing the Deviation Settlement Mechanism norms for the period of crisis would also be an important step. In such an unprecedented situation, it is difficult for utilities to forecast demand accurately as there are no data patterns that can be replicated further during these times when the demand is low. Take or Pay provisions in fuel contracts could also be suspended during this period. This will give some relief to discoms.

While this is a crisis for the entire nation, the above considerations by the government would help the discoms continue with the essential services in this time of need without being bothered about the consequences of low demand, collection and penalties.