

India Power Reforms Update

Issue IX – September 2004

(Updates in the period: June 2004 to September 2004)

INTRODUCTION

India power sector reforms update is prepared by Prayas, an Indian NGO based in Pune, working on power sector issues for a decade. Our aim is to monitor the power sector developments at an all- India basis and in four Indian states of Orissa, Andhra Pradesh, Uttar Pradesh and Maharashtra. Eight issues of the update have been brought out so far. First issue was in October 2001 with detailed historical overview covering up to October 2001. Second, Third, Fourth, Fifth, Sixth, Seventh and Eighth issues were brought out in January 2002, May 2002, September 2002, February 2003, September 2003, December 2003 and May 2004, covering the updates in the respective previous period. Editions from the eighth issue are brought out under the TNI-Energy project.

This Ninth issue covers the period June 2004 to September 2004. These updates, tracking developments in these states will be published periodically. For better understanding, it would be desirable if readers also read the earlier updates. All these updates are available at our website www.prayasenergy.org. Please direct your suggestions and comments to Prayas at prayasenergy@vsnl.net. We are thankful to Dr. Anjula Gurtoo for preparing the Uttar Pradesh section of this update.

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PART I: OVERVIEW OF THE INDIAN POWER SECTOR

Sad demise of Mr. Pradyumnya Kaul

One of the most shocking incidents in this period has been the sudden demise of senior activist Mr. Pradyumna Kaul, who has been at the forefront of campaign against the disastrous Enron project. Pradyumna was a relentless fighter against anti-public interest policies and projects not just in the power sector but also in other sectors. Memory of his focused approach and perseverance will remain a source of inspiration for many fellow activists.

Economic Survey

The Economic Survey tabled in the Parliament before the Budget said that reforms have not made any significant impact on the finances of the SEBs. According to the Survey, on a cumulative basis, during the year the gross subsidy involved was Rs 31,941 crore. The commercial losses are expected to rise from Rs 10,090 crore in 2003-04 to Rs 10,556 crore in 2004-05.

Budget

The first budget of the UPA government was tabled in July. In power sector, customs duties remain unchanged. The existing CVD exemption on liquefied natural gas (LNG) to continue. The excise duty exemption that has been extended to naphtha/NGL used in production of steam supplied to heavy water plants will be beneficial for companies into nuclear power. An inter-institutional group in the power sector is in the process of facilitating the financial closure of 10 IPP projects. Finance minister suggests off-loading 5% government stake in NTPC.

NTPC - IPO, Divestment

The talk of NTPC public offer of shares was in the air from June. It was planned for end-July, postponed many times and ultimately took place in October 2004. In the budget speech, it was mentioned that NTPC would offer 5 per cent of its shares in the market. (equity base is Rs 78.12 billion). As per SEBI rules, a minimum of 10 per cent equity offering is compulsory for a company to go public and list its shares. However, in the case of NTPC, the regulator has made an exception mainly based on the argument that a 10 per cent issue size may be too large for the market to absorb. A note for CCEA in July indicated that the government is considering offloading 5.25 per cent stake in NTPC, as against 5 per cent indicated in the finance minister's budget speech. This is to ensure an equality in number of shares offered as offer-for-sale and fresh equity issue at 432.915 million shares each, indicating a total issue size 865.83 million shares of Rs 10 each, fully paid-up. The issue size is expected to be in the region of Rs 4,300- Rs 5,200 crore (at an issue price of Rs 50-60 per share).

As we go to press, it is reported that the NTPC issue was a grand success with participation of many Indian and foreign financial institutions.

Parliamentary Panel

It is reported in August that the Parliamentary standing committee on energy has observed that over-dependence and a total reliance on private sector have failed to show positive results so far. The private sector has achieved capacity addition of only 4,975 MW of thermal power (against a target of 17039 MW) and 86 MW of hydro power (target was 550 MW), during the 9th Plan. The Ministry of Power expects a capacity addition of 7121 MW by the private sector in the 10th Plan.

According to the committee, which is headed by the Congress MP Gurudas Kamat, the projects under private sector slipped on account of failure to achieve financial closure and litigation.

Captive Coal mining

Power sector consumes about 70% of the country's total coal production. Of the total coal based present power generation capacity about 90% of the capacity rests with State/Central Sector. According to the present policy, core sectors i.e. Power, Iron & Steel and Cement are entitled to undertake captive mining for which blocks are allocated by a Screening Committee under the aegis of Ministry of Coal. It is reported in September that the Ministry of Coal is proposing to allocate these blocks on the basis of competitive bidding under which the bidder quoting highest price for allocation of block will be given the block for captive mining. According to Ministry of Power, the proposed policy change will have increase the cost of coal and have many other negative implications.

World Bank Country Assistance Strategy

The draft Country Assistance Strategy (CAS) by the World Bank group for India for the year 2005-8 was released on June 16, 2004. CAS is an important document with significant impact on the policy process. Comments were invited on the draft CAS and many CSIs (including Prayas) had given critical comments. World Bank does not seem to have changed its approach and the final CAS was released in September 2004 along the same lines as the June draft. In the power sector, CAS advocates privatisation-focused reform. It appears that the World Bank has not learned any lessons from the past experiences.

Expert Committee on Energy

It is reported in July that an expert group has been constituted under the Planning Commission to draft an integrated energy policy. It will be headed by Member (Energy), Planning Commission, Kirit Parikh and have representatives of ministries of petroleum & natural gas, coal, non-conventional energy sources, power and department of atomic energy. There will also be representation of academics and Industry associations. It is expected to give its report in 6 months time.

Mega power policy review

It is reported in June that MoP has initiated steps to make major changes in the mega power policy. The current policy offers zero customs duty benefits to all thermal power projects of 1000 MW and more and hydroelectric projects with capacities of 500 MW and above. The proposed changes include reducing the threshold for all thermal projects to 250 MW from the present level of 1,000 MW and removing the 500 MW limit completely for all hydro projects under the mega power policy. However, the condition that projects should be of inter-state nature supplying power to the grid remains unaltered. So far NTPC and NHPC have been the major beneficiaries of mega power policy.

Books and publications

'Know your Power: A Citizens' Primer on the Electricity Sector', by Prayas Energy Group, Pune: This is a techno-economic primer on the power sector. First of its kind, it provides a comprehensive coverage of power generation, transmission & distribution; the organisation of the Indian power sector; the economic and tariff issues; power sector planning and reforms. (www.prayaspune.org for details)

'Governing Power' by SL Rao: Published by TERI press, New Delhi, this book by SL Rao elaborates the multi disciplinary expertise needed for electricity sector regulation. It describes the development of regulatory system and suggests directions for independent regulation. SL Rao was the first chairman of the Central Electricity Regulatory Commission. (www.teriin.org/pub for details)

'Power Pulse', Fortnightly newsletter from IPPAI: Another news update service from the Independent Power Producers Association of India. (www.ippai.org for details). There are already a few power sector news update services, including India Infraline, Powerline and TERI Newswire.

E-Act 'review'

We had reported in Issue 8, that the Common Minimum Program (CMP) of the new government had promised a review of the Electricity Act. In a move that surprised many, the union power minister, PM Sayeed declared that "The review of Electricity Act, 2003, is done and there is no other specific item left for review" in the Parliament on August 18. While addressing members' concerns on the possibility of reviewing the Act, Mr Sayeed said even the CMP is specific only about extension of the mandatory date for reorganisation of electricity boards. "We have already reviewed the Act. Those states, which had wanted an extension for re-organising the electricity board, have been granted extension. 13 states wanted extensions from 2 to 12 months from June 2004. There is no other specific item of review mentioned in the CMP. If there are any problems during the implementation of the Act, we will look into them," Mr Sayeed said. He said this piece of legislation took almost three years of consultations across the country (two years before introduction of the Bill and thereafter one year with the Standing Committee of the Parliament). "The Committee also held consultations with stakeholders throughout the country and gave a number of recommendations, most of which were accepted. Electricity Act, 2003 is a 'new deal' and we should implement it with an open mind", he told members.

Extensions to SEB Unbundling

As per the E-Act, SEBs were to be restructured by June 09, 2004. As was reported in our last issue, 13 states have been given extensions ranging from 2 months to 12 months for restructuring. Assam, which was given 2 months, has been granted 2 more months based on a request from the state. Information about states are: Assam (4 months), Bihar (6), Chattisgarh (6), Gujarat (6), Himachal (12), Jharkhand (9), Kerala (12), Madhya Pradesh (6), Maharashtra (6), Meghalaya (12), Punjab (6), Tamil Nadu (12) and West Bengal (12). Transmission corporations in unbundled states have been permitted to do trading for 12 months. Minister has said that no further extensions would be given.

National Policies

National Electricity Policy (NEP), National Tariff Policy (NTP) and National Rural Electrification Policy (NREP) are three key policies which would decide the framework of E-Act implementation. Drafts of these have been prepared during the time of the NDA government and some consultations held. UPA government has brought out revised drafts of NEP and NREP, though none has been finalised as of September end.

National Electricity Policy

In a draft dated June 30, the Ministry of Power has drastically revamped the National Electricity Policy prepared by the NK Singh committee in February (February Draft) and synchronised it in

line with the Common Minimum Programme (CMP). The salient features of this 15-page draft (available at the MoP website) are:

- Incorporates feedback received on the February draft of NEP
- Stated objectives are: a) Universal access in 5 years (as opposed to earlier target of 2012), b) Remove power shortages by 2012, c) International standards of reliability and quality at reasonable rates by 2012, d) Per capita consumption of 1000 units by 2012, e) Minimum consumption of 1 unit/household/day and f) Protection of consumers' interests
- National Electricity Plan is to be prepared by CEA in 6 months – short term plan for 5 years and perspective plan for 15 years
- Issues related to Rural Electrification, generation, Transmission, Distribution, R&D, Competition, Financing, Energy Conservation, Training, Renewable and Consumer Protection are addressed

The quantum of funds to meet the requirement of “power for all” in the next five years has been estimated at Rs 9,00,000 crore. Many organisations have submitted comments on this draft. Comments from Prayas cover:

- Rural Electrification: Prioritise requirements to provide access to essential facilities first. Encourage R&D and innovative solutions
- Hydro power initiative: In line with the aspiration for international standards for supply reliability & quality, aim to achieve international norms for R&R. Address the environmental issues properly.
- Clarify the definition of group captive to have at least 75% ownership or self-use.
- Generation to be based on competitive bidding
- Permit parallel distribution licence only in special cases where the existing licensee defaults obligations. In such cases, do not have restrictions on area of operation – area could be same as that managed by the defaulting existing licensee.
- Competition: Take steps to prevent vertical integration and associated manipulations
- Training: Do not limit to industry related training needs. Healthy regulatory mechanism requires capable CSI groups, the training needs of which should also be addressed.

Rural Electrification Policy

In IPRU Issue 7, we had reported about the discussion paper on Rural Electrification, brought out by MoP in November 2003. A consultative process was held with some workshops at different parts of the country in December 2003-January 2004. Subsequently, MoP has released a draft Rural Electrification Policy note, which is available at its website. Some key features of this 34-page draft are:

- Ambitious access and quality goals: Electricity for all, AARQA goals (Access by 2012, Availability of power to meet demand, Reliability of power for 24 hours, Quality of 100% and Affordability based on capacity to pay)
- Village Electrification by 2007: New definition from 2004-5: Distribution Transformer, Electrification of public places, 10% households electrified, Supply voltage at peak time suitable for lighting. Electrification to be certified by Gram Panchayat. (Incidentally, meeting this target needs electrification of 16000 villages/year (as per old definition) against 100000 (7th plan), 18500 (8th plan), 11200 (9th plan))
- Household Electrification by 2012: All households (hh) to be electrified, Minimum 1 unit/day to all Below Poverty Line (BPL) hh, 24 hours availability and 100% quality. (Household electrification of 10 million hh/yr required against current 1 million hh/yr)
- Two options to extend supply - Standalone systems and Grid extension

- Standalone systems: Not connected to grid, No license needed, Universal service and safety obligations, Retail tariffs based on market or based on funders. Not regulated by RC.
- Grid expansion: Bulk purchase and management of grid. By Panchayats, Users associations, Cooperatives, NGOs, Franchisees. Acquire existing distribution system (at nominal value) or build, No license needed, Universal service and safety obligations, Retail tariffs regulated by RC/ Block level committee
- State level nodal agency and District level committees for RE. Involvement of Central agencies and Financial support for RE programs.

There have been discussions on the policy in different fora. IPPAI is planning a national seminar at New Delhi in October on the subject.

Tariff Policy

In August, the Power Minister informed that the draft Tariff Policy is being finalised based on the NEP. This is a much-awaited document since it would decide the nature of cross subsidy calculation and host of other issues. It is expected that there would be wide ranging consultations before finalising the Tariff Policy.

Memorandum by Labour unions

The National Co-ordination Committee of Electricity Employees & Engineers, the representative body of power sector workers all over the country, presented a memorandum to the Prime Minister on Electricity Act. The memorandum called for substantial amendments to the E-Act and retaining the vertically integrated structure of the SEBs. It called for strengthening of the CEA and improving the functioning of the RCs. It also asked for clarity in definition of captive, keeping the hydro projects out of private sector, doing away with 'unfettered' open access, deleting the provision for parallel distribution license and restricting trading to public owned agencies. The memorandum is signed by Akhil Bharatiya Vidyut Mazdoor Sangh, All India Electricity Employees Federation, All India Diploma Power Engineers Federation, All India Power Engineers Federation, Electricity Employees Federation of India and National Working Group on Power.

In a swift move, MoP gave a point by point reply to this memorandum refuting all arguments and justifying all its actions. It is reported that the trade unions and left parties will be following up on this issue.

Workshops on E-Act

Numerous workshops and seminars continue to be held on to E-Act and policies. Many are organised by Industry associations in the areas of Open access, captive policy and trading. We report below a few workshops organised by CSI groups.

National Workshop on Electricity Act for NGOs

A 3-day National Workshop on 'Electricity Act 2003 for NGOs' was held at Pune from July 26-28, 2004. This was jointly organised by Prayas (Energy Group, Pune), Centre for Public Policy (Indian Institute of Management - Bangalore) and Utility Regulation Research Centre (Xavier Institute of Management - Bhubaneswar).

In all, fifty-four representatives from a broad range of forty civil society organizations from ten states participated in this workshop and discussed the implications of the Electricity Act 2003.

The group included consumer organizations, labour groups, farmers unions, NGOs and researchers. The workshop concluded with a finalisation of a joint statement, which called for a comprehensive transparent review of E-Act.

Training Workshop on Power

A 2-day national training workshop on power was organised on May 31-June 01 at Lucknow by All India Power Engineers Federation in association with National Working Group on Power, Public Services International and Prayas. This was attended by about 100 engineers from all over the country. There was strong criticism of E-Act and related policies. Workshop concluded with a resolution asking for review of E-Act.

National Conclave on Electricity Act 2003

A one-day conclave was organised at Kolkotta by Forum of Scientists, Engineers and Technologists (FOSET) in association with The Institution of Engineers (India) on September 25, 2004. West Bengal power minister, National level bureaucracy and state level utility engineers participated. Criticisms and reservations on the E-Act were answered to by RV Shahi, Secretary – Power.

National Workshop on Power

A 2-day workshop on Power, with special focus on E-Act was organised by APSEB Engineers Association and All India Power Engineers Federation at Hyderabad on 14-15 September. Chief Minister of AP inaugurated the workshop and there was active participation from the state utilities and the Regulatory Commission.

CERC Updates

Power Trading:

It is reported in July that 11,000 MU (2% of generation) is being traded in India. Trading licenses were granted in June-July to Adani Exports Limited (Category F - 1000 MU, 25 years), Tata Power Trading Company (Category A- 100 MU, 20 years), Reliance Energy Power Trading Company (Category A), PTC (Category F), NTPC Vidyut Nigam Ltd (Category E, 7000-1000 MU, 15-20 years), MMTC (Category C, 200-500 MU), Lanco Electric Utility Ltd (Category A) and GMR Energy

Inter-state transmission open access regulations

The Central Electricity Regulatory Commission has proposed some amendments to the regulations on open access in inter-state transmission (which was prepared in February 2004). The draft regulations were released on August 16th with time till August 31 for comments. As per this, application filing norms for short-term access have also been simplified. Applications will now be opened on the 20th of each month, instead of the earlier system of first-come-first-serve basis for making the open access facility to a larger section of companies. If the regional load dispatch centres were of the opinion that the grant of short-term open access will cause congestion in one or more corridors, the applicants will be informed within three days. The regulator has also put in place rules related to bidding for the short-term access and has said in case of two or more bids of equal price, the reservation of transmission capacity will be done pro rata to the capacity sought to be reserved. In case the capacity remains unutilised, the nodal

regional load dispatch centres have to be informed along with the reasons for under-utilisation. The regional load dispatch centres have been empowered to reduce or cancel the reserved transmission capacity. The open access rules give precedence for allotment to long-term customers over the short-term ones. It has laid down that within the two categories, there will be no discrimination between open access customers

Competition policy

As was reported in Issue 8, CERC had engaged NCAER to prepare to prepare a report on Competition in power sector. It is reported that NCAER submitted a consultative paper, "Introducing Competition in Generation of Electricity" in June to CERC. Report suggests extending open access to all consumers (not limiting it to 1 MW as envisaged earlier) and tariff based bidding of generation. On August 4th, CERC put up this report for comments which were to be given by August 20th. The final policy is expected to be announced after consolidating the inputs.

Transmission licensing conditions

Draft norms for Transmission Licenses was proposed by CERC in September. It suggests 0.1 % of the transmission charge as the annual licence fee for companies entering the inter-state transmission business. The licence fee for the construction period shall be Rs 1 lakh. However, after the commissioning of the project, the annual licence fee shall be 0.1 % of the annual transmission charges subject to a minimum and maximum of Rs 1 lakh and Rs 1 crore, respectively. The transmission charges will be fixed by CERC unless the project is awarded through a bidding process in line with the Centre's guidelines. Companies seeking to enter the business would require a net worth equal to the value of the annual transmission charges. It is reported the POWERGRID, the Central Transmission utility has suggested that it should play a key role in granting transmission license. This is in the background of the reported proposal by Reliance Energy to set up 20 transmission lines and 13 substations.

From Other States

In June, DERC has hiked the power tariffs by 10 % decreased the number of slabs for domestic customers by merging the 0 to 100 and 101 to 200 unit categories.

It is reported that the World Bank does not approve the free power supply policy being followed by AP and Tamil Nadu.

The draft of Rajasthan Electricity Bill, 2004, authored by Mr Gajendra Haldia, advisor, National Council for Applied Economic and Research, released in July for comments has been questioned by many. The need for a State legislation is not clear when the E-Act and policies are there.

II ORISSA

1. STATE OVERVIEW

In July, Power Finance Corporation (PFC) short-closed the transitional loan of Rs 1,200 crore sanctioned to the Grid Corporation of Orissa Ltd (Gridco) in view of the improvement of its finances. This was based on Gridco's request. Of the Rs 1,200 crore, Gridco has already drawn Rs 400 crore in three tranches as bridge loan which was supposed to merge with the transitional loan of Rs 1,200 crore. It is reported that during 2003-04, the financial position of Gridco has substantially improved in view of trading of power to other states. Gridco could generate additional revenue not only to meet its existing financial commitments to the generators but also liquidated some of its past dues and also swapped its high cost borrowings to different financial institutions/bond holders. It is also reported that Gridco's collections from distribution companies in Orissa also improved over the last two years. However, aggregate receivables at 296 days sales equivalent are still on the higher side. Transmission losses have also been cut to 3.9 per cent during the same year. PFC sources further added that PFC was quite comfortable with the improvement shown by Gridco and the improved finances coupled with reduction in transmission and distribution losses.

In August, it is reported that National Lignite Corporation (NLC) plans to set up a Rs. 8000 Crore, 2000 MW coal based power plant in Orissa. Orissa has a quarter of the coal reserves in the country.

One interesting observation about Orissa power sector reforms is that these days, there is not much reporting on Orissa in the mainstream media. News of all-India updates, AP, Maharashtra (mostly on DPC) and Delhi tend to dominate, whereas, a few years ago, Orissa was the focus of all reform news. The turning point was the Kanungo committee report (end 2001, See Reform Update Issue 3), which faulted the reform process. This indeed is not a good trend, since Orissa is the state with the longest regulatory regime, very high reform related investment and the biggest state with private distribution. It is important for the rest of the country to learn from the progress of steps initiated during reforms. Limited coverage of Orissa events makes this difficult. The limited vision of the mainstream media (which typically tends to focus on high investment related news) could perhaps be the culprit for this aberration.

2. REGULATORY INTERVENTION

Conduct of Business Regulations (CBR)

Issue 7 had reported the draft CBR prepared by OERC in March. The final 151 page CBR was published in the Gazette in May 28, 2004. CBR has been modified as per provisions in the E-Act 2003. It covers functions of the RC, licensing (for generation, transmission, distribution and trading), fuel surcharge adjustment and formats for applications to RC.

Tariff application for 2004-5

GRIDCO and DISCOMs had submitted tariff applications for 2004-5 in December 2003 to OERC. In June, OERC has asked them to publish public notice inviting comments and gave time till July for any revisions. With all this, the tariff revision process has been delayed.

Open Access Regulation

Draft OERC Terms and Conditions for Open Access Regulation was put up by OERC in September. This regulation addresses intra-state open access. Short term consumers are those who contract for less than 25 years and long term consumers for more than 25 years. The nodal agency for arranging open access is State Transmission Utility (if its system is used) or the DISCOM, where the consumer draws power. Applications are to be processed by the SLDC. Phasing plan is to cater to consumers > 5 MW by April 2008, > 2 MW by October 2008 and > 1 MW by January 2009. This would satisfy the 5-year deadline set by the E-Act amendment (January 2004) to provide open access to consumers > 1 MW. Open access charges will include transmission charge, wheeling charge and other charges (surcharge, system operation charge etc).

Grievance Redressal Forum (GRF)

GRF regulation was reported in Issue 8. In October, 10 GRFs have been set up covering the 4 distribution zones of Orissa. Each GRF has a president, and one or two members. Most of them are present or retired employees of licensees. There are a few consumer activists and advocates. It is to be seen how GRFs contribute to improve consumer service by acting as a bridge between consumers, RC and utilities.

3. PRIVATE SECTOR GENERATION

On August 23rd, Chief minister Naveen Patnaik laid the foundation stone for Units 3 &4 (250 MW each) at Ib valley. The cost of these two units is expected to be Rs 1,800 crore, and the projects will go on stream within 33 months of the financial closure expected in May 2005. US power utility AES Corporation, which has a 49% stake and manages OPGC, will invest about Rs 274 crore in the two new units at the Ib valley. The new power project has a debt-equity ratio of 70:30.

4. PRIVATE SECTOR DISTRIBUTION

As reported in this issue, DISCOMs are following up on the tariff proposals they have submitted to OERC. From 2003-4, DISCOMs have reported turn around and have been paying their dues. CESCO continues to be under the management of State.

III ANDHRA PRADESH

1. STATE OVERVIEW

Free Power to Agriculture

Issue 8 had reported the GoAP decision to offer free power to all agriculture consumers in AP, immediately after the May elections. After few months of free power, many issues have cropped up. One is the reported rise in number of un-authorized connections, which according to GoAP has gone up from 1.39 lakhs to 3.5 lakhs (total number of agriculture connections is 22.5 lakhs). Government policy is to regularise about 50,000 connections per year. It is clear that such a rapid rise in power connections could lead to the collapse of the distribution system affecting the legitimate consumers. In August, the power consumption in the state touched 153 MU one day, which is unprecedented when compared to last year's average consumption of about 127 MU/day during the same period. According to an estimate, the big farmers, who possess more than one pump set and also those who own huge horticulture plantations, comprise a mere 5-6 per cent of the total farming community. However, they account for more than 30 per cent of the total agriculture energy consumption. Taking advantage of the free power scheme, these big farmers have been enhancing the capacity of their pump sets, which has already reflected in peak loads. As per the latest reports, government plans to disconnect the un-authorized connections.

Many have suggested that the rich and corporate farmers need not be given the facility of free power. Left parties have suggested that free power could be extended to farmers with holding less than 5 acres. Other farmers should be charged at subsidised rate. With the expert committee on agriculture (headed by Dr. Jayati Ghosh) also opposing the blanket free power scheme, it is reported that the GoAP is planning to come out with a comprehensive agriculture power policy.

Free power to poor domestic

As part of the election promise, GoAP has announced in September, a subsidy of Rs 10 to all the households whose monthly electricity bill is Rs 25. A total of about 13.92 lakh household across the State would directly benefit from it. The decision will cost the State Government Rs 16. 7 crores per year.

Gas scene

It is becoming clear that the gas reserves in the state are not sufficient to meet the requirement of the existing and planned gas based power projects in the state. In July, the Chief Minister, Dr Y.S. Rajasekhara Reddy, has urged the Union Minister of Petroleum and Natural Gas, Mr Mani Shanker Aiyar, to direct the Gas Authority of India Ltd (GAIL) and the Oil and Natural Gas Commission (ONGC) to augment gas supply as per the agreed allocations to the existing independent power projects (IPPs) and the new power plants scheduled to be commissioned in the state by May 2005. Chief Minister pointed out that the existing four gas-based IPPs in the State were being operated at less than 70 per cent of their rated capacity due to short supply of natural gas from GAIL. As against the allocation of 4.85 Million Cubic Meters per Day (MCMD), the actual quantity of gas supplied to the four IPPs (GVK, Spectrum, Lanco and BSES totaling to a capacity of 999 MW) in 2003-04 was 3.68 MCMD. Situation will become serious when four more gas-based IPPs (Gautami, Koanseema, Vemagiri and GVK II) come into operation in the State in 2005 and 2006, with a combined capacity of 1499 MW. The total allocation for these IPPs is 6.70 MCMD, whereas the commitment from GAIL is to supply 6 MCMD. Cairn Energy and Reliance have discovered new sources of gas, but these supplies are expected only by 2006-7.

They have also been entering to contracts with many other power projects spread all over the country to supply gas.

The consumers are bearing an unfair burden of high power costs due to the payment of fixed transportation tariffs by APTRANSCO to GAIL and fixed costs to IPPs. IPPs are also losing money due to payment of capital costs to GAIL for the transportation network.

2. REGULATORY INTERVENTION

RC Chairman

We had reported that the first Chairman of APERC had retired in March. For some time, APERC functioned with two members and Mr. K Sreerama Murthy working as the Acting Chairman. In August 2004, Mr. K Swaminathan, a former Chief Secretary, has taken over as Chairman of APERC. The other RC members are Mr. K Sreerama Murthy and Mr. Surinder Pal.

Open access regulation

As reported in Issue 8, a discussion paper was released by APERC on Open Access. In August, APERC has issued the draft Terms and Conditions for Open Access regulation. This is applicable to intra-state transmission and distribution users. Long term consumers are those who contract for more than 2 years and short term for less than 1 year. Nodal agency for long term consumers is the State Transmission Utility whereas for the short term, it is the SLDC. The phasing schedule is to provide open access to those connected to >132 kV network and having > 5 MW load by September 2005, > 2 MW by September 2006 and > 1 MW by April 2008. Open access charges include transmission charges, wheeling charges and other charges, as notified by the RC.

Trading

In August, APERC has formulated a draft regulation specifying the technical requirements, capital adequacy requirement or credit worthiness for being an electricity trader in the State, and the duties of the electricity trader. The commission invited suggestions from the interested parties on the draft regulation, to be submitted by September 17, 2004.

Non Conventional Energy tariff:

In Issue 8, we had reported the APERC order, which revised the Non Conventional power tariff downward and made it two-part. The Non Conventional power producers have been trying to revise this decision. They had filed a writ petition in the P High Court, which asked them to approach APERC with review petitions. Some developers, APTRANSCO, People's Monitoring Group and Venugopal Rao (a journalist) filed review petitions. Public hearing was held in June and APERC issued orders in August. By and large, APERC has stuck to its previous order. It is reported that the NCE developers are not satisfied. Under the initiative of the Union Minister of State for Non-Conventional Energy Sources, Mr Vilas Muttemwar, the state CM may discuss with them to sort this out. Members of the Biomass Energy Developers Association have staged a protest before the office of APTRANSCO. They have also made a representation to the President, Dr A.P.J. Abdul Kalam, and the Prime Minister.

Other business of Transmission and Distribution Licensees

APERC issued draft regulation on other business of licensees in August, inviting comments by September 10. Provisions are that licensees should apply to RC, submit Annual accounts etc. Other business means business other than licensed. There conditions like Transco not to do trading, licensed business not to subsidise the new business etc.

The 2004-5 Tariff order has been made available in Telugu and is put up on the RC website in August. This is a welcome step.

3. STATE AND CENTRAL UTILITIES

New Appointments

In August, GoAP has appointed Mr Ajay Jain (who was Collector of Kurnool district), as the Managing Director of APGENCO and, Mr Hiralal Samariya (who was Director of AP District Poverty Initiative Project) as the Chairman and Managing Director of Central Power Distribution Company Ltd. Mr Deepak Kumar Panwar, Principal Secretary of Energy Department continues to hold additional charge as the Chairman of APGENCO.

Massive HVDS plan

It is reported in July that GoAP is planning a massive High Voltage Distribution System (HVDS) in all the 4 DISCOMS in the state. This will be implemented in a phased manner to provide power supply to agricultural pumpsets and rural households. According to the preliminary estimates, the project would cost about Rs 5,000 crore, and the annual savings are to the tune of Rs 1,200 crore per annum on a recurring basis. The projected benefits are reduced technical loss, elimination of unauthorised connections, improvement of pumping efficiency due to better voltage and reduction of power outages. Questions have been raised on the wisdom of this 'across the board' conversion of the rural LT distribution system to HVDS. It would be better to limit HVDS based schemes to cater to remote scattered loads. Existing LT system with some operational improvements would efficiently cater to the concentrated rural loads – domestic or agricultural.

NTPC

NTPC has a 2100 MW station at Ramagundam. An additional 500 MW unit is under advanced stage of commissioning.

PPAs to DISCOMs?

With the deadline of E-Act drawing near, there is a reported plan to remove the PPAs from APTRANSCO and distribute it amongst the DISCOMs. As per the E-Act, APTRANSCO cannot undertake power trading any more. DISCOMs will have to gear up in terms of contract management and trading if this is done.

5. PRIVATE SECTOR GENERATION

Review of PPAs

After free power to agriculture, the next major announcement related to power sector in AP has been the decision to review the PPAs. There have been persistent demand for the past few years to review the PPAs entered into by the Telugu Desam government. In June, the Chief Minister announced his government's intention to carry this out. It is estimated that the review may result in a saving of the tune of Rs.200 Crores. The PPAs that would be reviewed are of the GVK (Jegurupadu), Spectrum (Kakinada), Lanco (Kondapalli) and BSES Andhra Power projects. The Comptroller and Auditor General had also mentioned that excess payments of vast sums of money were being made to these companies. The review of PPAs was one of the promises made by the Congress during the election campaign. A committee was appointed under the chairmanship of the finance minister Rosaiah for this purpose. One of the members of this committee, Abraham (who was MSEB Chairman and Secretary, MoP) resigned shortly after his appointment in reaction to some adverse comments against him in the local press.

Spectrum

In June, it is reported that Industrial Development Bank of India (IDBI)-led institutions are currently involved in talks with APGENCO for roping it in for operation and maintenance of the 208-MW Spectrum power project. These institutions have been in management control since September 2003. IDBI's move to approach APGENCO comes at a time when Rolls Royce, which holds 32 per cent equity equivalent to Rs 56 crore in Spectrum Power Generation Ltd (SPGL), has threatened to stop the operation of the project.

In August, the Crime Investigation Department of GoAP searched the residence and six other premises of the former Managing Director of Spectrum, Mr M. Kishan Rao, and seized "several important documents". In a press release on August 13, the department stated that the documents seized related to transactions of the alleged bogus companies floated by Mr Kishan Rao, bank transactions and money transfers from different companies to SPGL and vice-versa from 1994 onwards. The CID searched Mr Kishan Rao's premises following a complaint against him by APTRANSCO.

BPL wants to withdraw

The 510 MW BPL coal based power project, for which coal linkage was also provided, had been sanctioned to BPL nearly 10 years ago. Earlier issues had reported the progress with the PPA, which is also in place. The project has not achieved financial closure and in August, it is reported that the BPL management is planning to exit the project, as part of their overall business plan. GoAP has indicated that APGENCO will operate the project if such a contingency arises.

Gautami Project

Alstom has received an order valued at around Rs 1000 Crores in July to build the 469 MW combined cycle power plant for Gautami Power. Commercial operation of the plant is expected in June 2006.

IV UTTAR PRADESH

1. STATE OVERVIEW

Power Policy

In June 2004, Uttar Pradesh Government amended the State Power Policy 2003, to attract new investments in power generation projects and renovation of existing power plants. The changes include:

- For capital investment of more than Rs 1000 Crores, land would be made available on lease for 99 years at a rental of Rs 100 per acre with nominal payment of stamp duty and registration fee. Prior to the revised policy, power developers were required to lease land at market price plus a premium equal to market.
- The state government would acquire land for the project and transfer the same to the generation company and offer subsidy ranging from 20% to 60% depending on the size of investments upward from Rs 1000 Crores. The state government would bear 10 per cent of land acquisition/resettlement cost for private parties investing Rs 1,000 crore to Rs 2,500 crore in thermal power plants and 20 per cent of total cost for gas and hydro-based plants. For investors in the Rs 2,500-5,000 crore category, the state would bear 20 per cent of the acquisition and resettlement cost in case of thermal projects and 40 per cent in case of gas and hydro-based plants.
- 100% exemption/remission of entry tax on Plant and Machinery for the project
- Interest free unsecured loan repayable over 7 years after initial moratorium for 7 years on all goods other than plant and machinery and spare parts, on projects with capital outlay of Rs10 billion and above.
- Conversion of trade tax (Sales tax) into interest free unsecured loan, on all purchases and sales from a period ranging from 7-12 years depending on the capital outlay from Rs 10 billion to 50 billion and above

In the amended policy, the threshold investment has been raised and if the capital cost is greater than Rs 5,000 crore, the percentage of the cost of land borne by the state government goes up to 60 percent. This will greatly benefit Reliance Energy Limited as the capital cost of its Dadri project of three 1,250 Mw gas-fired units, is higher than Rs 5,000 crores. The state government has already provided 278 acres in Dadri to Reliance Energy on a 99-year lease at Rs 100 an acre. Another 2,250 acres will be acquired and given to the company on lease. With the amendment in the power policy, nearly 60 per cent of the cost of acquisition for the Dadri project is being borne by the state government.

It is also expected the government would set in motion to invite private participation in the distribution companies.

Power situation

In the peak summer months of June-July, the State Utility generated about 2300 MW and UPPCL imported about 3000 MW from the Central Utility (average requirement of the State is about 6500 MW). The UP Chief Minister (CM) directed officials to maintain power supply for 14 hour per day (day time) for rural areas (tehsils and villages) in the month of June and July and follow scheduled rostering, keeping in mind low rainfall and sowing period for farmers. However, due to lack of power the actual supply was about 10-12 hours per day.

Currently, UP and other northern states are facing drought and reeling under a power crisis. Hydel generation has come down in the northern states by more than 10% in some of the hydel plants and overall generation is lower by almost 30%. In UP, there is shortfall of over 2,000 MW. The central pool contribution had also been curtailed to 1,900 MW due to closure of all units of the Nathpa-Jhakri hydro project in Himachal Pradesh and tripping of a 500 MW unit of the Rihand super thermal power station run by the NTPC. The Prime Minister's Office held a high-level meeting in early August to explore alternative ways to provide emergency power to the northern states. The meeting was attended by power secretary R V Shahi, representatives of the states and the chairman of Powergrid Corporation of India Ltd. However, no concrete plan to provide extra power to the northern states could be devised, though efforts are being made to tap some surplus power from the southern states in the off-peak hours.

The state government has deferred formation of the power trading company. UPPCL would continue the job of trading as well as transmission. This is the first time after many years that the UP electricity employees have won any kind of victory in their battle for the restoration of the unified structure of the state power boards.

Rural Electrification

In July, a new blueprint for rural electrification was finalised by the state government where the electrification will be carried out on a turnkey basis, by private parties, taking clusters of 100-200 villages. UPPCL will supervise the scheme. The project was to begin by mid-August 2004 and aimed for total village electrification by 2009. Currently about 40,000 villages in UP remain powerless. This scheme will raise the number of villages to be electrified per year from 2000 to 8000.

In July, the World Bank expressed its willingness to give 60 million USD as loan to the Central Government for electrification of the 40,000 villages currently without power. As per the blueprint, the apex bank would give a loan of \$60 million to the Central government, which in turn would pass it on as a grant to the Rural Electrification Corporation. The latter was to give the same to a Grant Administrative Agent, which can be a private agency. This agency would get 90 per cent of the money in the form of grant and 10 per cent as loan. However, this has met with severe criticism from all quarters including power officials and society at large. This move is seen as a step towards privatisation and misuse of funds.

Additionally, in August, the state government decided to use solar systems for electrifying the villages under Naxalite control. The dual objectives cited were a) to provide villages with basic amenities and persuade Naxalities to give up arms, b) to help state police in night vigil. Under this scheme, Non Conventional Energy Development Authority (NEDA) will provide three capacities of solar power systems, namely, 17, 38 and 74 watts. A household would get two points to electrify his hutment, with the 17 watts power system. NEDA is targeting electrification of 2500 villages by 2009. The work has begun and NEDA is seeking more funds from the central government for this.

The State government has also directed NEDA to provide solar pumps to the farmers. The plan is to experiment with solar irrigation pump system in 40 districts where 400 such pumps will be installed. During 2003-04, NEDA had sanctioned Rs 1.64 crore and Centre has sanctioned Rs. 12 crore for solar pumps in the state. Solar pumps are costlier as each pump costs about Rs 3 lakh but they are portable and also last up to 20 years. The government is providing these pumps to the farmers at Rs 70,000 apiece. It has sold about 150 such pumps till now. Further, these pumps are more powerful than their diesel counterparts and they can pump out water from as deep as 200 ft

and up to 12 hours at a stretch. As they are portable, multiple users can use the pumps; the buyer can also recover part of his cost by renting out the pump.

The new government has definitely shown concern for rural electrification and has initiated various schemes in this regard. However, these schemes do not talk of involving the local people in implementation.

2. REGULATORY INTERVENTION

Regulatory Commission has full 3 members now with Mr. PN Pathak and Mr. RD Gupta joining as members. We had reported in Issue 8, that UPERC has only one member, Chairman Vijay Kumar.

The draft of the UP Electricity Supply Code-2004, released in May 2004, makes the licensee accountable for any power supply fault. The objective is to set a certain service standard for the licensee. The licensee will be liable to pay a compensation ranging from Rs 50 to Rs 250 to the consumer in case of a fault and time taken to repair the fault. So a normal fuse-off will get a consumer compensation of Rs 50 adjusted to the bill, a distribution transformer failure will get Rs 100 adjusted to the bill of the affected consumers as compensation. In case of meter fault and voltage fluctuation, where upgradation of the distribution transformer is required, the affected consumer will get Rs 250 compensation adjusted to their bill. The licensee will also have to inform the consumer the time by when the fault will be rectified. These conditions in the supply code are being appreciated by the Industry as it is for the first time that a public enterprise is being held accountable.

3. STATE AND CENTRAL UTILITIES

The state utilities are making effort to improve and upgrade their systems and processes. In June, Lucknow Electric Supply Administration (LESA) experimented with handheld meter reading computers to provide the consumers with bill on their doorsteps. Field testing of on-the-spot billing revealed some discrepancies. New software and hardware were ordered for and from 10th August on-the-spot billing has started for some areas, covering total of 45,000 consumers under 4 substations. Three private companies (Sands, KLG and SAI) have been engaged to carry out this work. LESA has also started an online bill payment system, which is accessed by about 25% consumers on a regular basis to settle their electricity dues. However, LESA has to gear up further towards its attempts at revenue realisation. For example, in April, out of total 5 lakh consumers only 1.5 settled their dues (about 30%). On line billing and spot billing for LESA are good efforts by UPPCL. Sincere effort is being put by LESA officials to make it work and this attempt at consumer orientation and resultant infrastructure improvement is a thing to watch for. An important issue missing from this effort is demand side management. Consumers need to be better informed about various energy conservation methods.

However line losses for LESA continue to be 50% in the old city and around 30-35 % in the new Lucknow area. As per LESA engineers, out of every 100 units, about 15 units get lost in transmission and 20 units in distribution. Additionally, LESA has still to complete the upgradation work funded by the World Bank. Only about 50% of the money had been used by May 2004 (14 crores out of the targeted 38 crores). Out of the total 945 distribution transformers, it has installed about 577. Around 28 km of 33kV and 23 km of 11 kV cables have been laid so far out of the 46 km and 91 km sanctioned.

UPRVUNL, the generation utility, has expressed its willingness to reduce tariffs for its bulk consumer, the Indian Railways. The average rate at which the Railways purchases its power

stands at Rs 4.28 per unit. However, with Reliance offering to supply power at a price slightly higher than the bus bar price (cost of production) of about Rs 2 per unit, there is competition for the generation utility.

The World Bank has revised the cash gap target for Uttar Pradesh Power Corporation Ltd (UPPCL), the electricity transmission utility, from Rs 228 crore to Rs 273 crore for 2004-05. The corporation is projected to gather Rs 7,127 crore, down from the earlier estimate of Rs 7,390 crore and the government will provide Rs 1,055 crore as subsidy. The power purchase expenses are likely to be Rs 6,512 crore. Thus, the cash profit after power purchase and subsidy is Rs 1,671 crore. But the administrative and salary expenses and debt service of Rs 1,944 crore will ensure that the cash gap of Rs 273 crore remains. Though corporation is unlikely to break even this year, its performance has improved, as per the World Bank review. For example, UPPCL bought energy worth Rs 40,722 crore in 2003-04, which means a saving of Rs 1066 crore (fall of 3%) from 2001-02. Revenue realisation has improved by about 20 per cent.

The World Bank assessment in July 2004 shows that the demand for power also increased from 3,078 million unit in 2002-03 to around 3,300 million unit in 2003-04, an increase of 7.2 per cent compared to an increase of 2.2 per cent in Karnataka and a decrease of 2.6 per cent in Rajasthan. The increase has mainly been in the Meerut division, where it went up from 1,460 million unit to 1,629 million unit, an increase of 11.6 per cent. Collection performance too has shown an upward trend. Total billing in 2003-04 increased from 6,622 million unit to 7,074 million unit, registering an increase of 7 per cent. The overall efficiency improved from 80 per cent to 86 per cent. The World Bank had sanctioned a \$150 million loan in August 2000. Of which, \$134.5 million has been disbursed and the completion of project date is set at December 2004 with the objective of augmentation of the transmission system, strengthening of the distribution system and improvement in the metering system. Besides others, the loan was also to be used for setting up 1,450,000 electronic meters for system improvement and the modernisation of distribution zones, construction of 400 kV, 220 kV and 132 kV sub-stations. All the projects were estimated to cost Rs 975 crore. Of which, the World Bank's contribution has been Rs 736 crore and Rs 239 crore as the counterpart funding. Till April 2004, 1,136,417 meters were installed. However, the corporation will not reach the stage of recovering operating costs. Thus the World bank has set new targets for UPPCL. They are aggressive realisation from retail consumers through handheld billing proposed to be undertaken in 15 more towns, rural franchisees to ensure at least 90 per cent collection from rural consumers, rationalisation of tariff, and lastly reduction in line losses through targeted enforcement measures.

4. PRIVATE GENERATION AND DISTRIBUTION

In mid- July, the central government financially closed eight power projects including Reliance Energy's 3,740 MW Dadri Combined Cycle and Birla group's 567 Mw Rosa Thermal Power in Uttar Pradesh. At an interactive session organised by PHD Chamber of Commerce & Industry (PHDCCI), principal secretary, Energy, Govt. of UP and Chairman, UPPCL has said that within next 3-4 years new generation projects with the capacity of 3000 MW will be implemented which include power projects like Reliance, Paricha, Vishnu Prayag, Srinagar and Tehri. Furthermore, for evacuation of power and upgrading distribution system a capital investment of Rs 4,000 crore has already been tied up by Uttar Pradesh. The state has taken the lead in purchasing Bagasse based power of 75 MW and another 100 MW has been contracted for purchase from Co-generation projects.

A team from the 12th Finance Commission visited the bio-energy plant (fueled by garbage) to see the progress of the plant. Constructed at the cost of Rs 80 crores, by Asia Bio Energy (India)

Limited, with support from MNES, it is not being able to generate to capacity due to lack of the adequate fuel. Right now it is getting on 270 ton of garbage as against 300 ton needed.

The CAG report for year ending March 31, 2003 points out that between April 1996 and July 2002, UPPCL has suffered loss of about Rs. 7.13 crore in purchase of power from private generators due to inefficiencies in the agreements. UPPCL had entered into agreement with IPPs, in 1996, to purchase 48.3 MW of energy, with the understanding that the IPPs would use the UPPCL power evacuation system till such time that they build their own. However no time frame was fixed for constructing their system. The IPPs had not constructed their own system till July 2002. UPERC had also raised an objection on this but UPPCL failed to respond.

A Tripartite agreement was reached between Reliance group, UPPCL and the farmers whose land was being acquired for the Reliance owned Dadri gas based project. It has signed a state support agreement with Uttar Pradesh for sale of 40% of the electricity from this project. After signing the agreement, REL paid Rs 64 crore to the state government for completion of the process of land acquisition for the project.

Reliance Energy Limited (REL) has decided to supply gas to its proposed 3,740 MW power station at Dadri, by laying onshore pipelines connected to Gail India's 1,800-km Hazira-Bijapur-Jagdishpur trunk pipeline. Earlier, the company had proposed procuring natural gas from Reliance Group's Dhirubhai gas fields in the Krishna Godavari basin, off Andhra Pradesh coast, but later it also contemplated sourcing it from other sellers. Further it entered into a memorandum of understanding (MoU) with CEA for project planning, load requirement and system analysis for this project. CEA is expected to submit its report by September end.

REL has appointed ICICI Bank as the lead manager for the project. The bank is expected to raise loans close to Rs 3,500 crore for the project's 1,200-MW phase one. Total cost of the proposed gas-fired Dadri power project is around Rs 10,000 crore. Reliance Energy is likely to go in for a 70:30 mix of debt and equity therefore total debt will have to be tied-up for Rs 7,000-8,000 crore. In September, it was reported that REL was asking for 90% debt, which was opposed by the Financial Institutions. The first phase of 1,200 MW is likely to be commissioned in two years from the zero date.

In August, it is reported that Tatas are planning a 2000 MW power project at the cost of Rs 8000 Crores, at Shobhadra. This will be a pit-head coal based plant planned in 2 phases of 1000 MW each.

V MAHARASHTRA

1. STATE OVERVIEW

Assembly elections in the state were scheduled in October 2004 and hence, had the overriding effect on the state power sector. As reported in the last issue, the state government sought extension for unbundling of MSEB till December 2004 and hence there was no development on this front. Major issue in the state during the reporting period has been government's announcement of free power to agricultural consumers.

Free power to Agricultural Consumers:

The free power to the agricultural consumers became the key issue for these assembly elections. The debate on the issue started with the announcement of the free power to farmers by opposition leader Mr. Thakare under new scheme "Jai Kisan". Initially no leader of ruling congress-NCP government was in favor of supplying free power, though in the state budget some concessions in agricultural power tariff were announced. But, subsequently the ruling coalition succumbed to the election pressure and the chief minister to formally announce the free power to the farmers in Maharashtra from July 1, 2004. Though in light of the legal provisions, it was apparent that government has to seek approval of the regulatory commission for effecting this decision, curiously the government approached MERC only on 11th August 2004 and a hearing on this application was fixed immediately on 16th August 2004. During this hearing, consumer organizations (Prayas, Mumbai Grahak Panchayat and Thane-Belapur Industries Association) strongly opposed this decision and also demanded that the government demonstrate its ability to compensate MSEB adequately. MERC's order dt. 23rd August 2004 in this regard, essentially required the government to pay Rs. 395 Crores cash to MSEB towards compensation (as billed amount to farmers during the quarter of July – September 2004). Subsequently, MSEB again approached MERC on 14th September 2004 with a request that a book-adjustment of government payable to MSEB for compensation of free power be allowed. This application was filed as the GoM found out (after MERC order dt. 23rd August, and in difference to earlier MSEB affidavit before the commission about position of payables and receivables from the GoM) that MSEB owes it additional over Rs. 400 Cr. MERC held a hearing on this application again in the presence of consumer representatives. During the hearing consumer representatives again strongly opposed the GoM proposal of book-adjustment and pointed out several shortcomings and lacunas in the GoM / MSEB affidavit. In response, MERC order on this application directed that the proposed book-adjustment can not be carried out until the issue of exact payables and receivables is settled through actual, final government orders. This essentially implied that GoM has to pay MSEB in cash for issues zero bills to farmers. As per the news report, though the government paid about Rs. 400 Cr. in cash to MSEB, the same was paid back to the government on the next day in the name of loan repayment by MSEB.

Similar to the Andhra Pradesh, the adverse effects of this decision were visible immediately. This has led to significant increase in the demand, and already being a power shortage situation, the load shedding has also increased. The transmission and distribution network is also under stress with large number of distribution transformer failures being reported.

If the GoM decides to continue with its decision of free power to agricultural consumer, it will have to again approach MERC before December 2004 and demonstrate its ability to compensate MSEB. The burden on GoM of the decision is about Rs. 400 Cr. every quarter, though the GoM was already subsidising about half of agricultural tariff (that is fixed by MERC).

2. REGULATORY INTERVENTION

Apart from regulatory approval of 'free power' decision there have been several important regulatory decisions in the reporting period. Some of these are highlighted below:

TPC – REL Tariff Order:

As reported in the last update, for the first time since MERC's inception in 1999, the tariff of two private utilities (Tata Power, TPC and Reliance Energy, REL(earlier BSES)) supplying power to Mumbai was being examined by MERC. MERC issued its tariff orders for these two utilities on 11th June 2004 and 1st July 2004. As per these orders, average tariff of Tata Power was reduced by 9.5 % and that of Reliance Energy was reduced by about 8.5%. This implies a saving of over Rs. 300 Cr. / p.a. for consumers of Mumbai. Such tariff reduction, after an open regulatory process, vindicated the demand for transparent tariff revision of private licensees in Mumbai, which the consumer groups have been making since last few years. Unfortunately, MERC had rejected petitions filed before the commission with such demands. Apart from such reduction in tariff, in response to consumer intervention, MERC also directed these two utilities to withhold large parts of proposed capital expenditure (Rs. 216 Cr. out of Rs. 406 Cr. in FY 04-05 in case of Tata Power and Rs. 722 Cr. out of 824 Cr. for FY 04-05 in case of Reliance Energy). MERC has directed these two licensees to submit detailed project reports for these investments and seek its approval for the same. This is for the first time MERC has issued any directive about the capital investments being made by utilities. Apart from this, this first tariff revision of private utilities in Maharashtra has revealed many interesting aspects, but in order to keep the 'update' we are not elaborating on the same. MERC tariff orders and Prayas's submissions in this case are available on the respective web-sites. Both, Tata Power and Reliance Energy filed review petitions against the MERC order, but both have been rejected largely because they were akin to appeals against the order rather than review.

Fossil Fuel based Captive Power Plants:

On September 8, 2004, MERC issued order on captive power plants policy and power purchase from the same by licensees in Maharashtra. This order is applicable for fossil fuel based captive plants. Through this order the MERC has significantly simplified the policy environment for captive power plants in Maharashtra. Also MERC order has offered number of critical concessions to the captive power sector in the state. Some of these include:

- A plant with self consumption of 51% would be treated as Captive plant. A Captive power plant (CPP) owner would be free to sale remaining power to any third party or distribution licensee. Further, the commission has allowed additional sale to third party / distribution licensees upto 75% of the total generation under 'special conditions'. These special conditions are, low capacity utilization, shutdown of manufacturing capacity, proposed capacity expansion of Existing CPP and proposed capacity expansion for new CPP. This concession (i.e. additional sales to third party etc.) would be valid for three years and could be extended further by the MERC.
- As per the order the distribution licensee '*shall*' purchase firm as well as in-firm power from the CPP and the purchase rate shall be frequency linked and based on UI charges at that frequency, with a floor of Rs. 2.30 / kWh and ceiling of Rs. 4 / unit (i.e. 2/3 of UI charges at 49 Hz.) In case of co-generation based CPP there will be a premium of 10% over above price where-as in case of in-firm power 90% of above rates will apply.
- Another major decision in the order has been the 'cross-subsidy' charge application in case of CPP sale to third party / open access consumer. Based on average realization and average tariff to HT industry for MSEB, MERC computed cross-subsidy as Rs. 1 /kWh. Surprisingly, MERC order notes that even this simple data (average realization and average HT industry

tariff) and was not available for other licensees in the state!. But, the MERC goes ahead and has fixed cross-subsidy surcharge as only 25 paise per unit, i.e. just 25 % of the cross-subsidy. Only rationale provided in the order for such ad-hoc decision is need to make CPP sale to other consumer viable (as a surcharge of Rs. 1 / kWh would make such sale uneconomical for either consumers or CPPs) in light of demand – supply situation in the state.

Above concessions, need to be seen in the context of another MERC decision / order in the case of Bhushan Steel Ltd dt. 3rd August 2004. In this case, MERC has ruled that as per its interpretation of the Electricity Act 2003, any captive plant owner can sell power to any consumer (even in the absence of distribution open access by MERC) as long as such sale is through a direct line i.e. without using distribution licensee's grid. Also such sale would not attract any cross-subsidy surcharge, wheeling charge or additional surcharge!

Overall, the CPP order of MERC is highly pro-CPP, lacks adequate analysis and reasoning and is likely to have significantly adverse impact on MSEB.

In another significant related development, the Maharashtra Industrial Development Corporation (MIDC), an arm of the government of Maharashtra has invited bids for setting up power plants at its key, large industrial areas under the new liberalised captive power plant scenario.

REL Application for Transmission Open Access:

As reported in the last update, REL had applied to MERC for seeking transmission open access on TPC and MSEB lines, so as to enable it to bring about 800 MW power from other sources for its Mumbai operations. Currently, this power is being sourced from TPC. As per MERC directive a committee was formed under the Chairmanship of WREB member to assess the availability of transmission capacity. The committee has submitted its report and has concluded that there is no spare capacity available in the MSEB grid to bring power from other state. As such the application of REL has effectively become redundant, though the final MERC order on the petition has yet to come.

Changes in the Regulatory Commission Members:

During the reporting period, Mr. P. Subrahmanyam Chairman and Mr. Jayant Deo, Member retired from the commission after completing full term of five years. GoM has appointed Mr. A. Velayutham (Ex. WREB) as member. The appointment of Chairman is still pending and though as per the new paper reports selection committee has forwarded two names to the government, final decision was not taken due to assembly elections. Now that the elections are over and new government has taken over this appointment is expected anytime soon.

Regulations under Electricity Act 2003:

As reported in the last update, MERC, has constituted a project coordination committee (PCC) to help in the preparation of regulations under the E. Act 03. In light of the E. Act requirement that all regulations have to be prepared within one year (i.e. by 10th June 2004), MERC notified several key regulations (open access, tariff regulations etc.) on 10th June 2004 after giving less than a week's public notice. Essentially these are ad-hoc regulations prescribed to meet the E. Act stipulation. Work of PCC is still continuing and these regulations will be replaced with more detailed regulations emerging from the PCC process.

In response to MERC regulations on 'Consumer Grievance Redressal Forum and Ombudsman', Redressal Forums have now been established for all licensees. Unfortunately, the formation of

these forums was significantly delayed and consumer groups had to consistently follow-up with the regulatory commission as well as licensees for the same. Also, in clear deference to provisions of the Act and regulations, MERC has not appointed Ombudsman as yet.

3. STATE & CENTRAL UTILITIES

MSEB is reporting large demand –supply gap and has to resort to significant load shedding. As per MSEB claims, currently the peak shortage is around 2000 MW. This is likely to increase substantially in the coming months due to high demand from agricultural sector, which is likely to be much more than traditional demand due to decision of free power. MSEB is planning ‘single-phasing’ approach to reduce load shedding for non-agricultural sector. It is also buying power through short term PPAs with energy traders like, Adani and PTC.

In a curious move, MSEB recently announced plans for expansion of its gas based station at Uran. Generation from 920 MW Uran plant is significantly affected due to low availability of gas. As per MSEB, it plans to increase the capacity at Uran by another 440 MW. To meet the fuel requirement for Uran, MSEB has floated tenders for about 4 mscmpd gas. Work on expansion of Paras and Parali coal thermal plants is already under progress.

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GLOSSARY OF TERMS

ABT	Availability Based Tariff
ADB	Asian Development Bank
AP	(The Indian state of) Andhra Pradesh
APCPDCL	Central Distribution Company of Andhra Pradesh
APEPDCL	Eastern Distribution Company of Andhra Pradesh
APNPDCL	Northern Distribution Company of Andhra Pradesh
APSPDCL	Southern Distribution Company of Andhra Pradesh
APERC	Andhra Pradesh Electricity Regulatory Commission
APDRP	Accelerated Power Development Programme
APSEB	Andhra Pradesh State Electricity Board
ARR	Annual Revenue Requirement
BST	Bulk Supply Tariff
CCGT	Combined Cycle Gas Turbine (based power plant)
CEA	Central Electricity Authority
CERC	Central Electricity Regulatory Commission
CESCO	Central Electricity Supply Company of Orissa Ltd.
CPP	Captive Power Project
CRISIL	Credit Rating Information Service of India Limited
Crore	1,00,00,000
CSIs	Civil Society Institutions
DFID	Department for International Development (of UK, called ODA before)
DISTCOM/ DISCOM	Distribution Company
DSM	Demand Side Management
EHV	Extra High Voltage
ERC Act	Electricity Regulatory Commissions Act (1998)
FEMA	Foreign Exchange Management Act
Financial Year	Indian Financial Year - 1 st April to 31 st March. Typically represented as FY 98-99 etc.

FIPB	Foreign Investment Promotion Board
GENCO	Generation Company
GoI	Government of India
GoAP	Government of Andhra Pradesh
GoO	Government of Orissa
GoUP	Government of Uttar Pradesh
GRIDCO	Grid Corporation
HP	Horse Power (1 HP = 746 Watts)
HT	High Tension (or High Voltage)
HVDC	High Voltage Direct Current
Hz	Hertz
ICRA	Investment information and Credit Rating Agency of India
IDBI	Industrial Development Bank of India
IDFC	Infrastructure Development Finance Company Ltd
IPPs	Independent (Private) Power Producers
IPS	Irrigation Pump Sets
IRP	Integrated Resource Plan (usually implying a least-cost plan that takes an integrated view toward all energy options)
kCal	Kilo Calories
kg	Kilograms
kV	Kilo Volt
kVA	Kilo Volt Ampere
kW	Kilo Watt
kWh	Kilo Watt Hour
LNG	Liquefied Natural Gas
LT	Low Tension (or Low Voltage)
MDBs	Multilateral Development Banks (such as the WB and ADB)
MkCal	Million Kilo Calories
MoU	Memoranda of Understanding
MP	(The Indian state of) Madhya Pradesh
MU	Million Units (million kWh)
MW	Mega Watts
NGOs	Non-Government Organisations
NHPC	National Hydro Power Corporation
NPC	Nuclear Power Corporation
NTPC	National Thermal Power Corporation
NESCO	North-Eastern Electricity Supply Company of Orissa Ltd.
ODA	Overseas Development Agency, UK (now called DFID)
OECD	Overseas Economic Corporation Fund of Japan
ONGC	Oil and Natural Gas Corporation
O&M	Operation & Maintenance
OSEB	Orissa State Electricity Board
PFC	Power Finance Corporation (a GoI-owned financing agency for the power sector)
PLF	Plant Load Factor (also called Capacity Utilisation Factor)
PSIRU	Public Services International Research Unit
PTC	Central Power Trading Corporation
R&M	Repair & Maintenance
RBI	Reserve Bank of India
RC	Regulatory Commission
REC	Rural Electrification Corporation, New Delhi
Rs	Rupees (Indian currency)

RST	Retail Supply Tariff
SAR	Staff Appraisal Report (the project appraisal document from the WB)
SEBs	State Electricity Boards (vertical monopoly power utility owned by the state government)
SERC	State Electricity Regulatory Commission
SOUTHCO	Southern Electricity Supply Company of Orissa Ltd.
T&D	Transmission and Distribution
TEC	Techno Economic Clearance
TOD	Time-Of-Day
TRANSCO	Transmission Corporation
UP	(The Indian state of) Uttar Pradesh
UPPCL	Uttar Pradesh Power Corporation Limited
UPSEB	UP State Electricity Board
WB	The World Bank group
WESCO	Western Electricity Supply Company of Orissa Ltd.