

India Power Sector Reforms Update

Issue III – May 2002

(Updates in the period: February 2002 to May 2002)

India power sector reforms update is a joint initiative of Prayas, an Indian NGO based in Pune, working on power sector issues for a decade and Public Services International (PSI) which is an international trade union federation, uniting public sector workers in more than 500 trade unions in over 140 countries. Our aim is to monitor the power sector developments in three Indian states of Orissa, Andhra Pradesh and Uttar Pradesh. This is the **third issue** of the update covering four months period from February 2002 to May 2002. First issue was a detailed historical overview up to October 2001, while the second update covered the period from October 2001 to January 2002. For better understanding it would be desirable if readers also read the earlier updates. These updates, tracking developments in these states will be published every quarter. Please direct your suggestions and comments to PSI at psiru@psiru.org.

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Part I: Overview of the Indian Power Sector

APDP becomes APDRP:

In line with the efforts of Ministry of Power (MoP) to encourage states to undertake reforms, MoP has renamed the Accelerated Power Development Program (APDP) as Accelerated Power Development Reform Program (APDRP). Under this program, the MoP will provide financial assistance to states mainly to strengthen distribution in selected circles / districts. States that agree to specific reforms related milestones would be eligible for drawing funds under this program. In the recent budget, the central government has doubled the outlay under this program to Rs. 35 billion. These funds would be available for specific projects, partly as grant and partly as loan.

MoP to evolve state specific reform models:

In another step to encourage states to undertake reforms, the Ministry of Power has formed a committee under the Chairmanship of Deepak Parekh, Chairman HDFC. Other members of the Committee include several private sector representatives such as M/s K. V. Kamath of ICICI, R. Gopalkrishnan of Tata Sons, K. D. Kulkarni of BSES, K.K. Maheshwari & P. K. Basu of Birla group, as well government and public sector representatives such as M/s Harish Salve (Solicitor general), R. Krishnamurthi of PFC, K. Krishnamurthi of CEA, Ajay Shankar of MoP, Baligar of KPTCL (Chairman) and G.D. Gautama of West Bengal SEB (Chairman). The committee is expected to come out with state specific models for power sector reforms. The committee would also look into factors such as transitional support and funds requirements. The committee's recommendations would have bearing on the disbursement of the APDRP funds. In the initial round, the committee is looking at six states, viz. Andhra Pradesh, Uttar Pradesh, Maharashtra, Orissa, Haryana and Rajasthan.

Scheme for Securitisation of SEB dues:

Huge unpaid dues by SEBs to central public sector units such as NTPC and Coal India have been a major cause of concern and threat to financial viability of these central units. Till March 2001, these dues were estimated to be above Rs. 410 billion (including principle and interest). Last year in the Chief Minister's conference (March 2001), it was decided to evolve a scheme for one time settlement of these dues and a committee under the Chairmanship of Montek Singh Ahluwalia was constituted to suggest appropriate measures. The Committee submitted its report in May 2001. It recommended that states which agree to specific conditions such as timely payment of current dues, graded reduction in supply of power / fuel in case of default, deduction of overdue payments in future from central assistance to states and reform milestones, should be allowed to avail benefit of one time settlement of dues through tax free bonds. Under this scheme, the concerned central units would waive 50% of the surcharge / delayed payment charges and the rest would be securitised through issue of bonds. States are required to enter into tripartite agreement between the central unit, Reserve Bank of India and the state government to participate in this scheme. Recently, in March 2002, the Cabinet Committee on economic affairs approved this scheme, with minor changes (such as instead of 50% waiver in surcharge/ delayed payment charge; the waiver would now be 60%). Andhra Pradesh and West Bengal have already signed such tripartite agreement and many other states such as Uttar Pradesh are considering the same. Report of the committee is available on Website of Ministry of Power.

Change of guard at CERC and MoP:

After lying vacant for nearly two years, the post of Chairman, CERC was filled up, with appointment of the just retired Secretary, Ministry of Power, A. K. Basu (who was the convenor of the selection committee). In another new development, for the first time in the Power Ministry, an outsider, private sector person, R. V. Shahi (who was the Director-Operations of NTPC and till

recently the CMD of BSES) has taken over as Secretary, Ministry of Power. Both these appointments came in April 2002.

Privatisation woes in Delhi and Orissa:

First as well as the most recent converts to power sector privatisation agenda, Orissa and Delhi respectively, are both facing difficulties, though differing in nature. The Kanungo committee formed by the Orissa government to review the power sector scenario has come out with striking revelations about the power sector reforms in the state. More details about this are given in the section on Orissa. In Delhi, the eagerly watched privatisation process has been delayed with only two private parties (Tata and BSES) actually bidding for three distribution companies and that too with conditional bids far below the reserved parameters. Privatisation was expected to be completed by April 2002. Now the Delhi government and the SEB are negotiating with these companies to see if a solution could be arrived at. Delhi privatisation was seen as a crucial test because of its new approach in terms of bids based on guaranteed reduction in aggregate T&D losses and collection inefficiency.

DPC Stalemate continues:

The mothballed DPC plant still continues to remain idle with no concrete solution in sight. The process of selling foreign equity in the project led by the Indian Financial Institutions was thrown out of gear when the now bankrupt Enron refused to allow prospective bidders even to carry out due diligence of documents at the records room in London and at the plant site in western Maharashtra. Because of this non-cooperation from the principle equity holders and continued payment default, the Indian financial institutions, which have an exposure of nearly US \$ 1.2 billion in the project are in the process of foreclosing the assets to secure their interests. These institutions are also making efforts to convince MSEB to buy power from the project. MSEB is reported to have expressed its willingness to buy DPC power at a rate much lower than the now cancelled PPA, and that too only for a period of five years. Any power purchase by MSEB would have to be approved by the regulatory commission after due public process. Only after this approval the plant can actually start generating and selling power to MSEB.

CEA's Hydro Power Ranking Study: Central Electricity Authority (CEA) has recently completed a study of hydro power potential in India. In this study, CEA has classified various hydro power projects and has ranked them in five categories representing priority / feasibility of implementation. This desk study, largely based on available information ranked nearly 400 identified hydro schemes on 10 aspects such as resettlement and rehabilitation, international & interstate potential, and present status of the scheme. The study has classified 98 schemes with installed capacity of 15,650 MW under category A, i.e. with more than 80 marks. In the subsequent phase of the exercise, detailed ranking would be carried out considering aspects such as satellite map based land use analysis, power evacuation and economic / tariff aspects.

Study on Hydro Power Financing: South Asia Network of Dams, Rivers and People (SANDRP - a New Delhi based NGO concerned with the issues of water and energy resources) along with International Rivers Network (USA) and Urgewald (Germany) have published a comprehensive report called 'Power Finance in India's Hydropower Sector'. This 120-page report published in January 2002 begins with a brief introduction to the Indian power sector with special focus on the hydro projects. The role of financial institutions (Indian and International) in these projects and the many linkages with the other actors have been brought out. It criticises the unscientific process followed in development of many big hydroelectric projects like Maheswar (in Madhya Pradesh), Tehri etc.

Two Committees- One on Distribution Policy and another on IT in Power:

The committee on distribution policy under the Chairmanship of Mr. A. K. Basu (now Chairman, CERC) submitted its report in the last week of March 02. This committee has sought to explore the various models for improvements in the distribution sector. In April 2002, Ministry of Power has appointed a committee under the Chairmanship of Mr. Nandan Nilekani, CEO, Infosys (a leading IT company based at Bangalore). This 'IT Task force for Power Sector' will look into IT applications for improving the quality of service to consumers and reducing losses in the distribution system.

Part II: Orissa

1. STATE OVERVIEW

1.1 REFORM REVIEW COMMITTEE

The six member committee headed by Mr. Sovan Kanungo was appointed by the state government on May 30, 2001 to comprehensively review the reform program. The other members of the committee were M/s A.K. Sah (Retired Chairman, UPSEB, Former CMD of NTPC), S. Sinha (Professor, IIM, Ahmedabad), S.K. Mohapatra (Retired Chairman, OSEB), Principal Secretary - Energy and Special Secretary - Energy. The Kanungo committee held extensive consultations with the state power utilities, OERC, World Bank, DFID, consultants, employee associations, consumer organisations, industry forums and many concerned citizens. It submitted the 100 plus pages report in October 2001 (this was briefly covered in Issue 2). This report highlights many shortcomings of the reform program and points out that no benefits have resulted even after spending billions of rupees and 5 years. Some of the highlights of this report are given below.

- a) No reduction in transmission and distribution losses: Even after five years of restructuring the T & D losses which were expected to reduce to 21% are still at 45% (which is same as pre-restructuring level).
- b) Collection efficiency deteriorated: Efficiency of bill collection (i.e. what % of billed amount is actually recovered) is an important measure of the efficiency & financial performance of any power utility. During, five years of restructuring process there has been substantial decrease in the collection efficiency from 84% (in the pre-reform era) to 77% (in post reform era)
- c) Quantum jump in debt burden: Large capital investments and revaluation of existing assets were two important ingredients of the Orissa restructuring model. Due to these changes, GRIDCO's (Orissa government owned central transmission company) loan burden has increased from Rs. 8200 million to Rs. 33000 million i.e. four times. Obviously this burden will be transferred to consumers in the form of higher tariff.
- d) Increase in the cost of generation due to asset revaluation: Due to revaluation of the assets not only did GRIDCO's loan burden increase, but also the cost of generation increased extensively. For example, before restructuring, the cost of generation of hydroelectric power station was Rs.0.20/unit, which increased to Rs.0.50/unit after restructuring.
- e) Steep Tariff increase but losses continue: In the past 9 years, electricity tariff in Orissa has increased by a huge rate of 15% per year. Such steep tariff increase implied that tariff nearly quadrupled in last decade. But in-spite of such tariff increase, the power sector continues making losses to the tune of Rs. 4000 million every year. (Total annual revenue collection is only Rs.18000 million).
- f) No capital investment: It was expected that privatisation would increase the investment & improve the efficiency. In Orissa, out of four distribution companies three companies were handed over to BSES & one was handed to an American company AES. As per the findings of Kanungo committee, management of all the four companies has not improved. These companies have neither brought in additional capital nor made adequate provisions for working capital requirements as promised to the government.

Annexure 9 of the report, titled 'Exit of AES' unveils the callous, irresponsible attitude and at times illegal operations of the private AES corporation which controls the central DISCOM - CESCO and the generating utility OPGC. AES did not bring in working capital and failed to pay

the transmission company (GRIDCO) on time. This resulted in great financial stress for GRIDCO. Other aspects of the working of AES are even more shocking. For example, the company did not implement the concessions given to various bigger consumers sanctioned by the regulatory commission. As a result of this, these consumers had to file a petition with the regulatory commission. The company did not honour the judgement passed by the commission. In the history of post reform operations, there must not have been such a case where the OERC imposed a fine of Rs. 0.1 million on AES saying that the company has committed wilful breach of law. AES did not follow the escrow agreement signed with GRIDCO and diverted the revenue somewhere else. GRIDCO filed a petition about this with the regulatory commission, but later withdrew it after intervention by the state government. Months before they resigned in July 01, many board members and senior officers of the AES would stay at New Delhi and look after the administration without even visiting Orissa. Towards the end, the AES office in Orissa was locked and daily activities also were made impossible. Following a petition from GRIDCO, OERC appointed an administrator in Aug 01 to take over the operations of the company.

Kanungo committee has noted that restructuring process was carried out under the guidance of the World Bank, DFID & various international advisors. There have been structural changes like formation of the regulatory commission, un-bundling & privatisation of Orissa electricity board. Expenses on account of foreign consultants have been to the tune of Rs.3 billion. But all these have not been able to result in visible benefits for the consumer as yet. Problems relating to the power sector like T & D losses, inefficiency in recovery of electricity bills & financial losses has become more serious.

To come out of this situation, the committee has given various suggestions like filling up vacant posts in the regulatory commission, review of asset revaluation, eliminating the dependence on external advisors, appointment of experts on high posts in the power companies & appointment of professionals. In order to turnaround, the committee states that the World Bank, British government & Indian government should provide a total amount of Rs.32.4 billion to the Orissa power sector in the next five years. (Note that the annual revenue of GRIDCO is Rs.18 billion and the total reform package (1997-2002) was around US\$ 990 m, i.e. Rs.40 billion!).

A World Bank-DFID review team visited the state in May 02 to take stock of the situation. Of the Rs 30 billion requested by the state government to tide over the crisis, it is expecting Rs 10 billion in the current financial year. The review team has assured to provide assistance and said that the assistance would be finalised after another visit in September 2002.

1.2 GRIDCO

Orissa has been a power surplus state. Orissa government decided to sell power to other power deficit states for requirement of funds. Grid Corporation of Orissa (GRIDCO) signed two power purchase agreements. One is with Andhra Pradesh Transmission commission (APTRANSCO) and other with Karnataka Power Transmission Corporation (KPTCL). GRIDCO is trying to sell extra power to the northern states also. Power purchase agreement between GRIDCO and APTRANSCO was up to March 31, 2002. APTRANSCO's failure to clear pending dues forced GRIDCO to cut power supply on April 15, 2002. GRIDCO is negotiating with officials of APTRANSCO for extension of agreement. KPTCL has signed a power purchase agreement for the coming three months with GRIDCO on January 9, 2002 for supply of 100 MW to Karnataka. The cost of power will be Rs. 2.35/kWh at Orissa end. GRIDCO is expected to earn Rs. 180 million per month from Karnataka from this.

GRIDCO's outstanding dues to NTPC are reported to be Rs. 9.79 billion. NTPC has started to regulate power supply to Orissa from March 10, 2002, as there is no response from GRIDCO for clearing dues. Effect of power regulation by NTPC has resulted into two hour load shedding in Orissa. Practically it is not possible for GRIDCO to settle dues to NTPC, considering GRIDCO's liquidity position and state Governments financial condition. So Government of Orissa has decided to submit the proposal to the centre seeking a financial package for a revenue deficit power sector. It is reported that finally GRIDCO has decided to sign a tripartite agreement with the union power ministry for setting dues to central power utilities. GRIDCO proposes to issue redeemable bonds of Rs. 1.5 billion to the National Aluminium Company (Nalco) for clearing its dues. Nalco supplies 68 MW to GRIDCO from its 720 MW Captive power plant at Angul. Total outstanding dues to Nalco are around Rs. 1.5 billion. Thus on one hand Orissa is cutting off supply of AP for non-payment, while on the other hand it's own supply is being cut-off for the same reason.

1.3 OHPC

State owned Orissa Hydro Power Corporation (OHPC) is facing serious financial crunch because of non-payment of dues by GRIDCO (Rs. 5.2 billion by March 2002). The only step OHPC has taken so far is to work out a bipartite agreement between OHPC and GRIDCO for payment of 75% of current monthly bill or Rs. 200 million whichever is higher.

2. REGULATORY INTERVENTION

2.1 TARIFF PROCESS:

Tariff revision process was held for the four DISCOMs and GRIDCO in March - April 2002. Table below gives the summary of the tariff process for the 5 utilities. It can be seen that the number of objectors was quite low for all except CESCO for which it was 24. Objectors for CESCO included consumer organisations, individuals and industry organisations. For other utilities, objectors are some individuals and industry organisations. All public hearings were held at Bhubaneswar, the state capital.

Utility	Public Hearing Date & Place	Number of Objectors	Tariff order
GRIDCO	March 18, 2002, Bhubaneswar	8	April 19, 2002
CESCO	March 23, 2002, Bhubaneswar	24	April 19, 2002
NESCO	March 19, 2002, Bhubaneswar	4	April 19, 2002
SOUTHCO	March 22, 2002, Bhubaneswar	3	April 19, 2002
WESCO	March 21, 2002, Bhubaneswar	3	April 19, 2002

2.2 HIGH COURT ORDER

An order dated April 26, 02 was passed by Honourable High court of Orissa which states that "The Electricity Regulatory Commission is free to notify the Bulk Supply Tariff and Retail Supply Tariff in respect of the five licensees as envisaged under clause (4) of the Section 26 of the Orissa Electricity Reform Act, 1995, But the same will not be given effect to until further orders". This order was issued by Justice R. K. Patra and Justice P. K. Mishra in response to public interest litigation filed by a retired chief secretary of state against the power tariff hike by authorities.

2.3 TARIFF ORDER

OERC tariff order dated April 19, 2002 was notified on April 29, 2002. This covers bulk tariff rates for GRIDCO and retail tariffs for the DISCOMs for 2002-03. Tariff order lists some major corrective actions (along the lines of the Kanungo committee report) to be undertaken by the state government. They include securitisation of liabilities to GRIDCO, abeyance of repayment of World Bank Loan till turnaround of the sector, DISCOMs to reduce the losses from 42.2% by 5%, GRIDCO to reduce transmission losses from 4% by 0.3%, DISCOMs to achieve collection efficiency of 87.5%, GRIDCO to export of 1400 MU power to other states, state government to release its energy dues to DISCOMs etc. OERC has advised the state government to approve the corrections by July 15, 2002 and the revised tariff is will be enforced from August 1, 2002, subject to the extent of corrections.

If all corrections are accepted, there will be a reduction (ranging from 6-14%) in BST to the DISCOMs whereas the RST is to remain same. If there is total rejection of corrections, BST will have to be raised by 38.7% and RST by 40% from August 1, 2002. Increase in RST is marginal for EHT consumers. Demand charges of Rs. 200/kVA/month remains unchanged. Transmission charge is changed from Rs.0.31/kWh to Rs. 0.32/kWh and transmission loss for GRIDCO approved at 3.88%. Key details of the tariff are given in the Table below.

Bulk Supply Tariff (Rs/kWh)			
DISCOM	Existing	Revised with Corrections	Revised without Corrections
CESCO	0.99	0.92	1.42
NESCO	1.00	0.86	1.35
SOUTHCO	0.90	0.84	1.36
WESCO	1.02	.97	1.47
Consumer Category	Retail Supply Tariff (Rs/kWh)		
LT Domestic	1.4 - 3.2	1.4 - 3.2	2.0 - 4.5
LT Commercial	3.2 - 4.5	3.2 - 4.5	4.5 - 6.0
LT-Irrigation	1.1	1.1	1.6
LT-Industry	3.2	3.2	4.5
HT-Industry	3.0	3.0	3.0 - 4.2
EHT	2.9	2.9	2.9 - 3.0

As per the high court order, upward revision of tariff is possible only after the High Court gives permission to do so.

3. PRIVATE SECTOR GENERATION

3.1 HIRMA PROJECT:

Reliance and Mirant were the two equity partners in the 6 X 660 MW Hirma mega power project in Orissa. As was reported in Issue 2, Mirant had opted out in December 2001. Reliance has decided to complete the project. Reliance will now execute fresh deed of release and assignment with Power Trading Corporation (PTC). Then the development agreement & Memorandum of understanding (MoU) signed earlier for the project will get transferred in favour of Reliance Power Ltd. It is likely that the project is restructured and completed in stages.

3.2 ORISSA POWER GENERATION CORPORATION:

Mahanandi Coal fields Limited is a coal supplier for Orissa Power Generation Corporation (OPGC). The Controller and Auditor General of India reported that OPGC's failure to check the coal supplied by MCL caused loss of Rs. 478 million to OPGC.

4. PRIVATE SECTOR DISTRIBUTION

In Orissa, distribution is in hands of BSES and AES. The collection in three DISCOMs with BSES is below pre-privatisation level. 40% of energy distributed is still not billed and from remaining 60% billed 25 % is not collected. BSES, which is managing 3 DISCOMs, have reported an accumulated loss of Rs. 10,000 million by March 31, 2002. Chairman & Managing Director (CMD) of BSES, Mr. Shahi was appointed as Secretary Power by the union government in April 02. Mr. Shahi had threatened that it is impossible for them to continue their business in the Orissa if state government dishonoured the recommendations of Kanungo Committee. Mr. S. S. Dua has taken over as the new CMD of BSES in April and he wants to review the distribution business of BSES in Orissa. It is reported that by April 2002, Reliance group has emerged as the single largest share holder of BSES. With 37% holding, Reliance has surpassed the 36.5% combined holding of the Indian Financial Institutions.

CESCO (AES holds majority shares), continues to be managed by the state appointed administrator.

Part III: Andhra Pradesh

1. STATE OVERVIEW

A major power breakdown occurred in Andhra Pradesh at 12.50 p.m. on January 23, 2002. Power supply was restored fully throughout the state only by 7.00 p. m. Only the four north coastal districts were not effected. This breakdown seemed to have started by the tripping of the Vijayawada Thermal Power Station which led to the cascade tripping of all the thermal, hydel and gas stations in the state including the NTPC station at Ramagundam.

Supreme Court Order on Sales Tax

Supreme Court has ruled in April that no state can levy local tax on electricity generated at a power station located in the generating state and supplying power to another state. Accordingly Andhra Pradesh now cannot levy sales tax on electricity supplied by an NTPC plant in Andhra Pradesh to other states.

Tripartite Agreement for Settlement of Dues

Andhra Pradesh was the first state to sign an agreement with central government to clear its dues to central utilities. As per the agreement, part of the dues, comprising interest payments, would be waived and the Reserve Bank of India (RBI) would allow the state government to issue tax-free bonds to finance the settlement of dues. In return, state government will have to pay all fresh dues in time to central utilities and if it fails to do so, then centre has the right to block resources earmarked for transfer to the states as central devolutions.

Financing

Rural Electrification Corporation agreed to provide Rs. 5.5 billion as loan assistance during current fiscal year for rural electrification programme in Andhra Pradesh. The Canadian International Development agency (CIDA) has sanctioned C\$ 13.9 million for carrying out power sector reforms in Uttar Pradesh, Andhra Pradesh, and Madhya Pradesh. CIDA is going to provide technical support to these states.

Japan has agreed to extend The ODA (official development assistance) of 9527 million Yen to two projects one in Andhra Pradesh and other in West Bengal. The Simhadri Transmission project in Andhra Pradesh will receive 6400 million Yen & West Bengal transmission Project 3127 million Yen. These loans will be given through Japan Bank for International Cooperation. Interest rate for the loan will be 1.8% per annum with repayment in 30 years, including a grace period of 10 years.

Task Force on Power supply to Agriculture

Government of AP has constituted a Task force on Power supply to Agriculture in February 2002. Total power consumption by agricultural pumpsets, agricultural tariff, subsidy and revenue realisation are all controversial issues in AP. This task force is to address these issues and develop schemes for metering of agricultural power and targeting of subsidy. Principal secretary (Energy) heads the task force. Members include Mr. T. L. Sankar, Director – Reforms APTRANSCO and representatives from Agriculture department, NGO sector and Farmers. (The last two are yet to be identified).

2. REGULATORY INTERVENTION

2.1 Court Cases

There was an appeal in the Supreme Court against APERC's tariff order for 2000-01. There were questions regarding the cross subsidies to domestic and agricultural consumers. In March 2002, Supreme Court has upheld the tariff order 2000-01. Many more cases are pending in the Supreme Court (6 cases) and the High Court (nearly 100 cases).

2.2 ANNUAL TARIFF REVISION 2002

APTRANSCO and the 4 DISCOMs submitted their proposals to the Andhra Pradesh Electricity Regulatory commission (APERC) in the first week of January 2002. A record of over 500 objections were filed and public hearings held in the first week of March at Tirupathi (1 day), Vishakhapatnam (1 day) and Hyderabad (4 days).

APERC passed the tariff order on 24th March 2002 for electricity bulk and retail tariff for the year 2002-03. The Tariff is effective from 1st April 2002. There is increase in the tariff for domestic, agriculture (with hike in per HP rate and consumer charges) & local bodies whereas high-end industry, commercial and domestic consumers get some relief. Details are given in the table below.

Bulk Supply Tariff (Rs/kWh)		
DISCOM	Existing	Revised
NPDCL	1.70	1.78
EPDCL	2.54	2.51
SPDCL	1.95	2.07
CPDCL	1.88	2.08
Consumer category	Retail Supply Tariff (Rs/kWh)	
LT Domestic	1.35 - 5.75	2.30 - 5.75
LT Commercial	3.40 - 7.45	3.95 - 7.0
LT-Irrigation	0.20 - 0.50	0.20 - 0.50
LT-Industry	3.85 - 4.30	3.85
HT-Industry	3.76 - 4.60	3.71 - 4.6

The revenue requirement approved by regulatory commission is Rs. 82433 million for the year 2002-03. State government would give subsidy of Rs. 15549 million for 2002-03. As per new order APERC has directed utilities to collect Rs. 3000 million out of efficiency improvement measures. The fresh hike will net only Rs. 450 million.

A new scheme for agriculture sector is announced in this tariff order. Around 0.4 million agriculture pump set owners would be beneficiaries of this scheme. The connection will be given on demand to pump set owner if he is ready to pay Rs. 1.25 per kWh for metered supply. If farmers implement Demand Side Management (DSM) measures like installation of capacitors and friction less valves then 50% rebate in the bill would continue up to 2004.

2.2 GRID SUPPORT CHARGES (GSC)

APERC passed an order on February 8, 2002 (effective from the billing month of March 2002) on the matter of levy of Grid Support Charges (GSC) on HT Industrial Consumers for the Captive Generating Units operating in parallel with APTRANSCO's Grid. Grid Support Charges (GSC) will be levied on the difference between the total capacity of Captive Power Plant (CPP) in kVA and the contracted demand in kVA with the licensee and all other sources of supply. If any CPP is exporting power to APTRANSCO then that much capacity is deducted from the CPP capacity. Grid Support Charges (GSC) will be levied at a rate equal to 50% of the prevailing demand charge for HT consumers. At present demand charge for HT consumers is Rs. 170 per kVA/month.

2.3 WHEELING CHARGE

APERC passed the order for wheeling charges (charges for conveyance of energy from a private generator to consumer through the APTRANSCO/DISCOM grid) on March 24, 2002. The charges are effective from April 1, 2002. In its proposal, APTRANSCO had suggested a wheeling charge of Rs. 1/- per kWh. According to APERC's order the new wheeling charges are Rs. 0.50/kWh in cash and compensation in kind for system losses of 28.40%. Many HT consumers have opposed this order since they have been enjoying a very low wheeling tariff (ranging from Rs. 0.03 to 0.13/kWh) for the past many years.

2.4 LONG RANGE TARIFF POLICY

APERC released a consultative paper on Long Term Tariff Principles (LTTP) in February 2002 and invited comments from the public. The paper gives guidelines for retail tariff setting over a 3-5 year 'control period', to be used by the DISCOMs. A public hearing is expected to be held before this is finalised.

2.5 PPA REVIEWS

PPAs of 4 proposed gas based private sector projects were put up for public comments in January 2002. Projects are Vemagiri, Konaseema, GVK -II and Gautami. Public hearings on these have not been held till date.

PPA between state owned APGENCO and APTRANSCO was put up for public comments in April 2002 and public hearing is expected to be held soon.

3. STATE & CENTRAL UTILITIES

NTPC's Simhadri Power Project is a coal based power plant located near Vishakhapatnam. It is 2*500 MW plant in the central sector, being developed in two stages. Unit-I (500 MW) was synchronised with Andhra Pradesh grid on February 22, 2002. Second unit of Simhadri Project is likely to start production by December. The 400 KV transmission line evacuating this power is the longest 400 KV line the southern grid.

APTRANSCO and 4 DISCOMs have been in existence in AP from April 2000. DISCOMs were functioning under the overall control of the APTRANSCO with its CMD functioning as the CMD for all the DISCOMs. From April 2002, DISCOMs have been given functional autonomy with separate CMDs.

It is reported that APTRANSCO is going to raise funds for modernisation of its T & D network. For this UTI Bank, Kolkata and Smits Capital Market Limited are the arrangers.

4. PRIVATE SECTOR GENERATION

4.1 RECAST OF SPECTRUM BOARD

Spectrum Power Generation Ltd. (SPGL) has set up a 208 MW combined cycle gas project at Kakinada in Andhra Pradesh. SPGL has defaulted the Industrial Development Bank of India (IDBI) on payments. IDBI has a total exposure of Rs. 3602 million in Spectrum and Spectrum has to give IDBI Rs. 1937 million as on January 31, 2002. Other payment dues are Rs. 520 million to NTPC for resolving inter promoters disputes, Rs. 104 million to Gas Authority of India for expansion without taking prior permission of lenders. Conflict between promoters group (NTPC, STUSA, Jaya foods (reported in Issue 2 of this update), financial indiscipline, management inefficiencies, are the reasons for the restructuring of board of Spectrum carried by lender IDBI in May 2002. Financial institutions (FI) are also converting their loan into equity (with equity holding of 45%) and have increased FI nominees on the board from 11 to 15.

4.2 BSES ANDHRA PROJECT

BSES Andhra Power project at Samalkot received a loan of nearly Rs. 2 billion from BSES Infrastructure Finance Limited. With the help of this loan, the 220 MW project was commissioned with natural gas as fuel. Financial closure of the project has not been achieved and the modified PPA has not yet been approved by the APERC.

5. REVIVAL OF PUBLIC AND EMPLOYEE PROTESTS

Issues of power sector continue to remain in the centre stage of political debates in the state, Public protests have gathered momentum at the time of the annual tariff revision exercise. Issues raised include demand to review the PPAs with IPPs, criticising the inefficiency of TRANSCO & DISCOMs, questioning the privatisation moves and opposing the tariff hike. There have been demonstrations, debates in the state assembly and protest actions throughout the state. These have not been at the scale of protest actions, which shook the state place 2 years ago.

Employees have formed a Joint Action Council (JAC) in April 2002. JAC consists of associations of workmen, office staff and engineers. With the functional independence of DISCOMs (from April 2002), steps have been initiated by the utilities to distribute employees between TRANSCO and DISCOMs. From April, JAC has been spearheading an agitation with work to rule, protest marches and meetings. Demands include review of the reform program, protection of employees' retirement benefits and review of PPAs. Though some of the unions have reached settlement with the government, five unions remaining in the JAC are intensifying the agitation and are planning a strike in early June 2002

Part IV: Uttar Pradesh

1. STATE OVERVIEW

It was reported in Issue-1 that a small state called Uttaranchal was carved out of the state of Uttar Pradesh in November 2000. Uttaranchal Power Corporation (to manage Transmission and Distribution) and Uttaranchal Jal Vidyut Nigam (to manage Generation) were formed in April 2001. Division of assets between Uttar Pradesh and Uttaranchal was finalised in November 2001. Most of the hydel stations under operation (except Rihand and Obri) will be with Uttaranchal. The major hydro projects under construction – Tehri (2000 MW), Vishnu Prayag (400 MW) and nearly 24 small hydro projects will also be with Uttaranchal. The installed capacity of Uttaranchal is over 1000 MW now and 2500 MW capacity is under construction. Since the demand is only 700-800 MW, Uttaranchal is a power surplus state. These updates will continue to focus on the developments in the bigger parent state of Uttar Pradesh.

Assembly elections were held in Uttar Pradesh and Uttaranchal in Feb 2002. Congress party has formed the government in Uttaranchal. In Uttar Pradesh the ruling party (BJP) was voted out and no single party received absolute majority in the legislature. After an uncertainty of few months, a coalition consisting of BJP and BSP has formed the government in the month of May. It is to be seen how the new government handles power reforms.

The power supply situation in Uttar Pradesh is degrading day by day and the power availability has reduced to just eight to ten hours even in the urban areas and the state capital Lucknow. Reduced supply from two major suppliers namely the adjoining Uttaranchal state, and central sector NTPC are the main reasons for this shortage. Uttaranchal has stopped supplying 400 MW power from 1st of April on account disputes regarding sharing of power generation from plants owned by erstwhile integrated state SEB. Another blow to power supply situation was stringent action by NTPC to recover large unpaid dues (over Rs. 40000 million) from the state utility. NTPC, seven months after issuing notice in August 2001, reduced supply to UP by around 1400 MW out of state's share of 2600 MW. With both, the state government as well as the state utility in severe financial crisis they are unlikely to be able to pay NTPC dues. Realising this, the state has shown willingness to sign the tripartite dues securitisation agreement (mentioned in section I) with NTPC & also with other central Power utilities for settlement of dues.

A World Bank team visited Lucknow in early April to review the pace of reforms in the power sector. World Bank has sanctioned a loan of \$ 150 million for power sector reforms in Uttar Pradesh. World Bank is reported to be not satisfied with slow reforms. Transmission and distribution functions have not been separated and there have been delays in tariff fillings. World Bank has also called for the creation of 4 distribution companies (with headquarters at Agra, Varanasi, Saharnpur and Meerut) by June 15, 2002. The state government assured the World Bank team that the reform process will be accelerated and four new distribution companies would be set up.

Uttar Pradesh government has announced a three months long campaign from April 15, 2002 to book defaulters, checking line losses, thefts and recovery of losses. More than 62,000 employees of UPPCL would be screened as only 50% of them are paying for the electricity that is consumed. Earlier also UPPCL tried its best for recovery of funds but all its efforts failed due to interruption by politicians.

The CMD of UPPCL, Mr. R. K. Narayanan resigned on 'personal' grounds and Mr. P. L. Punia has taken over in April. Mr. Narayan may have left because of his differences with the state and central governments. [Financial Express, April 15, 2002]

During the Tenth plan (2002-07), the National Hydro Power Corporation has identified 16 projects for completion. Chamera-II is one of them. Chamera-II is a 300 MW power project in Uttar Pradesh.

2. REGULATORY INTERVENTION

2.1 UPPCL TARIFF PROCESS

UPPCL submitted the Annual Revenue Requirement to UPERC on 29-Apr-02. UPERC has reviewed the ARR and has given an order dated 7-May-02 rejecting the ARR and asking UPPCL to resubmit it as early as possible. UPERC says that the UPPCL has deviated from the Sixth Schedule of the Electricity (Supply) Act and not submitted information as required by the commission. UPERC has pointed out 26 information gaps (interestingly numbered 'a' to 'z!') in the proposal. Some 'missing information are: supporting information for estimating energy sales, PPAs between UPPCL and state generating utilities, action plan for T&D loss reduction, subsidy details, WB loan details, details of deposits to employees' trust fund, balance sheets for 2000-01, 2001-02 and 2002-03 (projection), progress on commitments made in the MOU with GoI etc. RC has asked for an action plan on the directives given by the commission and is not satisfied with the status report given. RC has asked UPPCL to submit these details after which it will proceed further to determine the ARR and tariff for 2002-03.

2.2 ARR from NPCL

Noida Power Company Limited (NPCL) has submitted the ARR for 2002-03 to UPERC on March 7, 2002. Comments have been invited from the public and public hearings are proposed to be held. The process is not completed.

3. PRIVATE SECTOR GENERATION & DISTRIBUTION

3.1 GENERATION

Uttar Pradesh has allowed the Aditya Birla Group and Power Gen Holdings of Netherlands to dilute their share in Rosa Power Project. Once the project achieves financial closure then only promoters can change their equity stake. Aditya Birla Group and Power Gen Holdings of Netherlands and Indo Bharat Industrial Holding Corporation are three equity holders in Rosa Power Project. As both Power Gen and Aditya Birla Group is diluting their share, they will have to find out new buyer for the balance (47 %) equity. The state government has extended validity period for financial closure by two years further from December 2001. Earlier also the project got extension for its financial closure which lapsed in May 1999.

3.2 DISTRIBUTION:

NPCL has submitted its ARR to UPERC for tariff revision. The process is not completed.

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GLOSSARY OF TERMS

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 & Reforms Programme
APDP	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

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)
Financial Year	Indian Financial Year - 1 st April to 31 st March. Typically represented as FY 98-99 etc.
GENCO	Generation Company
GoI	Government of India
GoAP	Government of Andhra Pradesh
GoO	Government of Orissa
GoUP	Government of Uttar Pradesh
GRIDCO	Grid Corporation
HDFC	Housing Financing Development Corporation of India
HP	Horse Power (1 HP = 746 Watts)
HT	High Tension (or High Voltage)
HVDC	High Voltage Direct Current
Hz	Hertz
ICICI	Industrial Credit Investment Corporation 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)
OECF	Overseas Economic Corporation Fund of Japan
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
R&M	Repair & Maintenance
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
UPSEB	UP State Electricity Board
WB	The World Bank group
WESCO	Western Electricity Supply Company of Orissa Ltd.