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Centre eases norms to help State join UDAY

The Hindu: September 4, 2016

Paving the way for Tamil Nadu to join the Ujwal Discom Assurance Yojana (UDAY) meant for achieving financial turnaround of power distribution companies in three years, the Centre has conceded one of the prime demands of the State that there should be no insistence on the quarterly revision of power tariff.

Sources say the Centre has agreed in principle to the State's demand and it has indicated to the State that the revision can even be annual.

Prior to joining the scheme, every State is required to sign a memorandum of understanding (MOU) with the Centre. Now, the Union government has conveyed to Tamil Nadu that there is room for flexibility in the inclusion or exclusion of some aspects of the proposed MOU as the situation varies from State to State, the sources add.

The revision has been a contentious issue and in the run up to the Assembly elections in May, the ruling All India Anna Dravida Munnetra Kazhagam (AIADMK) had cited it as one of those that came in the way of the State joining the scheme.

In mid-July, Union Minister of State for Power and Coal Piyush Goyal, who had criticised the State government during the election campaign for not falling in line with others on the UDAY scheme, called on Chief Minister Jayalalithaa. At that time, after taking part in another event, Mr. Goyal had expressed hope that the State would join the scheme.

On the proposed visit of a high-level team from the State to New Delhi to discuss the scheme, the sources say this may take place soon in view of the completion of the budget session of the Assembly. By joining the scheme, the State will have to bear 75 per cent of the debt of the TANGEDCO as on September 30, 2015. Since the scheme pertains to distribution companies, the debt component for distribution comes to Rs, 43,540 crore out of Rs. 81,782 crore. The State government's commitment will be Rs. 32,655 crore. The overall debt of the TANGEDCO includes Rs. 6,223 crore from the State government.

The main benefit for the TANGEDCO will be better cash flow as its debt burden will get absorbed by the State government. To cover the debt to be taken over by the State government, bonds for 10 years will be issued and they will carry approximately 8 per cent interest, 3 per cent points less than the average rate of interest at which the power utility is repaying its loans. Besides, more coal will be made available.

The other important demand of the State is for a 15-year-long grace period for keeping its fiscal deficit within 3 per cent of the Gross State Domestic Product whereas the Centre was offering only a two-year-long grace period. On this score, the Centre may not be in a position to provide any concession, the sources say.

Tangedco incurs Rs 100 crore loss in wind evacuation in '14-'15

Times of India: September 3, 2016

Tangedco's wind evacuation in 2014-15 has been dismal and the company has also incurred losses amounting to 100 crore as it did not have a proper wind power plan on evacuation, said the latest report of Comptroller and Auditor General (CAG) placed in the assembly on Friday.

Incidentally, Tamil Nadu has the maximum capacity of wind power in the country and each year firms are accusing Tangedco of not evacuating the green power. But, this year, the total wind power evacuation has hit a new high of 7,000 million units. The distribution company did not collect transmission charges of 124.19 crore from open access consumers and the company also incurred a loss of 159.20 crore due to stoppage of wind power generation following a request from Tangedco. The CAG has pointed out that the discom's wind energy evacuation came down from 60.30% in 2010-11 to 39.08% in 2014-15 as the company did not make payments to wind energy generators and also due to constraints in transmission facilities.

Unit 2 of Kudankulam to start commercial operation from December

The Economic Times : September 5, 2016

The connection of the second unit brings India's installed nuclear generating capacity to 6,780 MWe

The second unit of Kudankulam Nuclear Power Plant, which was connected to the southern grid last week, is scheduled to begin commercial operation in December this year.

The unit with the Russian-designed VVER-1000 reactor was synchronised with the southern grid on August 29 and has been generating about 245 MWe.

The connection of the second unit brings India's installed nuclear generating capacity to 6,780 MWe.

Excavation for Kudankulam units 3 and 4 is in progress and first concrete for the new units will be poured in March next year, Rosatom, the Russian counterpart of India's Department of Atomic Energy (DAE) said.

The units 3 and 4 will begin power production by 2022-2023.

Construction of the unit 2 was completed in July, 2015 and was loaded with fuel in May, 2016. Following safety tests, it attained criticality on 10 July.

The Kudankulam first unit achieved first criticality in mid-2013, was connected to the grid in October, 2013 and began commercial operation in December, 2014.

Kudankulam units 1 and 2 have been built by Nuclear Power Corporation of India Ltd (NPCIL). These are operated by NPCIL under IAEA safeguards, with supervision from Russian specialists. Enriched uranium fuel for the entire life of the plant is to be supplied by Russia.

Will UDAY scheme reforms revive distressed state of power discoms in India?

Zee Business: September 1, 2016

Power generation in India is looking up due to the introduction of privately owned coal-fired and renewable energy-based power plants.

Power generation capacity has spiked 10% over the last year to 305 gigawatts (GW) by end-July 2016, a report by Fitch Rating analysts, Rachna Jain and Muralidharan stated.

This seems more than satisfactory for India with a per capita electricity consumption of only about 1,010 kilowatt hours (kWh) in FY15.

However, Indian power discoms reported an annual loss of Rs 640 billion in FY14 with 88% losses being accounted for by Uttar Pradesh, Rajasthan, Tamil Nadu, Madhya Pradesh and Haryana.

These states also house about 30% of total installed capacity in India, including allocated shares in joint and central sector utilities, the report stated.

What is the UDAY Discoms scheme?

For the purpose of financial and operational turnaround of distressed state distribution utilities (discoms), India's central government introduced a voluntary rehabilitation scheme, Ujwal Discom Assurance Yojana (UDAY) in November 2015.

This was found to be more comprehensive that the previous packages which had focused primarily on debt restructuring.

Under the scheme, the states are supposed to take over 75% of the debt from the discoms opting for the scheme, outstanding as of end-September 2015 until financial year 2017 and any probable future losses.

In return the discoms will reduce aggregate technical and commercial (AT&C) losses, and the gap between cost of supply and realised revenue, as per the agreed trajectory. The discoms will receive a limited working-capital facility, and will comply with renewable purchase obligations.

The states may receive additional/priority funding for improving power infrastructure under various central government schemes when they meet pre-set operational milestones.

The states will also benefit from coal linkages and prices, higher capacity utilisation, faster completion of inter-state transmission lines, and cheaper power from central undertakings, the report stated.

Rise in Power tariffs

UDAY requires the state discoms to initiate quarterly revision of tariffs in order to pass on legitimate costs to consumers and mitigate the burden.

Many of the states in India, including Haryana, Meghalaya, Chhattisgarh and Tamil Nadu have Aggregate Technical and Commercial (AT&C) losses of more than 20%.

Due to this, these states have increased their tariff rates with an average annual increase of 8% in the last five years, the reports states.

Under the UDAY scheme, measures are proposed to achieve efficiency levels in the states and reduce losses.

Fifteen states and one union territory have already signed final contracts under UDAY. Among these highest generation capacity share was by Gujarat which contributed a total of 9.9% at the end of July.

As a result, by participating in this scheme, states like Uttar Pradesh, Rajasthan, Madhya Pradesh and Haryana stand to make overall benefit of Rs 330 billion, Rs 210 billion, Rs 175 billion and Rs 142 billion respectively.

Fitch: India Discom Reforms - Promising Start, But Efficiency Gains Key

Fitch Ratings says that the voluntary rehabilitation scheme of India's central government - Ujwal Discom Assurance Yojana (UDAY) - for financial and operational turnaround of distressed state distribution utilities (discoms) has already seen a large number of important states signing up for the programme. However, the immediate relief provided by interest-expense reduction, while beneficial to the cash flow positions of the discoms, is inadequate to turn these entities profitable; achieving this goal by March 2019 (FY19) as per the plan is highly predicated on the ambitious efficiency improvements, coupled with tariff increases that are politically sensitive in India.

UDAY, launched in November 2015, is more comprehensive than previous packages which had focused primarily on debt restructuring. The merits of UDAY are its four-pronged 'carrot and stick'-based strategy that targets not only a reduction in interest burden, but also operational efficiency improvement, reduced cost of power purchased, and financial discipline. There are also financial implications for states signing up for UDAY that do not meet the agreed targets under the programme.

Twenty Indian states and one union territory (UT) have given in-principle approval for UDAY; 16 have already signed up for the scheme. Participation by a number of states which are not ruled by the key ruling political party at the centre - the Bharatiya Janata Party - reflects the various merits and wider acceptance of the package. The committed states and UT accounted for almost 77% of the total FY14 net cash losses reported by discoms, and around 58% of the total debt outstanding at end-September 2015. These states house about 56% of India's total installed capacity. Tamil Nadu stands out among those which have not opted for UDAY, and accounted for 25% of FY14 net cash losses of all discoms.

The debt-restructuring slated within the scheme will provide some immediate breathing space, following the transfer of 75% of outstanding debt to the states and capping the interest cost on the balance. However, discoms in as many as 12 of the 16 committed states/UTs reported cash losses in FY14. Most of these (based on FY14 numbers) would continue with cash losses even after accounting for the immediate interest savings, highlighting the need for higher efficiencies and cost-reflective tariffs for a sustainable improvement of discoms' financial health.

The aggregate technical and commercial (AT&C) loss in the Indian power sector is very high - ranging from 11% to 71%, with many of the states in excess of 20%. UDAY aims to get the discoms to cut these losses significantly (more than 50% in many cases) through FY19, which is a significant challenge; the savings benefits from lower AT&C losses alone account for around half of the total savings on average for the states that have committed. For the majority of states, tariff increases are required to reach break-even status even after the other savings to which they are committed.

A meaningful improvement in discoms' economics will especially benefit power generation companies via higher utilisations and timely clearance of dues. The current low capacity utilisation of power plants is driven primarily by stressed discoms, which are unable to buy electricity because of weak financial positions. We believe financially stronger discoms will support India's strong drive for renewables and financings of those projects, along with other power sector investments in the country.

Save Energy. Save Money. Save the Planet

Please see the website at www.tecaonline.in for previous issues of TECA News letter