

Indian Power Sector

Measures to ease power supply constraints with higher coal imports likely to increase cost of supply for discoms by 4.5-5.0% in FY2023

MAY 2022



1 Executive Summary



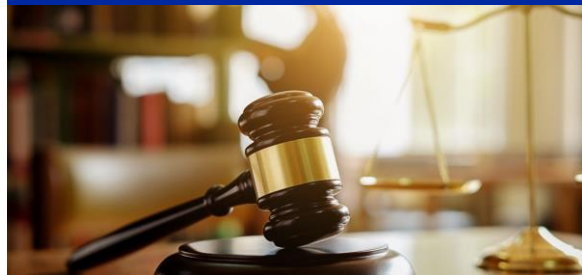
2 Demand Trends



3 Coal Stock Level, Imports and International Coal Prices



4 Overview of MoP Directive



5 Impact on Cost of Supply for Discoms



The power sector is expected to witness an increase in share of coal imports in FY2023 amid the sharp recovery in demand

This in turn would lead to an upward pressure on cost of supply for distribution utilities (discoms). Timely recovery of such higher cost through tariffs and subsidy remains important for the discoms



- The Ministry of Power (MoP) vide its notification dated May 5, 2022 has issued a directive under section 11 of the Electricity Act stating that all imported coal-based power plants shall operate and generate power at their full capacity to meet the growing demand. As the present power purchase agreements (PPAs) do not provide for a pass-through of the fuel cost for these projects, the tariff for supply from these plants under the PPAs shall be worked out by a committee with representatives from MoP, CEA and CERC considering the prevailing coal prices.



- The MoP has also directed all states and GENCOs based on domestic coal to import at least 10% of their fuel requirement for blending with domestic coal and meet the growing demand for electricity. This directive by MoP is valid till October 31, 2022.



- The all-India electricity demand increased by 11.5% in Apr'22 on a Year-on-Year (YoY) basis against 3.2% growth in Mar'22, as per the provisional data from POSOCO. This was led by higher demand arising from the severe heat wave in the northern and central parts of the country.



- The MoP's directive on operating imported coal-based power plants with fuel cost pass through and use of imported coal for blending by domestic coal-based plants is expected to increase the import dependence for the power sector to 12-13% in FY2023 from about 4.0% in FY2022



- The higher share of imports for thermal generation under a pass-through arrangement as directed by the Ministry of Power is expected to lead to an increase in the cost of supply for discoms by 4.5% - 5.0% in FY2023 at an all-India level, considering the share of imported coal at 12.5% against 4% in FY2022 and coal price level at USD 110 per MT for coal GCV of 4200 kcal/kg.



- The increase in the cost of supply is likely to increase the cash gap for discoms at all India level to 68 paise per unit in FY2023 against about 50 paise per unit estimated earlier. Therefore, a timely pass-through of costs through tariffs and subsidy remains critical for discoms.



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