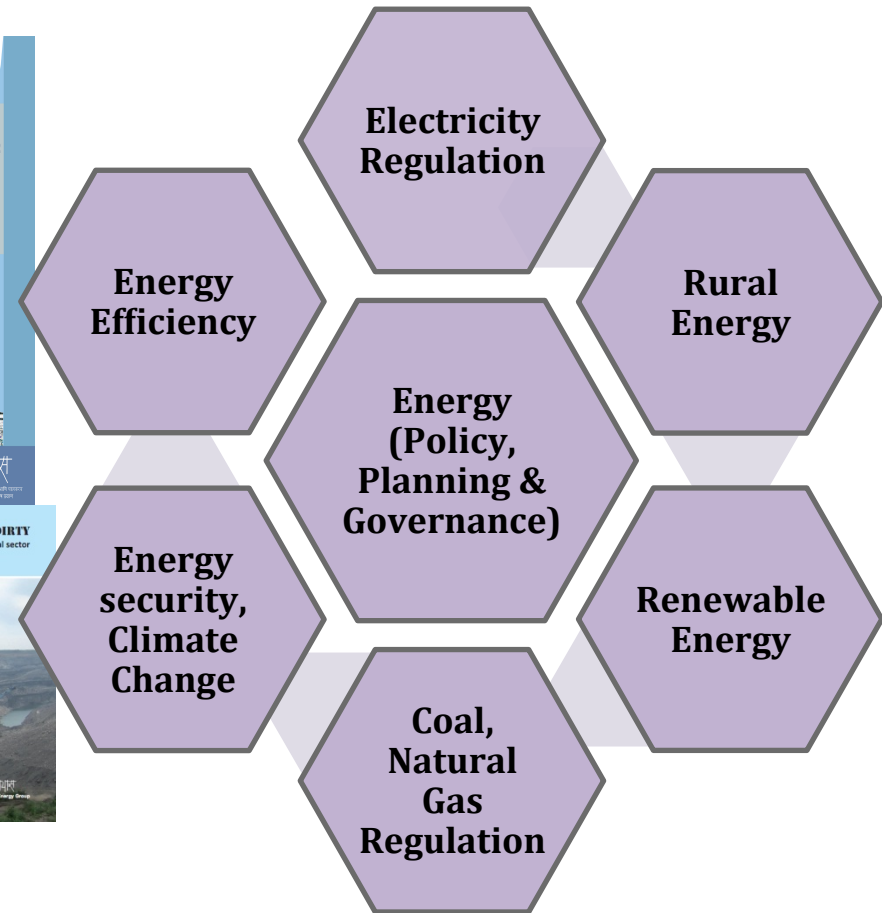
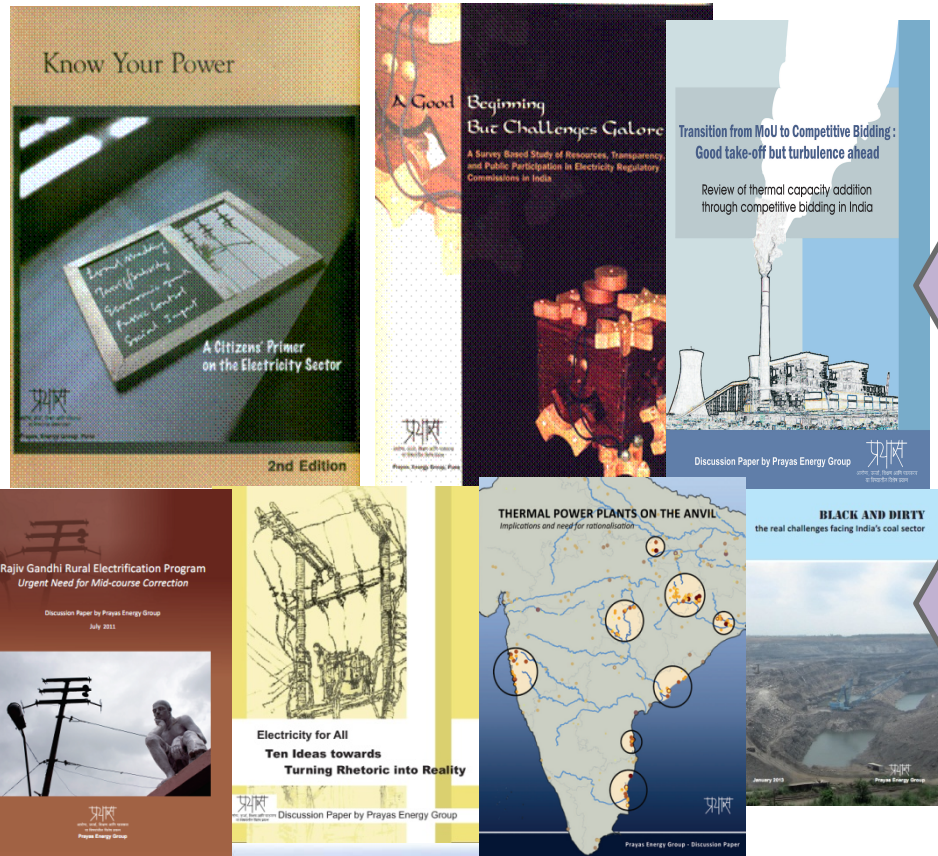


Comments and Suggestions on Standard Bidding Documents for UMPP and other location specific projects under case-2

Prayas Energy Group
11th February 2015

About Prayas ...

www.prayaspune.org/peg



Activities:

- *Research & intervention (regulatory, policy)*
- *Civil Society training, awareness, and support*



Competitive bidding: why and how?

- Preamble of the Competitive bidding guidelines 2006: *“Competitive procurement of electricity by the distribution licensees is expected to reduce the overall cost of procurement of power and facilitate development of power markets. Internationally, competition in wholesale electricity markets has led to reduction in prices of electricity and in significant benefits for consumers.”*
- UMPP: *“In order to enhance investor confidence, reduce risk perception and get a good response to competitive bidding, it was deemed necessary to provide the site, fuel linkage in captive mining blocks, water and obtain environment and forests clearance, substantial progress on land acquisition leading to possession of land, through a Shell Company.”*
- Case-1: *“Where the location, technology, or fuel is not specified by the procurer”*
- Case-2: *“For hydro-power projects, load center projects or other location specific projects with specific fuel allocation such as captive mines available, which the procurer intends to set up under tariff based bidding process.”*

Existing approach towards bidding (CGPL, Sasan, etc.)

- Framework
 - Bidding based on two part tariff comprising of both fixed and variable charge
 - Project developer **can choose the level of risk** to be taken on both fixed and variable costs by quoting escalable and non-escalable parameters
 - Lowest bid to win
- Outcomes:
 - Discovery of tariffs lower than comparable cost plus projects
 - On going litigation seeking revision of the discovered tariff on the grounds of claimed change in law and force majeure events

Key features of the proposed SBDs...1

- Contract term of 30 years with a possibility of further extension of up to 15 years, based on mutual consent
- Fuel risk to be totally pass through
 - Fuel cost passthrough based on SHR and FSA agreed GCV price or indexed price in case of imported coal
 - Plus certainty of pass through of additional fuel procurement in case of shortages
 - Principles of FSA to be a part of the PPA
- Force majeure
 - Greater clarity/detail in terms of force majeure event definitions
 - Utility to take over the asset in case of premature termination on account of a force majeure event
- Independent engineer to be appointed by the procurer to:
 - Review, monitor and inspect: construction, testing and O&M, safety measures and compliance
 - Determine costs and time and assist in dispute resolution

Key features of the proposed SBDs...2

- Open and dedicated capacity
 - 80% of installed capacity to be treated as dedicated capacity
 - Rest 20% is '*open capacity*,' which the project developer can sell in market
- More explicit role for arbitration process in dispute resolution
- Transfer of site and project assets to the project developer
 - Upon expiry of contract term, the developer is entitled to get the land and all the assets by paying the utility's 'acquisition cost'

Risk allocation

Risk factors	Existing UMPPs and case-2		Proposed UMPPs and case-2		Existing regulated e.g. Mahagenco	
	Project developer	Procurer	Project developer	Procurer	Project developer	Procurer
Demand		√		√		√
Land		√		√	√	
Clearances		√		√	√	
Fuel price and availability	√			√		√
Construction & EPC	√		√		√	
Operational performance	√		√		√	
Change in law		√		√		√
Force Majeure		√		√		√

What do the proposed changes achieve?

- Developer is taking no risk except that of building the project i.e. EPC contracting but is guaranteed return on the equity by ensuring:
 - Contractually guaranteed fuel supply
 - Assured off-take over the period of the contract
 - Liberty to sell 20% capacity in open market and
 - Keeping the land and the assets for a period of up to 75 years after completion of the contract term
- As against this, the utility is getting
 - No different deal than what it would, if similar capacity was contracted on cost plus basis under the present regulatory framework
 - More complicated arrangement than the scheme under tariff regulations
 - More responsibility in monitoring in terms of fuel cost and availability
 - Managing an additional entity such ‘independent engineer’

Implications

- ***No different than bidding process for selecting EPC contractor but with entire asset going to the project developer along with upside of sell of 20% open capacity***
- No efficiency gains for 70% of generation cost which is on account of fuel
- With increased monitoring and approval burden for the procurer,
- Limited transparency and regulatory oversight

Way forward

- Clear distinction in SBD structure to reflect different objectives of bidding, which can be as follows:
 1. Developer responsible for fuel, land, clearances, etc. (case-1)
 - Can be feasible once the flux in fuel sector settles down
 - Advantages: Potential for overall efficiency gain by better management of fuel risk
 2. Developer assured crucial inputs such as land, water, clearances, etc. and fuel type is specified but developer has option to choosing level of price and supply risk (UMPP/case-2)
 3. Developer: (say, case-3)
 - assured crucial inputs such as land, water, clearances, etc. and
 - only responsible for project construction, O&M and plant operation.
 - Fuel availability and price risk to be entirely pass-through.

UMPPs and case-2

- Objective
 - Project developer bears the fuel risk but is assured tie-up of crucial inputs such as land, water, clearances, etc.
- Mechanism
 - Existing UMPP contract structure with flexibility for the developer to decide the extent of fuel risk they want to undertake
 - Modify existing contracts to improve force majeure and change in law provisions on the lines of the proposed SBDs
- Advantages
 - Potential for overall efficiency gains and discovery of lower tariff
 - Can be implemented for allocation of captive coal blocks immediately

Case-3

- Objective:
 - De-risk project developer from fuel risks and tie-up of crucial inputs such as land, water, clearances, etc.
- Mechanism
 - Clear and simple arrangement for bidding for EPC and O&M contractor for specified SHR, technology and performance parameters such as availability, ramp-up rates, so on
- Advantages
 - Potential to directly attract large national and international EPC contractors and achieve efficiency gains in fixed cost
 - Procurer will continue to own land, a crucial scarce and valuable resource, especially considering 25+ years time horizon

Additional essential steps

- Fuel contracts
 - Need for much greater accountability and clarity
 - Given the fact that domestic coal shortages are here to stay, transparency in how this shortage gets distributed is crucial
 - Data regarding coal quality and supply as per the contracts to be in public domain
- Tightening of regulatory norms for tariff based on section 62
 - Unit-wise measurement of crucial performance parameters such as SHR, availability, load factor, fuel input, etc. essential
 - Benchmarking based on crucial performance parameters
 - Cost to be decided only based on benchmarks and not on audited actuals

THANK YOU

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