Mainstreaming New Coal-based Capacities To Require Market Corrections

***"The financial re-engineering has to be complemented with concurrent improvements in the eco-system of fuel tie-up and market access for selling power for the revival of power sector and electricity demand"*, says Dr. A. Didar Singh, Secretary General, FICCI**

New Delhi, 22 November 2016: Favourable government policies have boosted private investments in power generation over the last decade and resulted in significant capacity additions, says FICCI. From 17 GW in 2006-07, private capacity has moved up to 124 GW in 2015-16, constituting 41% of the total generation portfolio of 302 GW in the country.

To examine the business environment in which the commissioned plants are being operationalised and the new capacities in pipeline to be mainstreamed, FICCI took up a unit-wise analysis of the project shelf of base load generation taken up by Independent Power Producers (IPPs) with coal as fuel. Constraints of Power Purchase Agreements (PPA) as well as Fuel Supply Agreements (FSA) are majorly restricting these plants from approaching the power market and finding buyers, the study reveals. An aberration is that while investments have been made in new generating assets, the IPP industry stands fragmented in various capacity compartments according to their FSA and PPA status with limited or no market access.

The study also shows that 46 GW out of installed capacity of 71 GW of coal-based IPP plants are in operational stress attributable largely to absent FSA and PPA, but also to financial and regulatory issues. Taking together the commissioned and 'pipeline' projects of private developers as at August 2016, aggregate coal-based capacities without FSA and PPA are seen to be in the range of 26–28 GW and 41–43 GW respectively. Market corrections are necessary to optimally utilise these generating assets and avoid stress on the banking system by ensuring the operational cash flows. Meanwhile, financing issues have proved to be the major impediment to progressing with 21 GW of 33 GW projects taken up for construction, further straining the lending operations.

"*Government has been pro-actively addressing the refinancing options of the stressed assets in the economy and new guidelines have been recently issued by RBI to recast the debt restructuring schemes and repayment schedules based on asset-liability management risk. For coal-based IPP generating plants, however, the eco-system of fuel tie-up and market access for selling power will have to concurrently improve if financial re-engineering is to have any effect*" **said Dr. A. Didar Singh, Secretary General, FICCI.** *While the demand for power will be muted till private investments and industrial activity pick-up momentum, an immediate measure is to liberalise the regime of open access by removing the tariff and non-tariff barriers so that large consumers, when faced with unreliable and high-cost power supply, can procure directly from generators*, feels Dr. Singh.

The benefit will be economy-wide as it will support Make in India initiative as has been observed by Economic Survey and will result in reducing the cost of power as the plants with unutilised capacities will be able to spread their fixed costs over a larger base of consumers. The new capacities, when operationalised, will also act as a buffer against old plants which do not meet the current-day emission norms and are to be retired in furtherance of country's climate change goals.

FICCI also suggests a performance metric to be assigned under the UDAY Scheme so that Discoms can transparently demonstrate the efficacy of their power procurement planning to meet the demand estimates and account for unserved loads, if any. However, to maximise fuel supply and supplement CIL's coal production, FICCI recommends opening up of the coal sector and ushering in commercial mining, which will also be a Make in India initiative. FICCI had earlier proposed the concept of a Clearing House as a market construct for over-the-counter selling of coal under a system of daily trade monitoring and real time liability and collateral management.

FICCI believes that forward trades via term-ahead contracts for procurement of power combined with voluntary spot purchases at the exchange will generally provide the market fundamentals, but with the advent of renewables, lower Plant Load Factors (PLF) will be the new normal for base load generating stations. In future, inclusion of financial products along with physical trading and capacity contracts will be necessary to enable risk management of output and demand, improve liquidity and secure the revenue streams.

FICCI MEDIA DIVISION