

Thermal power reforms: Positive on intent, implementation a challenge

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In the fourth tranche of economic package announced on May 16, 2020, the government of India announced a slew of reforms to attract private investments in coal and power distribution.

- Government renews efforts to open up commercial coal mining in India. Liberalization of bidding norm, revenue sharing model instead of regime of fixed charges.
- Fifty coal blocks to be offered immediately. Partially explored block can also be auctioned with production earlier than schedule will be incentivised through rebate in revenue share
- Rs. 50,000 cr for creating coal evacuation infrastructure to be spent over the next few years
- Privatization of Distribution Companies (DISCOMs) in Union Territories (UTs); provide a model for emulation for state governments to follow.
- New tariff policy in making with provision for DISCOMs' inefficiencies not to be a burden on consumers, standards for service and associated penalties for DISCOMs, progressive reduction of cross subsidies.
- DISCOMs to ensure adequate power, load shedding to be penalised, time bound grant of open access
- Generation and transmission project developers to be selected competitively.
- No regulatory assets, timely payment of generation companies, Direct Benefit Transfer (DBT) for subsidy; introduction of smart prepaid meters

Positive Impact on thermal power in the long term:

Competitive participation of private sector in coal through bidding, liberalized entry norms, auction of partially explored coal block will end monopoly in the coal mining and will bring in efficiency and reduce dependence on imports. Investments of Rs.50,000 cr in the evacuation infrastructure shall remove supply chain bottlenecks to achieve self-reliance in coal production. Evacuation infrastructure would help to achieve government's ambitious plan to augment coal production of Coal India Limited to one billion tonnes and coal production by private players. However, it is unlikely to help ailing power sector in the short term as thermal power plants have piled up coal inventory of fifty one million tonnes (equivalent to thirty day of requirement) as on May 13, 2020, due to decline in power demand by 20-25% during COVID-19 lockdown period (mainly on account of decline in demand from commercial and industrial customers).

Privatisation of power distribution in the Union Territories (UTs) would bring in efficiencies in distribution and reduce transmission and distribution losses. While the new power tariff policy is in works for some time and offers a slew of reforms such as standards of service and associated penalties for DISCOMs, penalising load shedding, time bound grant of open access, minimising regulatory assets, DBT of power subsidies and nationwide introduction of prepaid meters are positive for power sector. However as always, its effective implementation would be the key given that execution of various provisions of previous measures is still not being followed in letter and spirit.

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