

It's critical that generating stations help drive the country's economy instead of becoming NPAs

# Have the Power to Change



**Anil Sardana**

India's per-capita power consumption of 1,010 kWh per annum is very low compared to nations such as China (4,000 kWh per annum) and developed countries (about 15,000 kWh per annum). Here are a few possible remedies to enhance power demand and gainfully deploy built-up assets:

► **Minimise use of DG set:** GoI should deter users of diesel generator (DG) sets and levy penalties for using oil-based power supply. Grid-based power, even at industrial tariffs, is cheaper, and deterring DG set users will shift these customers entirely to the grid and put pressure on distribution companies to not default on power supply.

► **Make state distribution companies accountable:** Discoms need to be more accountable for the supply of 24x7 electricity to boost economic activity. To ensure reliability of supply, regulation should be formulated to penalise discoms for disruption of supply to industrial consumers.

To finance discoms for such a framework, a small reliability charge may be charged along with the tariffs, thereby offering them an incentive to procure and supply sufficient power. This would consolidate power demand in the national grid and bring the highest value to all stakeholders in the long term. If distribution companies still shed load, the regulator should deprive such discoms of tax benefits, or even consider privatising them.

► **Correct cross-subsidy regime distortion:** The average industrial power tariff in almost all states is higher than that charged in most developed countries. This is clearly not aligned to 'Make in India'. To make industrial tariffs even more cost-competitive, the cross-subsidy regime imposed on them should be removed. This can substantially shift power demand back to discoms and send the right economic signals to all consumers.



**Make the discom dinos extinct**

Low-end domestic consumers may be cross subsidised by high-end residential or commercial consumers. Agricultural subsidy may be funded through high-end residential and commercial customers. The fund for cross-subsidy can be formed by accumulating the cross-subsidy surcharge into a corpus, which may be used to disburse the direct benefit transfers. This can help minimise leakage and misuse of the subsidised power.

By leaving industrial consumers out of this cross-subsidising and keeping tariffs close to cost of supply, manufacturing can be made greatly cost-competitive with respect to global players.

## Direct Current

► **Incentivise industrial consumption:** Industry can be incentivised to add capacity and expand its production and market activities by giving high-performing production units 10-15% discount as 'credits' in industrial tariffs to be funded through GST or through a corpus created to boost industrial production. This will help enhance demand profile, improve competitiveness and create more jobs.

► **Re-evaluate capacity addition programmes:** To ensure existing generation capacity gets fully utilised and existing PPAs are honoured, fresh capacity addition needs to be re-evaluated. Nearly 50GW of thermal capacity is under execution, mainly by PSUs. A large portion of the new capacity is expected to supply power at prices above ₹4 per kWh, whereas existing

assets with sub-₹3.50 per kWh generation are lying stressed or stranded.

► **Retire old generating sets:** Old, inefficient assets of nearly 35GW capacity need to be retired and their fuel linkages and PPAs transferred to the more efficient generating stations. GoI should encourage power sector consolidation, including PSUs acquiring stranded assets, to usher efficiencies and present opportunities for growth.

► **Reassess renewable capacity addition pace:** The target on renewables must be reassessed to identify the capacity that would be needed vis-à-vis the expected future demand for power and the most efficient way to meet that demand using renewables. Lower growth projections in renewable generation may ensure a smooth transition in the country's power mix.

► **Privatise distribution supply:** Power is available at near-variable cost on a short-term basis in the power exchanges. But this is not being lifted by discoms, and load-shedding is often the route to curtail demand. The distribution business must be efficient to ensure consumers are offered the lowest price for power. Reforms can bring in competition in the power distribution supply business.

► **Look at Delhi:** Allowing private players to bring in professional management has brought in efficiency in discom operations and has slashed T&C losses — ultimately benefiting the consumer.

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India's power sector is facing a conundrum. While existing power plants are suffering from low utilisation rates of about 60%, or are lying stranded for either want of fuel or power purchase agreement (PPA), there is a brisk addition of new renewable and thermal capacities through public sector undertakings (PSUs).

Today, India's grid-connected installed capacity is 310 GW, while the peak power demand is only 170 GW. Under-utilisation of existing assets affects the profitability of power companies, hampers their capacity to service debt obligations and increases their risk of becoming non-performing assets (NPAs). There is an estimated 90GW of grid-connected power capacity that is stranded. Solving this challenge will result in two major benefits. One, it will boost 'Make in India' by generating more employment, and, two, it will ensure power to all.

## Alternating Current

Over the last few decades, the real growth in power demand hasn't matched up to Central Electricity Authority (CEA) estimates due to less energy-intensive services sector driving economic growth rather than the manufacturing sector. This is exacerbated by the poor performance of distribution companies with high aggregate technical and commercial (AT&C) losses that resort to load-shedding.

The target on renewable power must be reassessed to identify the capacity that would be needed vis-à-vis the expected future demand for electricity