

Discovering the True Demand for Power in India by 2025: Should you invest in Power Generation Projects when Discoms Bankruptcy threatens to create Demand Blackout?

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Abstracts

Power sector in India has always been in a state of flux and if one analyzes sequence of events that shaped India's power sector since 1990s, one will see one common theme, i.e. struggle to reform the sector. Change is the only constant is true for India's power sector but that change seemingly never came in the sector wherein only constant was steady deterioration of the overall economics associated with the power sector. Thanks to state government interference in utility operations which generally have had detrimental impact on utility operations.

Power demand and supply scenario in India has always indicated a grim deficit situation and almost every 4-5 years the reason for this situation has been changing. Till recent, fuel shortage was blamed to be the core reason for power shortage as a result of which power generation plants were unable to generate enough electricity to meet demand. The new government took the task of transforming the overall coal sector and within one year of coming into power, Prime Minister Narendra Modi led NDA government has led to turn around in coal availability scenario in India. Since almost last 20 years, focus was given to power generation sector, as it was felt that accelerated capacity addition is the only solution to India's power shortages and problems associated with transmission and distribution sector was getting completely ignored. As a result, T&D sector has now brought the entire power generation sector to its feet and if situation doesn't get fixed, one could very well see next wave of stranded assets on the power generation side triggering sooner than later, first signs of which has already started emerging. While, transmission side related issues can still be fixed by fast tracking the transmission projects but what cannot be fixed is the bad state of financial health of distribution

companies that are responsible for generating revenue which than trickle backs to transmission and power generation. Now when the push has come to shovel, thanks to severed financials, discoms are not purchasing power to supply to its consumer. Discoms have now completely choked the viability of entire power sector. If not fixed India could see tremendous rise in stranded power assets across the power value chain.

Reasons related to power demand ~ supply deficit has evolved in almost every decade:

1990 - 2000: Not enough power generation capacity available to meet the demand for peak and base load power requirement & high level of technical & commercial losses in the grid > this led to liberalization in power generation sector which saw advent of IPPs and MPPs funded by private sector.

2001 - 2010: Increasing levels of AT&C losses, Discoms financials repaired by interim financial restructuring package

2010 - 2014: Coal, Gas unavailability, leading to power plant not getting adequate fuel to generate power

2015 - Discoms severed financial not allowing them with enough elbow room to meet power procurement requirement under constrained revenue scenario. country seeing demand collapse

Demand for power is collapsing has Discoms now operate under restricted supply model, wherein owing to its stressed balance sheets it is refraining from buying enough power to meet its supply commitment. Table below indicates how industry went wrong in reading the ground reality associated with power demand, however, the big question is, is it the real demand picture or restricted demand picture?

From power shortage scenario, experts are predicting problem of excesses in India's power sector, this triggered by following reasons:

Discoms adopting Restricted Power Supply Strategy: Discoms not purchasing the power from different generation sources due to lack of financial resources and resorting to restricted supply of power. Also, there are in a mood to challenge the status quo on why buy expensive power under PPA when cheaper power is available in the spot market.

Spot Market Power Prices have Dropped to Historical Lows: Dip in Demand for Power is has led to significant drop in Power prices in the spot market are at historical low levels as there are not many takers, historic slump in power demand from bankrupt distribution utilities has dragged down spot prices at India's largest power exchange, India Energy Exchange (IEX), to the lowest ever in its seven-year history. Average prices crashed to Rs 2.80 per unit last financial year - lower than even the average tariff of Rs 2.92 per unit

Discoms have started clamour on costly power received from NTPC under PPAs: Discoms do not want power from central allocation as the power available in open market are cheaper than that available under PPA with NTPC

Power Evacuation related challenges: Congestion in Grid has led to significant power generation loss in many states, specific to Tamil Nadu, Renewable Capacities generated power couldn't be utilized due to transmission constraints.

Record Power Generation Capacity Addition: Nearly 23 GW of new capacity was added in FY14-15, a record of sought under the Modi Government.

Government Capacity Addition Plans are discounting current ground realities - 175,000 MW by 2022, five ultra-mega power plants totalling 20,000 MW, overall government plans 180 GW of fresh capacity addition by 2022

Is there a silver line indicating initiatives that will see power demand revved up?

Separate 'Carriage & Content' in Electricity Distribution: Reforms in power distribution, government aims to separate 'carriage and content'. The proposal is based on a recent Central Electricity Authority recommendation that the distribution system be separated from the supply of electricity, with two separate licences to two separate legal entities. The electricity sector will become viable through commercialization of the distribution sector, which can only be feasible if content is separated from the carrier whereby the distribution network can be assigned to a licensee on similar lines as the central transmission utility and state transmission utility have been assigned for the development of transmission network. The content (sale of power) may be opened to competition at the Taluka and district levels, while in towns and cities, there could be multiple players.

Government Flagship Programmes: 100 Smart Cities, Power for All, Housing for All, Make in India, Dedicated Freight Corridors etc.

Increase in Capex across energy intensive Industries

Infralnsights firmly believes that understanding India's power sector is not easy, especially its dynamic state as well as steady state, no power market will have both the characteristic. On one hand power sector in India has always been in state of flux, every 2-3 years there are developments that positively impact the sector but immediately fizzle out due to emergence of another problem; there are enough anecdotal evidences to prove the same. On the other one thing that hasn't changed since decades is the financial situation of discoms that continues to drag the entire sector from pinnacle to deep cervix and the vicious cycle continues undeterred. It will only be safe to say that there is no easy solution to the myriad of problems that surrounds power sector in India and the inevitable is that government will have to dilute its control over the sector which can be regarded as one of the prime reasons for the condition of sector which seems to be becoming irreversible with every passing day. There is serious need to better understand what is the reality vis-à-vis what is projected by the government and atleast a true picture on likely power demand in the country over immediate short to medium term is what investors deserve to know before taking multi-billion dollar investment bet on the country's power sector.

Infralnsights through this multi-client report 'Discovering the True Emerging Demand for Power in India by 2022' will provide 360 degree critical evaluation of the sector to throw what will be the likely demand for power in two scenarios, 'Restricted' and 'Unrestricted'. This report is indispensable for all stakeholders in power sector that will take investment decision across the power value chain basis the emerging demand environment. Report will cover all the leading states like Maharashtra, Gujarat, Rajasthan, Madhya Pradesh, Uttar Pradesh, Bihar, Uttarakhand, Telangana, Andhra Pradesh, Tamil Nadu, Kerala, Karnataka, Punjab, Haryana, NCR, J&K, Himachal Pradesh, Assam etc, essentially all states that cumulatively form over 80% of the all total demand for power in India. Infralnsights will use all publicly available data and also conduct extensive primary research with stakeholders related to the power sector. The primary intent of the report is to clearly equip every market participant with a report that provides them with details view on whats the emerging power demand scenario and is it prudent to invest in power generation & transmission projects. Infralnsights will do detailed excel modeling, regression analysis to project the future demand.

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