



Presentation to the Task Force on PS Investment and Reforms

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Interaction Plan

- Important features of historical development
- Segmentation due to E-Act
- Specific suggestions
 - Generation planning & investment
 - Competition
 - Tariff
 - Stranded Costs
 - Regulatory Process
 - Consumer Empowerment
- Issues related to policy formulation process



Important features of historical development

- Excessive stress on “attracting investment”

This resulted in

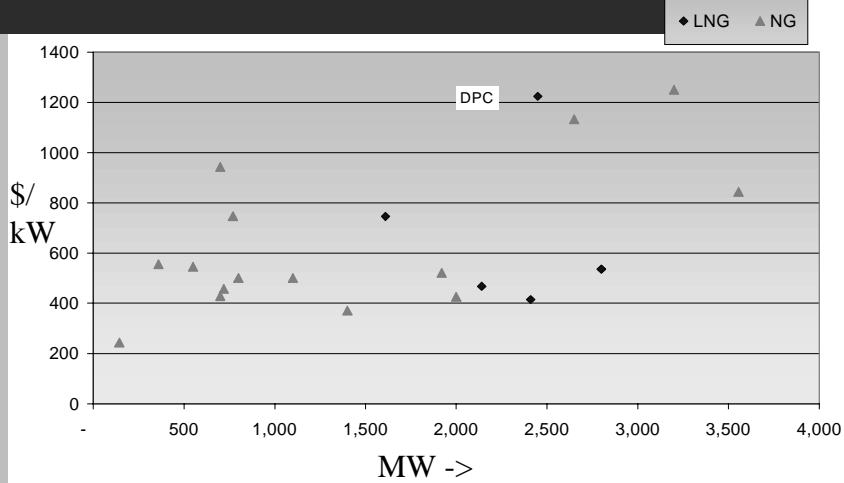
- Excessive incentives
- Competition & cost considerations on the back-seat
- Insufficient emphasis on efficiency improvement

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Cost of CCGT projects - by size



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CCGT Project Costs by Region (1994-2000)

Capital Cost of CCGT Projects (1994 to 2000)		
	MW	\$/kW
North America	24,831	573
Australia Asia pacific	3,288	615
Latin America	16,098	703
Western Europe	23,003	750
Middle East	12,823	793
Eastern Europe	3,632	796
South East Asia	14,814	803
Indian Subcontinent	13,299	875
Africa	538	923

Prayas calculations based on database search & analysis conducted by the World Resource Institute using Capital Data Project Ware

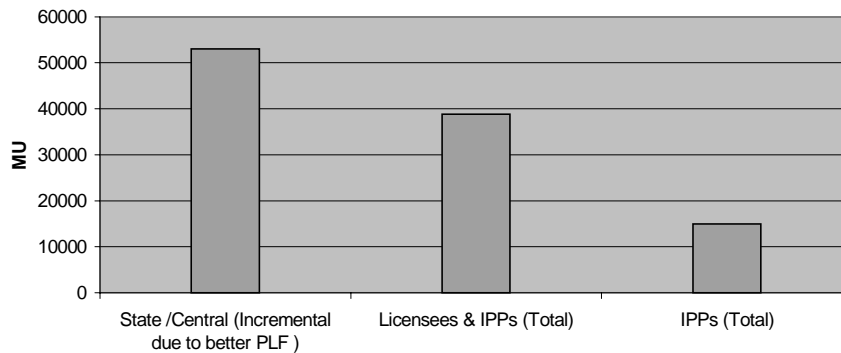
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Incremental generation by efficiency improvement v/s IPP generation (MU/Yr)

Contribution to Energy Generation in FY 02



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Important features of historical development

- Excessive stress on “attracting investment”
- Insufficient attention to
 - Transparency
 - Accountability of decision-makers
 - Consumer Participation
- Need to avoid these mistakes today

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Segmentation due to E-Act 2003

- A. Large consumers – Those who are resourceful (information & capital) can benefit from ‘market’
- B. Urban consumers – Largely under regulated (private) monopoly
- C. Rural consumers – Likely to be under public monopoly
- D. Un-electrified households

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- **Specific suggestions**
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Generation planning & investment ...1

- 100,000 MW in 10 years = Rs. #%@ Lakh Cr !!
- Need for re-assessing **utility** demand forecast is an imperative
 - Major thrust of E-Act on market & competition
 - Reducing and changing role of government
 - Need to ensure effective competition
 - Questionable role of “Fiscal & other incentives” for attracting investments. (*market distortions?*)

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Generation planning & investment ...2

- Central government initiatives such as 50,000 MW Hydro are against the spirit of E-Act
- Government intervention **only** for 'energy security' & 'minimizing social & environmental impacts'. This need to be tested against 'Least cost' principles
 - For example DSM v/s renewable energy or some specific fuels

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Competition ...1

- Competition *and / or* regulation
 - Clearly defined boundary is essential
 - For each zone ensure adequate precautions
- For example - In 'competition' zone
 - Avoid slippery definition of competition in case of power procurement or generation investments by DisComs (regulated monopolies) or government control on investment by PSUs.
 - Need for competition based on "Avoided Cost"

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Competition

...2

- For example - In 'competition' zone
 - Urgent need to remove "Information Asymmetry". There should be a Public Domain database, listing
 - Cost of **all** power projects (with detailed breakup of costs)
 - All transactions by traders
 - DisComs performance parameters and benchmarks
- A similar process has been initiated in the USA

Failure to ensure true competition →
Danger of (unregulated) oligopoly
Adverse impact on Segment B and C consumers

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Tariff Issues

- Segment B and C consumers are going to face very major tariff shock
- Unfortunately, till date no clear analysis / forecast of tariff impact on these categories
- MoP should avoid 'artificial' tariff shock through
 - Depreciation norms, O&M, Investment return or
 - Revaluation of assets
 - Rather consider reserving old plants for 'deserving' consumers with low paying capacity

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Historical / Stranded Costs

- High T & D losses
- High cost IPPs

Do not allow large consumers to escape burden of these historical inefficiencies / stranded costs **and** expect only small consumers to pay for the same.

- Apply cross-subsidy surcharge to Captive plants also (*needs amendments to E-Act*)
- Modify policy for Wheeling Charges etc.

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Regulatory process

- Selection process needs to be improved
 - Composition of selection committee, transparency in selection process
 - New appointments / process would be tone setter
- Need for RC capability development (a training center for RC members and staff)
- Need for code of conduct, standard of performance

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Consumer empowerment

- Institutional support for
 - Awareness creation
 - Capability building (training)
 - Regulatory intervention
 - Financial support
- Need to make RC & utility accountable through
 - Mandatory systems for operationalizing transparency
 - Ensuring high credibility of appeal mechanism

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Other issues

- Captive – ‘Set-up’ should be clarified as ‘newly built / constructed’
- The minimum area for 2nd licensee should be a district
- Need for comprehensive policy for Renewable Energy.

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- **Issues related to policy formulation process**

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Issues related to policy formulation process

Essence of democracy is informed and meaningful public participation in decision-making

- E-Act will have long term and severe impacts
- Hence, the related decisions should address people's concerns, should be seen as just, and
- Undue influence of powerful sections on these decisions should be prevented

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Issues related to policy formulation process

A well tuned process is a mechanism to achieve this. The Task-force should:

- Make public all submissions made before it
- Give a well reasoned report that consists of
 - Problem definition
 - Objectives
 - Options assessments
 - Recommendations and
 - Impact analysis

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Thank You

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