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Cheap renewable energy is killing India's coal-based power plants

Quartz India : May 9, 2018

Renewable energy prices in India are crashing, leaving coal-based power plants in the country financially unviable in their wake.

Over the last year, wind and solar power tariffs have fallen to a record low of around Rs2.4 per unit, much lower than the average of Rs3.7 per unit at which analysts say coal-based power is currently being sold on India's power exchanges.

As a result, coal-based power plants are falling out of favour with power distribution companies (discoms).

"The (coal-based power) plants are ready but… no discom was coming forward for long-term PPAs (power purchase agreements) because they were getting power at a cheaper rate from renewable sources," Sudhir Kumar, associate director at CARE Ratings, told Quartz.

Last financial year, for the first time, India added more power capacity from renewable sources than coal.

Of India's approximately 197,100 megawatts (MW) of coal-based power capacity, nearly 40,000 MW—or 20% of the plants—have been termed stressed assets, and a fourth of these have turned unviable, Ajay Kumar Bhalla, secretary of the ministry of power, told BloombergQuint in an interview on May 08.

The Narendra Modi government examined India's stressed power plants to assess the extent to which they're financially viable. It found that financial problems with around 10,000 MW have been resolved, and another 10,000 MW of capacity is beyond redemption, Bhalla said. The remaining 20,000 MW is still under examination.

"8,000-10,000 MW of capacity we feel is beyond (resolution) because there's hardly any progress in those projects," Bhalla said.

Coal-based power plants are, hence, being forced to sell their power either on short-term agreements or on the power bourses such as the Indian Energy Exchange, where tariffs are much lower than what these plants require to stay afloat.

Coal-based power on India's power exchanges is currently trading between Rs3.7 and Rs4 per unit "…but the minimum tariff required (by coal-based power plants) is Rs5 to get break even," said Rupesh Sankhe, senior analyst at brokerage firm Reliance Securities.

In the absence of long-term PPAs with discoms, power plants also lose access to relatively cheaper coal they can purchase with fuel supply agreements from the state-run Coal India Limited. This results in a double blow to the profitability. For power plants located away from India's coasts, there is an additional burden of transportation costs.

The demand for power, too, has flat-lined in India over the last year. “The system demand is very low… 35% of demand is coming from (the) industrial category**,** which is not seeing any recovery as such in a big way,” Sankhe said.

While economic activity is expected to pick up due to the recovery in the rural sector, it won’t result in a direct impact on electricity prices. “Tariff revival will not happen that significantly because of the capacity in the renewable space. That is why they are calculating that they will not get Rs5 tariff, and the asset will become unviable,” Sankhe said.

Breaking the banks

With the crisis in the power sector deepening, banks are going to be at the receiving end. Power companies already account for one of the largest share of toxic loans in the banking sector and owed Rs1.8 lakh crore as of June 2017, according to a parliamentary panel reportsubmitted earlier this year.

Moreover, the Reserve Bank of India (RBI) has come out with more stringent norms for the reporting of bad loans, wherein banks will have to declare even a one day delay in repayment of dues, a leeway that was usually granted to power companies. The lenders have also been directed to resolve all stressed loan issues with companies within a span of 180 days, failing which bankruptcy proceedings will be initiated against the defaulter.

“The new norms by the RBI are a major headache for the power companies and the banks. Because it is not that the underlying assets are necessarily bad but it may be because cash flows are elongated, or discoms are not buying, etc. And if all of these companies are taken to the bankruptcy court and auctioned, then it will be a huge challenge,” an executive director of a private sector bank said, requesting anonymity. “These issues are only going to get compounded further with alternate energy prices decreasing.”

In an attempt to make amends, India’s power ministry last month proposed a scheme where a government-owned entity would purchase power from coal-based plants that currently don’t have any PPAs to keep them going. Under the pilot project, the government plans to invite bids from stressed coal-based assets for signing medium-term three-year agreements. This, however, will be capped at 2,500 MW of capacity, still leaving out around 7,500 MW of thermal power capacity.

Solar leads India's electricity generation transition: IEEFA

Business Standard : May 8, 2018

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The gains put India at 22 GW of total cumulative capacity and the trend is continuing.

A number of announcements in this April show momentum building. Solar technology continues to advance, with floating solar, hybrid wind-solar-battery and blended solar-thermal tariff developments now underway, an IEEFA analysis said.

Cost deflation is likely to remain a medium-term trend as economies of scale are achieved, spurred in part by India's development of the world' largest solar project, the 2.2-GW Bhadla project in Rajasthan that is set to come online in 2019, said the assessment compiled by IEEFA's Director of Energy Finance Studies, Australasia, Tim Buckley and Research Associate Kashish Shah.

According to it, the 10 GW of solar installed in 2017-18 represents most of the 12.1 GW of new renewable capacity commissioned over the past 12 months. Renewables now account for 20 per cent of total installed capacity in India and 7.7 per cent of electricity generation.

While the surge in new renewable generation has increased concerns about grid constraints, the right level of ongoing investment will make those issues manageable even as renewable energy installs double to more than 20 GW annually by 2020, the IEEFA said.

The faster that India invests in renewables infrastructure the faster it can decarbonize its economy, but without the proper alignment of investment and domestic employment, the government will face political resistance to the upfront $300 billion investment required over the coming decade, it added.

Tying new solar tenders to domestic manufacturing investment aligns both strategies, with the likely outcome that the world's leading solar module manufacturers will set up operations in India, bringing employment opportunities and, more important, world-leading solar technology at scale, the analysis said.

Indeed, in April, Japan's SoftBank and China's GCL System Integration Technology Co. announced a $930m 60-40 joint venture to build a major solar module manufacturing plant, with two phases each of 2 GW of annual production capacity, it said, adding that SoftBank brings the capital and GCL brings the world's latest solar technology and management expertise

RBI rejects power min plea to relax resolution norms for stressed cos

The Economic Times : May 8, 2018

Electricity demand in India has grown over the past few months to over 6% but is not commensurate with the growth in addition of generation capacity.

The Reserve Bank of India (RBI) has rejected the government's demand to relax the guidelines on resolution of stressed assets for powercompanies, pushing over 20,000 MW projects closer to liquidation. In a letter to the power ministry, RBI has expressed its inability to provide any relaxation to power plants saying it does not look into sectoral issues.

“The regulator has said it was difficult to give any special treatment to any one sector and has said such issues must be addressed by the concerned ministries,” a government official said on condition of anonymity. “RBI has made it clear that the administrative ministries, lenders and the developers need to find immediate solution to the stressed assets or send them into liquidation without wasting any further time,” another official said.

A meeting between power minister RK Singh and RBI officials on Tuesday was postponed due to unavoidable circumstances, the official said. The ministry has also flagged the issue to finance minister Arun Jaitely and other ministry officials. The power ministry had written to RBI asking for extension of the 180 days resolution period for power projects to one year.

As per the revised framework, projects with interest or principal overdue starting from 1 day to 30 days will be categorised as ‘special mention accounts category-0’ (SMO-0). The most stringent change in the framework is that all the lenders have to agree upon a resolution that has to be reached in 180 days. Sector experts said while some of the power sector issues, including coal shortage and regulatory problems, could be addressed by the government, issues like lack of power purchase agreements (PPAs) required a pick-up of economic activity.

Association of Power Producers director general Ashok Khurana said: “Financial stress in power sector is outcome of systemic issues. Therefore ignoring these sectoral issues and looking for resolution to financial distress is like treating symptoms without curing the disease. This will result in significant value erosion of these assets without any corresponding gain as the new owner if there are takers will inherit same problems - a sub optimal solution.”

Electricity demand in India has grown over the past few months to over 6% but is not commensurate with the growth in addition of generation capacity.

ET had reported on May 4 that the State Bank of India proposed a scheme – Samadhan – to float a fund to takeover 14 stressed power plants aimed at preventing power generation projects from going into liquidation, receiving better valuations and speedy resolution.

SBI had also sought waiver of transmission penalties during ownership change and early regulatory approvals to favour new promoters. The first official quoted earlier told ET that the government is looking into the proposal.

The government last year auctioned contracts of Coal India under Shakti scheme salvaging about 9,000MW plants that did not have coal supply.

The power ministry has also kicked off a scheme to aggregate power demand from states and call PPAs for 2,500MW supply to relieve some of the stressed assets. There are about 19,000MW plants without PPAs, coal or both. Another 24,000-mw gas based power plants are either underutilised or stranded.

The ‘unmetered’ chapter in rural power story

The Hindu : May 1, 2018

Tangedco still grappling with 32 lakh unmetered connnections

Tamil Nadu’s achievement on the rural electrification front over the years has been noteworthy: after the last revision of the definition of rural electrification (effected in 1997), the State was, by 1999 itself, identified as one which had achieved 100% coverage.

The State has only built on this success in recent months. For instance, after the launch of the Sahaj Bijli Har Ghar Yojana (Saubhagya), a Central scheme for providing electricity to every household, in October last year, 2,170 rural households, all in Kanniyakumari district, were electrified using solar energy. “This was done in view of the location of the households in forest areas and the refusal of the Forest Department to extend the infrastructure required for conventional electricity to these households,” says P. Thangamani, Electricity Minister.

However, available data reveals that Tamil Nadu has a long way to go as far as metering of connections in rural areas is concerned. The State has at least 32 lakh unmetered connections, split between 21 lakh farm pumpsets and 11.5 lakh huts.

The failure to meter agricultural connections and supply to hutments has to be seen as a continuation of a legacy.

Even in the run up to the introduction of free power supply scheme for agriculturists during 1984-1990, the authorities had migrated to the levy of flat rate for farm pumpsets, doing away with metering.

The supply to huts covered under the scheme was meant to power only one bulb. It is another matter that many huts have multiple electrical appliances, which ought not to be getting free electricity.

Eight years ago, the now-defunct Tamil Nadu Electricity Board (TNEB) had submitted to the Tamil Nadu Electricity Regulatory Commission (TNERC) that its attempt to meter all connections was facing “stiff opposition” from agriculturists and hut-dwellers.

‘Beneficial to all States’

“It is our considered policy decision that the connections remain unmetered,” says Mr. Thangamani. He also recalls how former Chief Minister Jayalalithaa had taken up the ‘metering’ issue with the Centre, insisting on the removal of the stipulation that supply to all farm pumpsets be accounted for prior to agreeing to the rollout of the Ujwal DISCOM Assurance Yojana (UDAY), a Central scheme for the financial and operational turnaround of power distribution companies.

The Minister goes on to say that it was because of Jayalalithaa's efforts that the Centre had dropped the stipulation and made metering optional, a move which was "beneficial to all States."

Notwithstanding the State government's position on the issue, a senior official in the Tamil Nadu Generation and Distribution Corporation (Tangedco) says that steps are under way to properly assess agricultural consumption through alternative means. Under the Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY), the State is taking up metering of distribution transformers and feeder segregation, both of which would help measure energy consumption by farm pumpsets. Of a total amount of ₹924 crore earmarked for the scheme, around ₹245 crore has been set apart for the two components. The programme is to be completed in a year.

Storm prediction: Grid collapse risk looms

The Economic Times : May 9, 2018

India faces the risk of grid collapse because of forecasts of simultaneous storms across the country in the week ahead, prompting officials operating the electricity network to issue a 'high alert' to regional centres and cautioning them that severe weather can uproot towers and trip the lines.

The government is closely monitoring power supply situation in view of predictions of storms. The alert follows tripping of several lines last week, following storms in northern India. Power Grid Corp's unit that operates the grid, POSOCO, has issued highalert advisories to all the regional centres to avoid grid collapse. Leaves of all concerned officers have been cancelled, Power Grid Corp CMD IS Jha said.

"We are always prepared for unforeseen circumstances and in case of bad weather predictions we keep our Emergency Restoration System on alert. The system ensures alternate arrangements so that there are no power supply disruptions," Jha told ET.

A stressed power sector is threatening India's economy, but its banks have a solution

Business Insider : May 8, 2018

- **A consortium of banks, led by State Bank of India, are planning to form an asset management company to take over and restore the financial health of 14 stressed power plants.**
- **Since these banks are the main creditors to the firms operating these power projects, they stand to lose the most from the liquidation of these assets.**
- **The Indian government has identified 34 stressed power plants. These assets account for over 40,000 megawatts of power generation and a ₹1.74 trillion in credit from India's banks.**

After a rescue plan for stressed power assets involving a joint venture by state-owned firms like NTPC and Rural Electrification Corp failed to materialise, a group of creditors, led by the State Bank of India, are taking matters into their own hands.

The banks are joining forces to prevent 14 power plants from going under - which will endanger the recovery of billions of dollars worth of loans. Since they are the main creditors to the firms operating these power projects, such as IndiaBulls and KSK Energy, the banks stand to lose the most from the liquidation of these assets.

The move has national implications. There are currently 34 stressed power plants that have been identified by the government. These assets account for over 40,000 megawatts of power generation - a lot of electricity for Indian homes and businesses - and a staggering □1.74 trillion in credit from India's banks, which already have more than □9 trillion in bad loans. If they aren't rescued, India's non-performing loan problem will go from bad to worse, further endangering the state of our finances.

Swapping debt for equity

These banks have decided to form an asset management company that will take up the ownership of these 14 plants. According to a report in the Economic Times, the lead creditor for each plant will invest □100 million while the other creditors will invest an amount that is proportional to their exposure on each project. The fund will also include the contributions of pension funds, the National Investment and Infrastructure Fund (NIIF) and other strategic investors.

Consequently, the debt in each project will receive a rating from an accredited agency. The healthy portion of the debt will be swapped for an equity holding, while the project promoter's and creditors will be forced to take the unrecoverable portion at a significant discount to its real value. Furthermore, in order to retain their control over the assets, the plant's owners could reportedly be asked to supplement their investment with fresh equity.

The asset management company will own the assets for a period of up to five years. The banks will also bring a state-owned power firm like NTPC to operate these assets during the recovery period. Finally, the banks will sell the assets, once they reach a certain level of financial health, in order to recover their debts.

The move is expected to result in the quicker resolution of these assets, and also provide the lenders with better valuations on their debt in comparison to an outright bankruptcy.

The plan to form an asset management company is motivated by survival. These creditors are already dealing with weak balance sheets and high provisioning requirements for bad loans. They can't afford any significant increase in their non-performing loans.

Short on time

The plan is contingent on a number of regulatory and stakeholder approvals. The banks will reportedly finetune the scheme over the next three months and ensure that all power-purchase agreements for these assets are honoured. However, they will also have to contend with an order from India's central bank in February 2018 that requires stressed assets to be resolved within 180 days of March 1st or submitted to the National Company Law Tribunal (NCLT), a bankruptcy court.

As a result, the banks have until September to implement the scheme, which is when the resolution period on some of the plants expire. In order to prevent this from happening, the Ministry of Power has written to the central bank and the finance minister, Arun Jaitley, to stay the order from the RBI.

The banks will likely try everything they can to prevent these assets from being referred to the NCLT. If this happens, they will be forced to take a large haircut in the ensuing liquidation process, plunging them further into a problem of their own making.

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