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## New norms for power purchase by discoms to revive PPAs

Poor financial health of the electricity discoms has impacted offtake

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The government is working on new norms for power purchase by electricity distribution companies (discoms) that promise to revive demand for power purchase agreements (PPAs). The long-term PPAs have dried off due to weak industrial power demand and tepid offtake.

"If the new norms are enforced, the discoms no longer need to pay a fixed cost to the power generating companies. They will only pay for the power bought. This measure will improve the financial health of the discoms and encourage buying of more power especially from the stressed thermal power assets," said an Odisha government official.

Poor financial health of the electricity discoms has impacted offtake. Mounting AT&C (aggregate technical & commercial) losses coupled with operational inefficiencies of the state discoms have led to their outstanding debt shooting to Rs 3.95 lakh crore.

Weak industrial demand for power has seen the average Plant Load Factor (PLF) of thermal power producers, both coal and lignite based tank to an all-time low of 59.88 per cent in 2016-17 from the level of 77.5 per cent in 2009-10.

Industrial activity as measured by IIP (Index of Industrial Production) has remained subdued in the last couple of years. This has further reduced the capacity for the discoms to buy more power when they are financially stressed.

"The full effect of UDAY scheme will take some time to realise and until then if the industrial demand for power does not improve, there is not much scope of high demand for power. Power demand grew by 2-3 per cent in the last fiscal but this can get much better given our GDP is expected to grow at 7-8 per cent. So, until the discoms see operational and financial improvement, and until the industrial demand revives on a sustainable basis, long term PPAs may not come," Prashant Jain, joint managing director and chief executive officer at JSW Energy told Business Standard in an earlier conversation.

At a meeting last month, the Union Power Ministry asked states to slash electricity losses due to theft and technical reasons to below 10 per cent in six months. The government's new proposed power procurement norms would remove the contractual requirement for the buyer to pay a fixed cost to the generation company even if no power is purchased.

In an industry update on the power sector, CARE Ratings said, "Reducing electricity loss would in turn reduce revenue under-recovery by state discoms. Additionally, the state discoms won't have to pay for the fixed costs of power plants under PPAs, hence paying for the electricity bought, which in turn would help cut expenses and improve financials of discoms. For the Power gencos, especially stranded coal fuelled ones, PPAs under the new norms would ensure linkage to coal from Coal India."