

ENERGY/WATER

Weakening rupee mounting pressure on power sector

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The problems in the power sector are multiplying. On the one-hand, there is uncertainty over pricing of coal because of the move by the CIL to adopt Cross Calorific Value method but on the other, there is the weakening of the rupee. The bills of companies have already increased by 30-40% because of GCV mechanism and weak rupee will increase it further. This will affect projects which are based on imported coal.

The near-20% rupee depreciation in the last six months has substantially increased generation costs of many power utilities that were forced to use imported coal because of stagnant domestic production, forcing them to cut generation. India's power demand is increasing and since indigenous coal supply is not sufficient to cater the huge demand of power and therefore companies are looking for the imported coal. The coal supply deficit for the current year stands at 142 MT which is to be filled by the imports.

Imports looked favourable for Indian UMPP projects when South African coal prices were down by more than 16 percent from year-ago at around \$105 a tonne. Since then the rupee has depreciated and reduced the attractiveness of imported coal. Huge amounts of imported coal are lying in the ports but companies are reluctant to buy at the spot prices despite acute fuel shortage. Electricity generation from the imported coal plants will come down in the coming months if the situation prevails.

The scenario is not looking conducive for the coal. Power tariff may not be increased for political reasons apart from economic reasons. This will directly impact power companies since they will not be able to pass on the costs to the consumers and will lead them to default on debt obligations. Perhaps there is no choice but for a review of the new pricing mechanism by CIL.

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