

NEWS ON ELECTRICITY DEVELOPMENTS

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By

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News on Electricity Developments (NED) is a monthly compilation of news prepared by Prayas (Energy Group) and CPSD, YASHADA for the participants of Training Programmes conducted by YASHADA (Yashwantrao Chavan Academy of Development Administration). Prayas is an NGO based in Pune, engaged in analysis and advocacy on power sector issues. This news update covers the key news in power sector at the national level and also in the state of Maharashtra during March 2007.

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1. National Level Developments

1.1 Merchant Power Plants

Ministry of power (MoP) has plans to facilitate setting up 24 merchant plants in the country having capacities of 500-1000 MW over the next 3-4 years. An 'in-principle' decision to allocate coal linkages, including captive coal blocks, to merchant power plants has also been taken. MoP, in consultation with the ministry of coal, has identified 15 coal blocks with estimated reserves of about 3.6 billion tonnes. Out of these, coal blocks of aggregate reserves of around 2.4 billion tonnes are expected to be considered for merchant power plants after laying down certain normative criteria. MoP would also extend assistance to MPP developers in terms of land acquisition and environmental clearances, besides transmission linkages to the grid.

However, MPPs which have coal blocks allocated to them don't have a long-term, power purchase agreement for sale of their power and instead are entities designed to mitigate shortfalls in power supply in the short run. Such plants are a new concept and given the shortage of coal blocks, the power ministry wants new policy guidelines in place to avoid the problem of 'squatters'.

Coal blocks are an increasingly scarce commodity. Power project developers

have already submitted 748 applications for the 15 coal blocks awaiting allocation by the coal ministry. To discourage stockpiling of scarce, captive coal blocks, the government is going to alter its proposed policy on merchant power plants mandating that unless mining operations start within three-four years, the coal allocation would stand cancelled.

1.2 Cap on the Price of Traded Electricity

The Appellate Tribunal for Electricity had given an order dated 22nd December 2006 directing the Central Electricity Regulatory Commission (CERC) and the State Electricity Regulatory Commissions (SERCs) to fix the base price upon which the generators can add a maximum of 4% before selling to electricity traders. It also asked the distribution companies and traders to abide by the trading margin set by the commissions (which was capped at 4 paise per unit by CERC). The order was given based on a petition filed in the tribunal by Mr. Gajendra Haldea alleging that the generators and trading companies were profiteering at the cost of consumers.

The order of the tribunal was however challenged by the Power Trading Corporation (PTC) in the Supreme Court. PTC, in its appeal, said that the market for electricity trading is in a

nascent stage presently where about 2% of the total generation of electricity is traded on prices determined by the market forces of demand and supply. But the tribunal order on fixation of such margin could give a major jolt to the emerging field in power sector.

PTC has also said that this move would deprive the states that have higher levels of electricity consumption from obtaining marginal power through trading and would deprive the consumers the benefit of lower tariff which can be sustained due to the surplus revenue generated through trading. The Supreme Court has now asked CERC, the SERCs and some distribution companies to file their replies to the petition filed by PTC.

1.3 Discharge of Duties by Distribution Companies in Orissa

The Orissa Electricity Regulatory Commission (OERC) had issued show-cause notices to three Reliance Energy-controlled power distribution companies after prima facie conclusion that the discoms were unable to discharge their functions and perform duties under the Electricity Act, 2003. It had held that the discoms had failed to pay Grid Corporation of Orissa and others creditors, including NTPC Ltd, for bulk supply of electricity. Besides, the distribution utilities had failed to act as per their business plans. The companies'

failure to take up full scale energy auditing and spot billing, failure to recruit manpower, non-infusion of capital and non-compliance with previous orders were cited as the reason for issuing the notices

The utilities then appealed in the Appellate Tribunal for Electricity which set aside the order of the Commission citing lack of jurisdiction of the Commission to rule in the matter. OERC then filed a petition in the Supreme Court challenging the order of the Appellate Tribunal for Electricity. According to OERC, the Tribunal was not right in interfering with the commission's proceedings at a stage where it had only issued show-cause notices.

The Supreme Court has now issued notices to the three distribution companies - Western Electricity Company of Orissa, Southern Electricity Company of Orissa and North Eastern Electricity Supply Company of Orissa.

1.4 MYT in Delhi

The Delhi Electricity Regulatory Commission is set to fix tariff under the Multi Year Tariff regime under which power prices will be fixed for a four-year period in the city. The draft MYT regulations were to be finalized by March end. The DERC had appointed Pricewaterhouse Coopers as consultants

to work out the various modalities of fixing a multi year tariff for the city.

The existing Aggregate Technical & Commercial Loss (AT&C) figures have been modified in the MYT draft regulations. According to the regulations, while North Delhi Power Ltd (NDPL) will have to scale down its losses to 17 per cent, BSES Rajdhani Pvt Ltd (BRPL) and BSES Yamuna Pvt Ltd (BYPL) will have to bring losses down to 17 per cent and 19 per cent respectively.

To ensure smooth implementation of the MYT framework, the commission has planned to undertake periodic reviews of licensee's performance to address practical issues, concerns or unexpected outcomes and in general assess the efficacy of the MYT.

1.5 Ultra Mega Power Projects (UMPP)

The ultra mega power project at Sasan won by the Globeleq Singapore- Lanco Infra combine is still facing serious problems due to recent developments relating to the change in ownership of Globeleq Singapore from Globeleq Ltd, UK to Lanco Infra and Jindal Steel and Power Ltd (JSPL). The bid for Sasan therefore, has gone back to the bid evaluation committee, formed by the PFC for award of ultra mega power projects.

Apart from the change in ownership questions have also been raised about discrepancies in the original bid itself. Globeleq Singapore does not have a turnover of Rs.2400 crore (set as a minimum cut-off for all bidders) and it doesn't have the experience required for building large power plants. Globeleq Singapore qualified, citing the strengths of its parent company, Globeleq Ltd, a company promoted by the UK government's Department for International Development (DfID). However, the bid conditions allowed a bidder to take credit for its parents' qualifications provided the parent company submitted legally-binding undertakings to underwrite the bid. Globeleq Singapore did not submit such a legally-binding commitment from its parent as part of its Sasan bid.

Thus, the fate of the ultra mega power plant at Sasan is still uncertain. The ultra mega power plant at Mundra, said to have been progressing smoothly so far has also missed some important deadlines. The Power Purchase Agreement (PPA) which should have been signed by 26th February has been delayed due to delay in the completion of some statutory requirements (environmental clearance, water etc). Tata Power has also not yet initiated the process of merging the shell company set up to pilot the project — Coastal

Gujarat Power Ltd (CGPL) — with itself.

1.6 Appellate Tribunal for Energy Sector

The government is examining the possibility of setting up a single appellate tribunal for all stakeholders associated with the energy sector to appeal against the orders of various regulators in the energy sector. The move comes in wake of the growing discord and delay in completing the fuel linkage agreements and pricing between the fuels suppliers and the power generating companies, and the discontentment over the orders given by the regulators.

The growing disparity in the cost of the fuel supplied and the cost demanded by generating companies has led to a number of litigations. While there is a severe power shortage in the country, the power companies blame the delay in the project commissioning to the fuel suppliers, who blame the discord in the price they get for fuel.

The setting up of a single tribunal is seen a possible solution to ease out these problems. The Planning Commission has initiated the process to bring all the concerned sectors and Ministry of Law to prepare a framework for a single tribunal.

2. Developments in Maharashtra

2.1 Power shortage and Load Shedding

2.1.1 Extra Power Supply to Mumbai

The state-owned power utility Maharashtra State Electricity Distribution Company Ltd. (MSEDCL) has decided to bill the Tata Power Company (TPC) at the highest rate at which it was buying the power to ensure that Mumbai gets uninterrupted power supply.

In the first week of January there had been an outage at a 500 MW unit of TPC's Trombay facility for annual maintenance and overhaul. It was expected to be re-synchronized in the first week of February but due to technical reasons re-synchronization got delayed.

TPC has an installed capacity of around 1,774 MW and REL has a capacity of 500 MW. During peak hours Mumbai faces a shortage of around 200 MW, which TPC draws from the state grid. MSEDCL supplies this power to Mumbai in accordance with the standby agreement between TPC and MSEDCL in 1964.

However, during these two months, MSEDCL was supplying 500 MW of additional power to Mumbai when the

state was grappling from a shortage to the tune of 4,500. Now MSEDCL has taken a stand that for the power drawn from the state grid, it will charge TPC at the highest rate at which MSEDCL itself had bought extra power. During this period, TPC overdrew nearly 2 to 3 million units per day.

2.1.2 Gas supply from the Centre

In an effort to minimize power crisis in Maharashtra, the Centre has agreed to provide an additional 0.3 million metric standard cubic meters per day (MMSCD) to the Maharashtra State Power Generation Company (Mahagenco) during the April-June period, from the current level of 2.5 MMSCD.

The move is expected to help Mahagenco generate 400 MW of power from its gas-based Uran power project. The Uran project, which has a generation capacity of 854 MW, has been running below capacity and generating 300 mw, as the gas supply is only 2.5 MMSCD.

2.1.3 Extra power purchase by MSEDCL

Maharashtra State Electricity Distribution Company tied up with seven different agencies for the month of March in a frantic bid to avoid additional

load-shedding. The purchases were to add up to 710 MW.

Three state electricity boards of Kerala, Haryana and Sikkim and other companies like Damodar Valley Corporation and Reliance Energy had been roped in to add to the supply pool. This incremental supply was to further improve the load-shedding scenario. Load-shedding in the state is already down by 1,000 MW this month.

2.2 MERC Issues

2.2.1 Multi-Year Tariff (MYT)

MERC conducted public hearings on the Multi Year Tariff Petitions filed by MSEDCL (MahaDiscom), Tata Power Company (TPC) and Reliance Energy Ltd (REL) in March. Hearings for MSEDCL were held at six different locations in the state such as Pune, Nashik, Nagpur, Amravati etc and they saw public participation in significant numbers. In the same hearing MERC also heard people's views on MSEDCL's proposal to increase the load shedding (predominantly in rural areas) due to further increase in power shortage in the state. MSEDCL's inability to curb distribution losses, issues of urban-rural divide especially in the context of load shedding, rising Operations and Maintenance expenses (employee, administrative and maintenance costs) of MSEDCL were the main issues raised in

the public hearings. People also demanded a simpler tariff structure that could be easily understood by all consumers. They expressed their dissatisfaction on the current quality of supply and service provided by MSEDCL and demanded a close scrutiny by MERC. MSEDCL has proposed a tariff hike of 40% in FY 2007-08.

Public hearing for REL was held on 21st March 2007 at Mumbai, which too saw public participation in large number. Consumers primarily questioned the prudence of the huge capital expenditure proposed by REL and raised objections on large Operations & Maintenance expenses and other metering and billing issues. It was also questioned by few consumer groups whether REL has a license to supply electricity in Mumbai. REL has proposed a tariff hike of 20% for FY 2007-08. Public hearing for TPC took place on 20th March 2007 at Mumbai.

Public hearings on the MYT petitions filed by all utilities in the state are now over and MERC is expected to issue its first MYT orders in April 2007.

2.2.2 Additional Supply Charge

In the tariff order for FY 2006-07 MERC introduced a special charge called Additional Supply Charge (ASC). The sole purpose of this charge was to

recover the cost of purchasing expensive power (greater than 4 Rs/unit) by MSEDCL. Accordingly, ASC was made inversely proportional to the load shedding hours for the region. Small domestic consumers consuming less than 300 units per month were charged ASC of only 48 paise/unit (10% of average rate of costly power purchase) only on 19%, 9% or 0% of their monthly consumption (depending on the prevailing load shedding in that area). However, MSEDCL charged ASC on the entire consumption of domestic consumers consuming less than 300 units per month. Moreover, in the month of February 2007, bill adjustments for previous 3 months (October 06 to January 07) by applying the same logic were also issued to these small consumers. This caused steep hike (about 80-100%) in electricity bills in February 2007. Consumer groups in Pune (Prayas and Sajag Nagrik Manch) raised this issue before MSEDCL and subsequently MSEDCL accepted that ASC should be levied only on 19%, 9% or 0% of the monthly consumption of the domestic consumers consuming less than 300 units per month. MSEDCL has also agreed to credit the excessively billed ASC back to consumers in next month's bill. This is going to provide relief to more than 50 lakh small consumers across the state.

2.2.3 Distributed Generation Based Franchisee

MERC has released an approach paper on Distributed Generation Based Franchisee for Electricity Distribution. In the paper, MERC proposes a new franchise model where in addition to the distribution operations and maintenance, franchisee would also generate electricity for sale in the franchised area. MERC expects that this approach would promote distributed generation and efficiency improvement in distribution operations due to private participation. Distributed generation would have the effect of removing transmission bottlenecks in the state and also significant reduction in the T&D losses. However, the paper mentions that this scheme is primarily proposed for urban and industrial areas. The franchisee would purchase electricity from MSEDCL and will be liable to recover the tariff set by MERC from consumers in the franchised area. In addition to the purchase from MSEDCL, franchisee would also generate electricity (based on any technology ranging from renewable to liquid fuel connected to the MSEDCL grid) or he is also free to procure power from any other source outside the state. This additional electricity would also be sold to consumers in the franchised area and its cost would be recovered as reliability surcharge (as approved by the Commission) from consumers. MERC

had invited comments on this paper and accordingly it would advise the State government.

2.3 Other Issues

2.3.1 Dabhol Power Plant

Lenders for the Ratnagiri Gas and Power Pvt. Ltd. (RGPPL) were pressing for sale of 740 MW of its power to the highest bidder, as Maharashtra was not in a position to pay more tariff. Lenders had also proposed to hive off LNG terminal to a private developer in a bid to reduce the project completion cost and also the per unit tariff. Maharashtra strongly opposed both these proposals and argued that the entire power be made available to the state.

The empowered group of ministers who met on this issue accepted Maharashtra's argument and gave its consent for the drawal of entire 2,150 MW by the state.

The power purchase agreement (PPA) between RGPPL and the Maharashtra State Power Distribution Company is to be signed soon. The per unit tariff is expected to be Rs 3.08 for supply for Maharashtra, of which the fixed cost would be around 98 paise. Of the 2150 MW, 5% would be procured by other states as per the Centre's mega power project policy.

2.3.2 Power projects by TPC and REL

TPC has proposed 1,600 MW imported coal based power project while REL, which had initially planned a 4,000 MW gas based project has now split it into to parts -1,800 MW of gas unit and 1,200 MW of imported coal based plant at Shahpur in the Raigad district of Maharashtra.

Around 1,000 acres of land was allocated after the state chief secretary had a meeting with the Tata Group chairman. The allocation was done through the state-run Maharashtra Industrial Development Corporation. However, REL argued that the land allotted to TPC was part of 3,490 acres already allocated to it. REL brought to the notice of the state government that the land acquisition process for its 4,000 MW imported coal based and gas based project was on since June 2005. On the other hand, TPC claimed that the said area was not part of the land allotted to REL.

The Chief Minister of Maharashtra has intervened and has directed Tata Power Company (TPC) and Reliance Energy Ltd (REL) to share 3,490 acres of land situated in Shahapur, Raigad district for the development their power projects.

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Glossary of Terms

ABT	Availability Based Tariff
ADB	Asian Development Bank
ARR	Annual Revenue Requirement
ATE	Appellate Tribunal for Electricity
BST	Bulk Supply Tariff
CCGT	Combined Cycle Gas Turbine (based power plant)
CEA	Central Electricity Authority
CERC	Central Electricity Regulatory Commission
CPP	Captive Power Project
Crore	10,000,000 (10 millions)
CSIs	Civil Society Institutions
DISTCOM/ DISCOM	Distribution Company
DSM	Demand Side Management
FDI	Foreign Direct Investment
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
GoM	Government of Maharashtra
GRF	Grievance Redressal Forum
HP	Horse Power (1 HP = 746 Watts)
HT	High Tension (or High Voltage)
HVDC	High Voltage Direct Current
Hz	Hertz
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)
MERC	Maharashtra Electricity Regulatory Commission
MoP	Ministry of Power
MoU	Memoranda of Understanding
MP	(The Indian state of) Madhya Pradesh
MSEB	Maharashtra State Electricity Board
MSEDCL	Maharashtra State Electricity Distribution Company Ltd (Distribution Company of MSEB after unbundling)
MSETCL	Maharashtra State Electricity Transmission Company Ltd (Transmission Company of MSEB after unbundling)
MSPGCL	Maharashtra State Power Generation Company Ltd (Generation Company of MSEB after unbundling)
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
O&M	Operation & Maintenance
PFC	Power Finance Corporation (a GoI-owned financing agency for the power sector)
PLF	Plant Load Factor (also called Capacity Utilisation Factor)
PTC	Central Power Trading Corporation
R&M	Repair & Maintenance
RBI	Reserve Bank of India
RC	Regulatory Commission
REC	Rural Electrification Corporation, New Delhi
REL	Reliance Energy Limited
Rs	Rupees (Indian currency)
SEBs	State Electricity Boards (vertical monopoly power utility owned by the state government)
SERC	State Electricity Regulatory Commission
T&D	Transmission and Distribution
TEC	Techno Economic Clearance
TOD	Time-Of-Day
TPC	Tata Power Corporation
TRANSCO	Transmission Company
WB	The World Bank group