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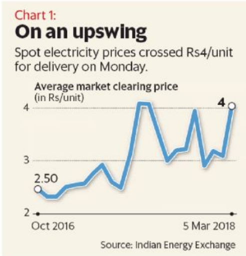

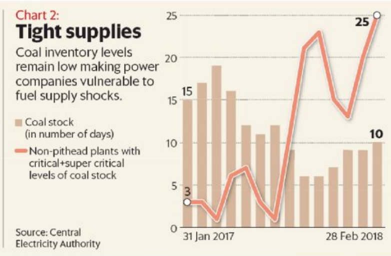

SUBRATA JANA/MINT

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Summer is yet to fully set in, but spot power prices are already going through the roof. The average market clearing price on the Indian Energy Exchange for Monday delivery crossed Rs4 per unit. A year ago, on 5 March 2017, it averaged Rs2.35 per unit.

The price rise isn't a one-day wonder. Rates have remained firm through the winter season, as shown in Chart 1. For instance, the average market clearing price during the last three months (December, January and February) was higher by 27-29% from a year ago. This comes on the back of a spike in spot power market rates in August-October 2017, which was largely attributed to an unexpected slowdown in wind power generation and shortage of thermal power capacities due to maintenance shutdowns and fuel supply issues.

The situation was expected to normalize by now. But that hasn't happened. As Chart 2 shows, non-pithead plants with critical levels of coal stock totalled 25 by end-February. This is not only significantly higher than a year ago but also more than in October 2017, when the total number of plants with critical coal stock rose to 23, driving up spot electricity prices. Critical stock for non-pithead plants amounts to less than seven days of coal. Super critical stock amounts to less than four days of fuel.

The data shows continuing tightness in coal inventory levels. In total, plants with coal linkages monitored by the Central Electricity Authority on an average had stock for 10 days by end-February, compared to 17 days a year ago.

High coal prices and the resultant rise in costs are driving up spot electricity rates. Also as Emkay Global Financial Services Ltd points out, poor availability of railway rakes is affecting coal supplies. Moreover, more structural reasons, such as firms being unable to secure fuel supply agreements or a slow pace of expansion in non-thermal power generation may also be a factor.

If unaddressed, spot electricity rates could rise further, increasing the bill for state electricity boards that are tapping spot markets for short-term needs.

Deepak Agrawala, senior vice president (utilities and industrials research) at Elara Securities (India) Pvt. Ltd, expects some of the demand to be met by solar and hydropower, which is expected to see a seasonal rise from April and May onwards. But if hydropower generation lags and the coal situation does not ease, then spot power prices can remain firm, he says.

Who benefits from the current situation? Captive power plants with a low-cost base can benefit the most. Also, utilities such as NTPC Ltd, which are seeing increased generation.

On the other hand, this puts firms with high exposure to merchant power capacities and dependent on imported coal (such as JSW Energy Ltd) in a precarious position, as high prices will push up tariffs, making them unpalatable for utilities.