September 2020 – PowerLine

Uncertain Times

Developers' opinion

The pandemic has had a major impact on all segments of the power sector, including generation. The segment has been suffering from low plant utilisation levels and stressed assets. With Covid-19 dampening demand, the cost of generation has increased for many units. Meanwhile, with discoms not lifting power by invoking the force majeure clause, the segment stress has exacerbated. To tide over the crisis, developers are focusing on accelerating digitalisation and automation besides ensuring cost optimisation. Leading power developers share their views on the impact of the coronavirus on the sector and the future outlook…

What has been the impact of Covid-19 on the power sector?


Gyan Bhadra Kumar, Whole Time Director, JSW Hydro Energy Limited

The Covid-19 pandemic has affected all nations across the world and has badly impacted economic activities. Like all core sectors, the power sector too has witnessed a slowdown due to various business restrictions imposed by the state and central governments during the lockdown period. The main drivers for the slowdown in the power sector are as follows:

Reduction in power demand: On a pan-Indian basis, the country has observed a reduction in energy demand by about 13 per cent post-Covid-19. Peak demand has also fallen by about 6.8 per cent. As the lockdown has significantly reduced industrial and commercial activities, these segments have seen a considerable decline in demand for electricity.

Sharp decline in plant load and utilisation factors of thermal stations: As per a recent report from the Central Electricity Authority (CEA), the utilisation factor of thermal-based generation at the national level fell to a record low of 45 per cent in May 2020. The average thermal plant load factor (PLF) for April-June 2020 was 46.61 per cent, as against 63 per cent for the same period in 2019.

Worsening financial health of discoms: One of the key concerns in the sector has been the poor financial health of its discoms. Discoms have high levels of debt and have been suffering huge losses. Due to the lockdown and its expected long-term impact, their financial situation is likely to worsen. This is evident from the rising trend of discoms' receivables. At the end of April 2020, the total outstanding dues of discoms to generation companies stood at Rs 1,083.01 billion, which further increased to Rs 1,189.72 billion by the end of June 2020. This trend is likely to continue for some time.

Merchant market: Post-Covid-19, power exchange prices have witnessed a sharp decline. Most of the plants are running at lower PLFs and due to reduced consumer demand, exchange rates as low as about Rs 2.17 per kWh were registered in the month of June 2020. The average prices during January-April 2020 (pre-Covid-19) were around Rs 2.66 per kWh, which is considerably higher than the current rates.

M.M. Madan, Adviser, Hydro & Tunnelling Group, National Council of Power & Construction Equipment, ASSOCHAM

There was no doubt an impact on the power sector, both in the hydro segment and thermal. The worst impact was on under-construction projects in hydro, as they are located in far-flung areas. Labourers who had returned home could not come back, while many others could not return to their home towns to attend to family emergencies, causing great psychological stress. There was also a shortage of spares as well as a lack of visits from experts when they were needed the most.

Rajiv Ranjan Mishra

Rajiv Ranjan Mishra, MD, CLP India

Covid-19 has had a big impact on the commercial functioning of the industry. Whilst the government declared the sector as an essential service, the reduced demand (of 25-28 per cent) during the peak months and the challenges in collecting payments from consumers led to disruptions in the power sector. While the household consumption of power increased due to people working from home, it could not compensate for the loss in demand from the main subsidising sectors such as manufacturing and retail establishments, resulting in a significant cash flow reduction for discoms. Given the continuing disruptions in industrial activity owing to the changing Covid-19 scenario, lockdowns and partial resumption of economic activities, it is currently difficult to estimate the impact of the pandemic. The impact assessment is a continuing process given the uncertainties associated with the nature, extent and duration of the pandemic.

On the generation side, reduced demand due to the pandemic caused many thermal plants to lower their utilisation capacities, although renewable energy generation has remained more or less unaffected. From a developers' perspective, the manpower deficit, along with disruptions in transportation and manufacturing of critical equipment, has led to delays in the commissioning of various projects across the country. Overall, like most sectors, the power sector too has witnessed a challenging time. But we are confident that it will collaborate to come out of this pandemic stronger and healthier.


Athar Shahab

Athar Shahab, Cheif Executive, Nabha Power Limited

The power sector is passing through a turbulent phase on the back of large accumulated dues to be paid to generators, liquidity issues due to restricted cash flows, uncertain revenue due to the closure of industrial and commercial operations and the prevailing low power demand in the wake of the lockdown. Going by the numbers, power demand during the lockdown hovered around 134 GW as compared to 168 GW for the same period last year. The outstanding dues to gencos rose to Rs 1,350 billion (from Rs 750 billion last year), the highest ever in the history of the power sector. Surprisingly, aggregate technical and commercial (AT&C) losses also rose to 19 per cent, compared to the average of 15 per cent last year.

During the lockdown, the movement of men and material was severely restricted. Many construction projects, including renewable energy projects and flue gas desulphurisation (FGD) projects, came to a complete standstill.

Discoms were faced with a peculiar situation in addition to the demand crash, as the lockdown was imposed in the last week of March – the period of highest collection for discoms. Collections came to a halt due to the imposition of restrictions on public movement and the disabling of the billing system. Domestic and industrial consumers were given time extensions to pay their monthly dues. However, it will take a year or so for discoms to revive their cash collection cycle.

The liquidity crisis faced by the discoms cascaded to the gencos. Payment delays made it difficult for gencos to sustain the supply chain down the line. Many suppliers and vendors, including coal companies, were not paid on time due to the cash crunch.

What has been the industry response to the pandemic?

Gyan Bhadra Kumar

Power being an essential service, the power industry has been operating continuously during the pandemic despite many adverse situations, resulting in a severe cash crunch for its stakeholders. There have been incidences of low demand, fuel shortage, piled-up receivables, lack of manpower due to health concerns, etc. during the pandemic period. However, despite such challenges, the power industry has been running continuously. Although the utilisation levels were low initially, they are now gradually picking up pace.

M.M. Madan

The industry has suffered a lot because of low demand due to which thermal generation has taken a hit and prices at the exchange have fallen drastically.

Rajiv Ranjan Mishra

The industry has been very empathetic towards its stakeholders during the pandemic. We know that the power sector is an essential service. The sector's significance has grown in importance, as we are directly involved in keeping the nation moving. From powering hospitals and manufacturing facilities to enabling farm activity and ensuring that the nation could work from home, the power sector has played a vital role.

Alongside keeping the nation safe and comfortable, the industry went above and beyond to take care of its employees and vendors. It implemented adequate measures such as issuing social distancing norms, managing workforce shifts and enabling remote working, wherever possible. The industry also adopted standard safety measures across plants to curb the spread of infection in order to protect the health of employees and ensure business continuity with minimal disruption.

Athar Shahab

The industry has responded positively to the difficult and challenging times during the pandemic. Electricity, being an essential service, is of utmost importance to critical healthcare facilities and associated activities. The first challenge for the industry was to ensure that employee sentiment remained positive during this crisis, and that they were ready to go to work. Overcoming the fear of Covid and maintaining essential services through proper communication were the first tasks for industry managers.

We had to arrange for curfew passes and safety masks, and ensure that the premises were properly sanitised, social distancing was being followed at all times, and essential commodities were available to employees, contractors and their families. We operated with only 50 per cent manpower and all non-critical staff were asked to work from home. During the lockdown, 12-hour shifts replaced the regular eight-hour shifts.

The second challenge was the lack of availability of spares and consumables, as all the suppliers were affected by the lockdown. One of our units was undergoing its annual capital overhaul and it became a huge challenge to complete the job on time and bring it back into service.

The third challenge was to ensure liquidity during the crunch period. Banks, which had already stopped lending to thermal power projects, were reluctant to extend further assistance. Advance payments to Coal India Limited for coal and Indian Railways for railway freight became a challenge in the absence of liquidity. Despite these severe challenges, the gencos stood by their discoms and navigated the crisis without any interruption in the power supply.

What is the outlook for the sector?

Gyan Bhadra Kumar

The prospects for the sector to return to normalcy by the end of the current calendar year look promising. The demand levels are gradually returning to those observed last year. It is expected that most of the under-development projects that have shown some slowdown will also witness fast-track execution once all the restrictions are lifted by the government. This would result in quicker movement of money into the sector and definitely improve its overall position.

M.M. Madan

Although work-from-home is the new norm, for plant operation in the Indian context, we have to be present at the plant. In such situations, the CEA should come out with a revised methodology to redefine the energy mix. The MoP should also work with all developers to incorporate artificial intelligence and come up with a procedure to operate plants remotely and enable unmanned plant operations.

Rajiv Ranjan Mishra

With the easing of lockdown restrictions and the resumption of industrial activity, power demand has started picking up, a trend we expect will continue. Renewables will continue to play a key role in catering to this demand. The government’s intent with regard to increasing the clean energy capacity from 134 GW at present to 220 GW by 2022 and focusing on reducing tariffs further through technological advancements is in the right direction. In line with this goal, CLP India remains focused on low-carbon growth by maintaining operations and exploring potential new opportunities in the power sector on the back of a strong partnership with Caisse de dépôt et placement du Québec. CLP India will work towards integrating its solar energy and power transmission acquisitions, and will review potential opportunities in new segments of the energy market. These include power distribution and captive power generation, as well as the government's new plan to supply-round-the-clock power via renewable projects complemented with thermal projects and/or storage.

Athar Shahab

I think demand for electricity will remain subdued this year by 10-12 per cent and overall demand for the year should be around 1,150 BUs. It is difficult to see the industrial sector returning to its pre-Covid growth rates any time soon, and further waves of Covid-19 could worsen the impact.

Liquidity management would be a major challenge given the present collections and outstanding levels. The increasing ACS-ARR gap is a matter of serious concern. While the government has injected much-needed liquidity of Rs 900 billion through Power Finance Corporation Limited and REC Limited and requested the Reserve Bank of India to grant a moratorium on loans, the regulatory commissions must also play their part in ensuring that the interests of discoms and gencos are protected. On the flip side, this is a golden opportunity for discoms to optimise their power procurement costs, as the prices on the exchange are very low (Rs 2.50 per unit versus Rs 3.50 per unit last year). Central PSUs have reduced the late payment surcharge rate, which will provide relief to discoms. The letter of credit mechanism for coal payments is another welcome step initiated by the government, which will help gencos. In my opinion, the worst is over and the generation sector will overcome the challenges that lie ahead.

What will be the key priority areas for developers in the post-Covid world?

Gyan Bhadra Kumar

The key priority for developers will be to return to the operational levels that were prevailing during the pre-Covid period. This would essentially require a growth in power demand and for discoms to have a better financial position so as to make timely payments to generators. Another focus area would be the deployment of effective strategies for the development of ongoing projects on a fast-track basis. Capable developers would also like to explore various growth opportunities in the coming times of consolidation. Most of the future growth is expected to occur in the renewable sector.

M.M. Madan

Developers should come up with provisions to operate plants from remote locations and create automated systems of repair forecasting, as well as rescue teams in case urgent repairs are required. Stand-alone backup plants with green fuel systems are required – for example, a solar backup with a pumped storage plant so that pumping mode is not dependent on other forms of energy. More and more such plants are the need of the hour.

Rajiv Ranjan Mishra

The disruptions brought about by Covid-19 have given various sectors and organisations a lot of food for thought. While the immediate priority for developers would be to get the required labour force and operate their plants at maximum utilisation to meet the increasing demand, the pandemic has given us an opportunity to relook at the power sector as a cohesive ecosystem based on collaboration, modernisation, and sustainable practices.

Based on this outlook, some of the key priority areas would include:

- A conscious transition towards green energy. This will require making choices related to renewable energy, lower-carbon vehicles, cleaner fuels, and industrial and building efficiency.
- Substantial investment in strengthening the grid and utility modernisation, which can help in upgrading the existing infrastructure. This activity can serve as a key driver for economic recovery as well as job creation.
- Enabling public-private partnerships for expanding and modernising the country's electricity infrastructure.
- Ensuring that consumers across locations, urban or rural, are provided with reliable power.
- Robust digitalisation across the board for developers as well as the entire value chain. This will be critical both from an internal and an external perspective.

Athar Shahab

We may have to learn to live with Covid-19, as a post-Covid world appears to be far away at this point in time.

The topmost priority is uninterrupted operation, with due care for the health and safety of employees. The industry has already initiated a number of measures in this regard. They will continue in the foreseeable future and may even have to be strengthened if new waves of Covid-19 strike.

I see a big thrust towards automation and digitalisation in the industry. Things like remote monitoring and troubleshooting, and augmented reality for maintenance activities will become mainstream. This has implications for human resources as well, which must be upgraded with new skill sets.

Cost optimisation is important at all times, but the current situation demands that we run the tightest operation possible, deferring all discretionary/non-essential expenditure.

Ensuring liquidity is a key priority. Discoms will have to play a key role here and banks would need to extend a helping hand too while extending working capital lines.

Several gencos are implementing FGD projects within strict deadlines. Covid-19 has impacted work at sites as well supply chains for imported items. The sector deserves some leeway in implementing these projects given the unprecedented situation.

This is an opportune time to bring about long-awaited reforms in the distribution segment. The removal of cross-subsidies, direct benefit transfer, and the separation of carriage and content will bring long-term vitality to the sector. For the generation sector to survive, reform and revival of discoms and restoration of their financial health is imperative.

Link:

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