

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 May 2007.

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1. National Level Developments

1.1 Rural Electrification

The Central Government's Rural Electrification Policy, aimed at providing access to electricity to all households over the next two years has received lukewarm response from the States. According to the policy, notified in August 2006, all State Governments were required to prepare and notify a rural electrification plan to achieve the goal of providing access to all households within six months of the policy being notified. The Central Government had not received any plans from the States till the deadline. As a result of this, the Centre also could be looking at limiting the role of central public sector utilities (CPSUs), including NTPC Ltd. and Power Grid Corporation of India Ltd., in the task of rural electrification. The Government had earlier pressed the CPSUs into service to assist State electricity boards in the work of rural electrification and distribution reforms.

The rural electrification plan aims at providing access to electricity to all households in the country by 2009, with an emphasis on "quality and reliable power supply at reasonable rates." It also aims at extending a "minimum lifeline consumption of one unit of electricity per household per day as a merit good by year 2012".

Under the proposed rural electrification plan, States were expected to detail the electrification delivery mechanisms (grid or standalone) in the wake of issues such as the available technologies, environmental norms, fuel availability, number of un-electrified households, and distance from the existing grid. However, states have been slow in carrying out these prerequisites which have subsequently slowed down the process of rural electrification in the country.

1.2 Free Power to States

Orissa, Jharkhand and Chattisgarh State Governments had demanded that they receive a portion of the power generated in their states free of cost, like the hydro-resource rich states do. The issue was discussed at the recent secretaries' conference organised by the Ministry of Power. The Chief Ministers of these states have argued that like the hydro-potential states, they should

receive a portion of the power produced in their state free of cost to offset environmental costs of the power projects.

The ministry of power has accepted that the issue of environmental impact is a legitimate concern, but has said that it is being addressed through the environmental policy governing coal mines and power plants. The ministry feels that claim for free power on the grounds that hydro-rich states are given 12% free power is not appropriate. In the Ministry's opinion the distress and dislocation in the case of hydro power projects is much more severe compared to thermal power projects. Besides the Ministry also pointed out that hydro-rich states do not receive any royalty for fuel whereas coal-rich states benefit from royalty on coal.

1.3 Restructuring of SEBs

A Government-appointed study has concluded that restructuring has improved the performance of power utilities in majority of the States. The report by the Indian Institute of Public Administration (IIPA) said that the broad conclusion is that despite some shortcomings, the overall impact of restructuring has been positive and in the right direction. The Delhi-based institute was mandated by the Union Power Ministry last year to study the impact of unbundling of State Electricity Boards. It examined 12 States, including Orissa, Haryana, Gujarat, Maharashtra, Andhra Pradesh and Karnataka.

Under the Electricity Act, 2003, States were expected to divide their electricity boards into uni-functional utilities for generation, transmission and distribution by June 2004. The measure was aimed at pushing reforms, improving performance and attracting private participation in state utilities. However, the UPA Government gave extension to more than a dozen states for restructuring SEBs.

The IIPA report states that there has been reduction in losses, higher investments and capacity additions, improvement in efficiency, customer care, billing and metering and greater accountability in states where SEBs have been reorganised.

1.4 Ultra Mega Power Project Policy

The Ministry of Power has backtracked from its earlier stand and has said that it would not press for fulfillment of conditions relating to privatisation of distribution before granting concessions under the mega power project policy. This will now enable Andhra Pradesh, Tamil Nadu, Jharkhand and Maharashtra to pursue the implementation of ultra mega power projects.

The power ministry had earlier issued a directive that concessions including customs duty waiver and income tax holidays would be available only if states committed to privatising distribution of electricity in cities with populations of over one million. But states opposed the move, stating this did not apply to the Sasan and Mundra projects, which are already awarded. They also said privatisation of distribution would not be possible in one stroke, but would have to be implemented in stages.

The Power Ministry has said that a fresh directive without these conditions would be issued soon. They stated that the sops under the policy would help reduce generation cost and help bidders to quote competitive tariffs.

1.5 Hydro Power Potential in the North East

The Ministry of Power has estimated that the North East has a huge reservoir of power, estimated at 60,000 MW, but only two per cent of the total potential has been developed so far. The Union Minister for power, Mr. Sushil Kumar Shinde claims that the hydro potential in terms of installed capacity of the region is about 60,000 MW, which would yield an annual energy generation of about 240 billion units (BU). Out of this, two per cent has been developed and 4.65 per cent is under development. Among the north-eastern States, Arunachal Pradesh has the highest power potential of 206.53 BU.

Also, the qualifying threshold capacity for inter-State hydro power plants located in the region, for availing mega benefits has been reduced from 500 MW to 350 MW. Apart from ensuring three-stage clearance, the Ministry is taking a few other measures such as the creation and development of projects in the Northeast by National Hydro Electric Power Corporation and NTPC in addition to North Eastern Electric Power Corporation (NEEPCO).

According to the re-assessment studies of the hydro-power potential done by Central Electricity Authority (CEA), the economically exploitable hydro power potential of the country has been estimated at 84,044 MW at 60 per cent plant load factor, which when fully developed would result in an installed capacity of about 150,000 MW. This would yield an annual generation of 600 BU.

1.6 Performance Audit by CAG

The Comptroller and Auditor-General (CAG) has reprimanded the Centre for slow progress in its key reform tool in the power sector - the Accelerated Power Development and Reform Programme (APDRP).

The performance audit of the APDRP has shown deficiencies in the systems and procedures for release and utilisation of funds under the scheme. Against the project's total outlay of Rs 40,000 crore - Rs 20,000 crore each for the investment and incentive components - for the 10th Five-Year Plan, the Power Ministry has released only a total of Rs 6,131 crore for 583 projects.

The report also said that there were instances of incorrect financial reporting amounting to Rs 676 crore by the States. In addition, instances of irregular diversion of funds amounting to Rs 614 crore and non-return of surplus funds of Rs 53.01 crore have been observed. The report has noted that the incentive mechanism instituted under APDRP to coax States into initiating reforms has not been successful, with just Rs 1,575.02 crore released as of February 2007 against the 10th Plan provision of Rs 20,000 crore.

The report also said that the primary objective of the APDRP of reducing aggregate technical and commercial losses by nine per cent annually has not been achieved. The report has pointed to deficiencies in system metering as well as consumer metering. Besides, it has noted that there are weaknesses in the project planning, management and implementation processes.

1.7 Open Access

The chief ministers' conference on power has resolved to operationalize open access in the transmission and distribution segments. The final resolution passed by the chief ministers' conference agreed to issue policy directives to regulators to appropriately restructure cross subsidy surcharge wheeling

charges and other charges with a view to augment the quantum of power flowing into the grid in the current environment of shortages.

Rationalization of levies and cross-subsidy charges has been discussed by the Forum of Regulators. There however, hasn't been a consensus on how to calculate cross-subsidy surcharge - the payment that a customer has to make to the incumbent utility when opting for a different power supplier. Regulators have maintained that the cross-subsidy formula in the National Tariff Policy is not practical as there are huge differentials in the surcharge. The regulators have argued that each commission should be free to work out its own method of calculating surcharge.

1.8 New Scheme for Franchisees in Haryana

Under a new scheme prepared by the Dakshin Haryana Bijli Vitran Nigam (DHBVN), Gram Panchayats could be enrolled as franchisees for managing electricity operations in the rural areas of the state. This move is aimed at helping to reduce power theft and improve revenue realisation.

Under the scheme, Panchayats would be offered operation and maintenance of the system and energy audit-related work. Later, metering, billing and bill collection activities, too, would be handed over to the Panchayats if the plan succeeds. Panchayats would be allowed to decline the offer if they so decide. In case this happens, non-government organizations (NGOs) of the respective areas could be offered the responsibility

Rs. 4,500 per month would be paid to each Panchayat by the Power Utility for employing an ITI trained person to be called the "Grameen Vidyut Pratinidhi" (GVP). The GVPs will manage the network in the villages where the total consumers do not exceed 500. For villages where there are more than 500 consumers but less than 1000, the Power Utility will give Rs 9,000 per month per GVP. For villages with more than 1000 consumers the GVPs would be paid Rs 13,000 per month. In Haryana where the incidence of power theft is very high, the scheme could help DHBVN improve its revenue collection.

2. Developments in Maharashtra

2.1 Power Theft

The Nagpur bench of the Bombay high court has directed the Maharashtra State Electricity Distribution Company Limited (MSEDCL) not to charge compensation from the consumers found indulging in power thefts. MSEDCL had moved a writ petition asking to recover fine from such erroneous consumers under Section 31 (E) of the old Electricity Act. The plea was rejected as the old Electricity Act has ceased to exist and has been replaced by Electricity Act, 2003.

The divisional bench comprising justices J. P. Devdhar and B. P. Dharmadhikari observed that the provisions of clause 31 (r) were not applicable after June 10, 2003. The court also observed that there can be no interlocution or interim provisional assessment in the matter of power theft as neither section 135 nor section 138 of the Electricity Act, 2003 provide for it.

The bench made it clear that MSEDCL should not take any coercive action against the consumers or charge them exorbitantly, unless the offence of power theft was amply proved. MSEDCL officials had allegedly inspected the premises of consumers suspecting power theft and had registered FIRs with the police and slapped notices seeking compensation on the consumers. However, now the court has restricted MSEDCL from acting arbitrarily against the consumers. In case MSEDCL officials suspect any power theft or illegal drawing of electricity, they can seek electricity bills of past six months as per Section 126 of the new Electricity Act, 2003. Whether power theft has occurred or not would then be decided by a special sessions court, which alone could decide on the quantum of fine and punishment to the offender.

2.2 MERC Issues

2.2.1 Costly Power Purchase

The Maharashtra State Electricity Distribution Co Ltd (MSEDCL) has told the Maharashtra Electricity Regulatory Commission (MERC) that it cannot purchase costly power in line with the directions issued by the latter last month. MSEDCL had referred the issue of costly power to MERC through a petition. MSEDCL has now said that in the absence of a mechanism to recover the cost of expensive power, it "may not be in a position to procure power".

MSEDCL pointed out in a letter sent to the commission that the additional charge allowed to be recovered from consumers for costly power was unrealistic at Rs 5.36 per unit as the prevailing rate in the market is Rs 7-8 per unit. MSEDCL pointed out that the recovery for purchase of costly power is limited to 400 million units per month as per the MERC order. Even for this limited quantity, there will be a gap of Rs 125 crore a month. If an additional 330 million units are procured, the gap will increase to Rs 379 crore a month, which, MSEDCL claims would be financially un-sustainable.

2.2.2 Power Crisis

The Maharashtra Electricity Regulatory Commission (MERC) has recommended “demand moderation” to deal with power crisis in the state, which is facing a demand-supply gap of about 5,000 MW. MERC pointed out that even with power from the Dabhol Power Company, there will still be a shortage of 3,500 MW. Thus it is important that consumers use the available power judiciously.

MERC is also encouraging the replication of the Pune model – which taps expensive captive power to wipe out the demand-supply gap – in other urban centers in the state. This would mean that industrial areas would not be deprived of power if they are ready to pay a higher price. The Commission has also advocated the propagation of the Franchisee model as a method to overcome the current crisis.

MERC has also suggested MSEDCL to undertake separation of power feeders to distinguish power used exclusively for hardcore agricultural activities and that used for supplying electricity to allied activities like human habitations in agricultural areas. By doing this, the Commission stated that the power supplied to the field could be regulated and reduced to eight hours a day, and the power that is otherwise wasted when irrigation activities are not on would be used in lighting up adjacent areas.

2.2.3 Consumer Issues

More than 50,000 electricity consumers will be refunded the money that they had paid to the Maharashtra State Electricity Distribution Company Limited (MSEDCL) as Outright Contribution Charges (ORC) and the cost of meters according to a ruling given by MERC.

The MSEDCL now will have to refund around Rs. 250 crores to its consumers as per this order. MERC has directed the MSEDCL to refund the ORC and the costs of the meter collected by it while giving new connections after September 2006. MERC has clarified that accepting such an amount was illegal.

The Maharashtra Rajya Veej Grahak Sanghatana, a consumer organization working for the rights of electricity users, in a complaint had said that MSEDCL was charging fees towards ORC and the cost of meter in violation of MERC regulations and earlier orders.

The Commission has now directed MSEDCL to henceforth not collect any money under any charge-item which is not defined under the Supply Code. The Commission has said that it could consider action under the relevant provisions of the Electricity Act against the Managing Director, Director (Operations) and Chief Engineer (Commercial) of MSEDCL, if the directives issued under this Order are not complied with.

2.2.4 MSEDCL Capital Investment Plans

MSEDCL has submitted a total of 122 proposals for capital investment for creating new infrastructure and replacing the old assets, totaling to about 15,000 crore. MERC, observing severe lack and inconsistency of the data and information in the MSEDCL proposals, returned 121 project reports and directed MSEDCL to submit 1 pilot report. Accordingly a detailed project report for Aurangabad rural division was submitted. MERC while giving in-principle clearance to the project, changed the magnitude and certain cost heads (such as contract supervision charges).

MSEDCL appealed against this order in the Appellate Tribunal for Electricity (ATE), New Delhi. ATE observed that there are clear provisions in the MERC Tariff Regulations 2005 and Capital Expenditure guidelines for approval of the in-principle clearance wherein the Commission is authorized to modify the investment project as it may deem appropriate. ATE rejected the appeal and directed MSEDCL to approach MERC for explaining the full technical and commercial scope of the projects.

2.2.5 Long Term Power Purchase by MSEDCL

MSEDCL had filed a petition before MERC seeking approval for long term power purchase of an additional quantum of 4000 MW through competitive bidding guidelines - Case 2 route (where the location, fuel etc are determined by the utility).

Previously MSEDCL had approached the Commission for approval of long term purchase of 4000 MW (850 MW base load, 900 MW peak load and 2250 intermediate load) through competitive bidding guidelines - Case 1 route. The commission had passed an order on this petition in October 2005 and had observed that there is a need for a scientific demand forecast by MSEDCL, which forms the very elementary step of power planning. However, in view of severe supply shortage in the State, MERC directed MSEDCL to initiate the process for procurement of 2000 MW under competitive bidding route, although MSEDCL had not furnished requisite demand forecasts.

In the present petition, MSEDCL sought approval of the Commission for completing the power procurement projects at Uran and Dhopave via the Case-2 route of the CBG by forming a special purpose vehicle in collaboration with MSPGCL (with MSPGCL as the project consultant).

MERC opines that MSEDCL's petition for approval for additional quantum of 4000 MW under Case-2 of CBG is premature and can be considered only on ad-hoc basis. However, MERC has observed that as the land for Uran project (1040 MW gas based) is already acquired, MSEDCL may proceed with Uran project. Further, the Commission has directed MSEDCL to submit the DPR and deviations from Standard Bid Documents for Uran Project

MERC further directs MSEDCL that it must undertake long term demand forecast on scientific basis to firm up its future procurement plan which will give a mix of base load, intermediate load and peak load. MSEDCL was also directed to expeditiously form an expert committee for forecasting future demand.

2.3 Allocation of Coal Linkages

Prime Minister Manmohan Singh has personally given directions to expedite the procedures of allocation of coal linkages to various power projects in Maharashtra with a generation capacity of over 3,300 MW and also provide environment clearances as early as possible. Maharashtra has called for tapered long-term coal linkages of 12.3 million tonnes per annum to be given from 2011 to 2014 for the expansion of Koradi (800 MW) and Chandrapur (800 MW) power plants. The coal linkages were also required for the replacement of Koradi (800 MW), Paras (300 MW), Parli (300 MW) and Bhusawal (300 MW) projects. However, the state government has also made it clear that the existing linkages of 3.3 million tonnes per annum be retained.

Besides, the Prime Minister has asked the petroleum ministry to make necessary arrangements for gas supply for the expansion of MahaGenco's Uran project having a capacity of 1,040 MW and gas supply for the Ratnagiri Gas and Power Project Ltd. (RGPPL), previously Dabhol Power Company. Taking a serious note of the burgeoning power deficit, which is about 5,000 MW and expected to be over 10,000 MW by the end of the 11th Plan, the Prime Minister had convened a meeting with the state chief minister Vilasrao Deshmukh in New Delhi to look into various solutions to tackle the power crisis.

Sources

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10. Website of REL: www.rel.co.in
11. Website of TPC: www.tatapower.com
12. Website of the Appellate Tribunal for Electricity: www.aptel.gov.in

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 Gol-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