Power Sector - Issues involved

What is the issue?

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The growing risk profile for thermal power plants is likely to result in increasing cost of capital for them.

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What are the recent events affecting the thermal industry?

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- First is the Supreme Court order disallowing Tata Power and Adani Power from charging compensatory tariff to neutralize the price hike of imported coal due to a change in Indonesian regulations.
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- **Volatility in imported coal prices** and the **uncertainty around cost-efficiency of domestic coal production** add more concern.
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- Non-availability of coal could swiftly turn the once lucrative and viable coal power plants into stranded assets.
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- Second is Indian **solar tariffs fell to yet another record low** of Rs2.44 for Solar Energy Corporation of India’s 500MW project at **Bhadla** in Rajasthan.
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- Thus with the tariffs for both wind and solar power dropping to unprecedented levels, power sector investors may shift focus to renewables.
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What are the issues in thermal power sector?

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- Thermal power plants are increasingly facing **lower capacity utilization.**
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- More than one-third of India’s total thermal power capacity is currently stranded and the rest is running at 55% utilization.

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- This creates problems to lenders of these thermal projects, mainly state-owned banks, since lower capacity utilization translates to falling recoveries.
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- **Longer construction periods** for thermal plants (three-four years), compared to renewable sources of power (12-14 months), is another important aspect for risk evaluation.
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- **Delays in obtaining environmental clearances,** affecting 89% of the projects, according to a recent CAG report.
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- The MoEF's 2015 notification mandating stricter emission and water usage standards to minimize environmental impacts of running coal-based plants has also been troubling the sector.
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- Thermal power producers have been persistent about **not upgrading technology** to meet the standards due to high costs and complicated procedures.
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- Stricter standards are also likely to increase the cost of power for ordinary consumers.
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- Thermal power producers should, however, is prepared for stricter enforcement of emission standards in the near future.
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What are the issue in Renewable energy sector?

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- While India's renewables sector does not have to battle risks associated with fuel sourcing, **the current reliance on imported solar panels** and balance of system products exposes the renewable energy sector to balance of payment implications, as in the case of coal imports.
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- This makes it imperative for India to rapidly ramp up domestic renewables manufacturing capacity.
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- Renewable energy capacity is also increasingly seeing curtailment despite being granted a must-run status.
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- In renewables, curtailment risk arises due to **unavailability of transmission infrastructure, grid congestion, and grid instability.**

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- Renewable energy sector is also plagued by several risks, such as delays in executing off take agreements, delays in payments from the utilities, curtailment, etc.
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- The biggest advantage in renewable energy projects, in most cases is exempt from environmental clearances.
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- And also significant advances have been made in recent years in streamlining the procurement of other clearances for renewable energy projects.
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- However, as the cost of renewable electricity declines, the financial burden posed by it on the utilities also declines, causing the most dominant risks in the sector to shrink.
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- The redirection of investments to renewables and allied sectors such as energy storage, energy analytics services, etc., could decrease the price of electricity from renewable energy sources.
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- This also improves their technical grid integration feasibility and shrinking associated risks for investors.
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Source: Live Mint

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