

The energy sector post COVID-19: refueling the recovery

1 June 2020

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India's energy sector has shown surprising resilience in the face of the COVID-19 pandemic with supplies holding up admirably¹ despite the global turmoil in financial and commodity markets. From oil wells and mines to nozzles and burner tips, the energy supply chain has remained steady. This, however, has come at a cost. Energy demand has dipped sharply as nearly one-third of the global population stayed indoors. Supply, which was already surpassing requirements and thereby putting pressure on prices, has now been deeply impacted by the demand fall-off. Brent crude, the relevant marker oil prices for India and the region, is at a twenty-year low. West Texas Intermediate (WTI), the U.S. marker, dropped below zero on the back of shrinking energy storage and unwinding of forward contracts. Across the world, supertanker ships are serving as floating storage. While the electricity sector has been largely insulated from oil price fluctuations, the sudden dip in revenue and cash collections have left most Indian energy companies financially imperiled.

Priorities in a post COVID-19 world

The recovery in the energy sector is expected to follow that of the overall economy. Kick-starting economic activity will depend on the effective containment of the virus and availability of a vaccine to the general public. The fortunes of the energy sector will also be determined by certain factors native to players in this sector. Here, we foresee three principal challenges that industry stakeholders will have to address as they adjust to the 'new normal'.

Unlocking operational efficiencies to contain the financial impact of the crisis

Demand for energy commodities has dropped by 25 to 30 per cent during the lockdown according to KPMG in India estimates, leading to plant closures and inventory pile up. This situation should ease up as lockdown restrictions lift and end-use industries start producing again. With the consumption of electricity likely to peak in the coming summer months, there is hope that demand will pick up once again. In its recovery from this crisis, however, the energy sector must tackle important operational inefficiencies to improve the overall financial health of its players. For example, a key response strategy in the electricity sector has been to cut back on high marginal cost generators leading to substantial cost savings for power utilities. In fact, several utilities have also become more active in the day-ahead market (DAM) to optimise costs and have gained substantially in the process. These gains need to be maintained.

India's renewable energy trajectory

The shift to clean, renewable energy in India has been a priority for the last several years and the reduction in the price of green energy along with growing environmental awareness have helped further this trend. India has committed INR24 trillion to the energy sector under the National

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Energy Pipeline², of which the lion's share will be towards renewable energy investments. While the demand for energy should revert to previously higher levels post-pandemic, there could be a lag in the recovery of demand for renewal energy. Buyers could shy away from the relative higher costs associated with clean energy and may no longer have the desired initiative or confidence to commit to new contracts. This may be a significant setback to India's energy transition even though the costs of modern energy, including from renewables, has seen a sharp dip in the past few years.

Adoption of technological innovation to minimise human intervention

There will be an acceleration in the adoption and integration of technology into the way we live, work and play post COVID-19. This will be a near universal theme globally and across all sectors. The energy sector will also have to lower its reliance on human intervention for its day-to-day operations. Keeping pace with technological innovation will be vital for the recovery of the sector and cutting back on human involvement across the energy chain, particularly in sector operations, is no longer negotiable. The sector will have to identify and resolve this and other such vulnerabilities in its operations exposed during the COVID-19 pandemic. This will likely translate into the end of an era wherein the energy sector was predominantly government-owned and characterised by its outdated processes, skills and infrastructure.

Powering up

India has made progressive strides in combating the COVID-19 outbreak but the crisis has also tested our institutional readiness and financial resourcefulness to tackle such exigencies. Unfortunately, the economic stability of most public-owned enterprises is precarious despite the magnitude of their assets and operations. State-owned utilities are particularly cash-strapped and primarily reliant on government support/subsidies to manage day-to-day operations. Here, it is important that state governments focus on the need for state-owned utilities to become financially self-sustainable. A vital lesson from the crisis has been to limit such chronic fiscal support and free up resources for serving citizens in other emergent areas.

Energy companies also need to emerge from this crisis with a resolve to innovate and upgrade their technological prowess. Whether it is forecasting demand in the midst of volatility, managing supply chains, collecting dues efficiently, managing and maintaining critical assets or responding to rapidly evolving ground situations, all these aspects of day-to-day operations should incorporate the latest technological tools. By adapting these tools to daily operations, energy companies will be able to enhance their performance as well as their capability to react and respond.

Finally, there is the question of ownership. Public ownership of energy companies exposes them to political sensitivities with the state playing multiple roles as owner, operator and regulator. While there have been initiatives to disengage the state from the operations of these companies, such moves have been ad hoc and ineffective. The lack of independence and flexibility is particularly damaging to institutions in a crisis situation, such as the one we find ourselves in today. In summary, energy companies in India have powered through COVID-19 relatively unscathed and should look forward to a revival by discarding the shackles that constrain resurgence, growth and innovation in the sector.

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¹ International Energy Agency Report: April 30, 2020

² Report of the Task Force on National Infrastructure Pipeline for 2019-2025; Press Information Bureau; 31st December, 2019

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