FIRST LIGHT

30 September 2021

RESEARCH

Power

Expert call - Power markets tight, distribution reforms positive

SUMMARY

Power

- Short-term power price rally led by states vying for 24x7 supply, decline in hydro generation and plant shutdowns
- Intermittency can be managed even if share of renewable energy rises but demand and supply forecasts need to improve
- Rs 3tn discom infrastructure plan and proposed delicensing positive but goals of the former unclear and more clarity needed on the latter

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.54	5bps	23bps	89bps
India 10Y yield (%)	6.23	2bps	(3bps)	19bps
USD/INR	74.05	(0.3)	(0.5)	(0.3)
Brent Crude (US$/bbl)	79.09	(0.6)	8.8	92.8
Dow	34,300	(1.6)	(3.3)	24.9
Shanghai	3,602	0.5	2.3	11.7
Sensex	59,668	(0.7)	6.3	57.1
India FII (US$ mn)	**27-Sep**	**MTD**	**CYTD**	**FYTD**
FII-D	616.4	1,549.7	135.8	2,163.1
FII-E	(56.9)	1,481.0	8,871.5	1,545.2

Source: Bloomberg

BOBCAPS Research
researchreport@bobcaps.in

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Tarun Bhatnagar | Someel Shah
researchreport@bobcaps.in

We hosted Arun Kumar, Head of Digital Technology at PTC India, and P Vinay Kumar, Founder and CEO of VARP Power. Key takeaways:

Power markets: Electricity rates have risen as purchase bids from 5-6 buying states have more than doubled recently due to pressure to provide 24x7 power supply. A decline in hydropower generation and ongoing maintenance at some plants have compounded matters. Also, no renewable energy plants are being built to meet short-term supply.

Real time market (RTM) volumes have risen to 40% of day ahead market (DAM) volumes in the last few months vs. a peak of 25%. This points to poor demand forecasting by discoms. The market is likely to remain tight but we could see a decline in volumes as demand reduces with the onset of winter. Current high purchase volumes and prices are likely to further undermine discom financials.

Renewables: Development of renewables is concentrated in a few states where interstate transmission charges are exempt. Further, most states are unable to procure renewable energy without SECI backing due to the poor financial health of discoms. States are currently struggling to meet renewable purchase obligations (RPO).

Supply intermittency can be managed at even higher renewable generation levels than the current 10%, as evidenced in states such as Tamil Nadu and Karnataka. An increase in renewable energy generation does require good weather and demand forecasting which is currently lacking in most states. This combined with hybrid solar-plus-wind and battery/pump storage could help resolve the issue of intermittency.

Distribution reform and infrastructure development: (1) The Rs 3tn smart meter and infrastructure scheme should improve infrastructure deficiency but is unlikely to resolve the key financial challenges. (2) Greater participation of the private sector in distribution is welcome considering the success in cities such as Delhi, Mumbai, Kolkata and Ahmedabad. More details need to be spelt out on delicensing of distribution as proposed in the draft Electricity Bill 2021.

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Note: Recommendation structure changed with effect from 21 June 2021

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