

a question will not be available and time should be given. I would request them also not to write such letters to me and if I say no to such letters, they should not feel hurt.

[Translation]

Foreign Investment in Power Sector

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*503. DR. LAXMINARAYAN
PANDEYA:
SHRI NITISH KUMAR:

Will the Minister of POWER be pleased to state:

(a) the criteria adopted by the Government for acceptance of offers from foreign companies to set up power plants in the country;

(b) the total investment offered by the foreign companies in this regard during 1992-93 and 1993-94 and the amount of investment out of it accepted by the Government;

(c) whether all the funds have been utilised for the intended purpose;

(d) if so, the details thereof and the projects for which this amount has been utilised;

(e) if not, the quantum of funds that could not be utilised and the reasons therefor; and

(f) the commitment charges paid by the Government for non-utilisation of these funds?

THE MINISTER OF STATE IN THE MINISTRY OF POWER (SHRI P.V. RANGAYYA NAIDU): (a) to (f) A *Statement* is laid on the Table of the House.

STATEMENT

(a) The guidelines of the policy are given in the **Annexure**. Assigning of Projects to private sector Companies is within the competence of the State Governments, so far as the State projects are concerned.

(b) As on date proposals have been received from foreign companies (including NRI and Joint Venture proposals) for setting up 35 power projects amounting to 22,432 MW costing approx. Rs. 73,386 crores. The details of investment by the foreign companies would be known only after the project proposals achieve financial closure. So far none of the proposals have achieved financial closure.

(c) to (e). Do not arise.

(f) The funds needed for investment in private power projects have to be arranged by the promoters. Therefore, the Government of India does not have to pay any commitment charges in respect of such funds.

ANNEXURE

Incentives/Guidelines in the policy to encourage greater private investments in Power Generation and distribution to TAP Additionality of Resources

The following are the details of the scheme to encourage greater private sector participation in the electricity generation, supply and distribution:

The Indian Electricity Act, 1910 and the Electricity (Supply) Act, 1948 have been amended to bring about a new legal, admin-

istrative and financial environment for private enterprises in the Electricity Sector.

- * Private Sector can set up thermal projects (coal/gas) and hydel projects and wind/solar energy project of any size.
- * Electricity Projects where the total outlay does not exceed Rs. 25 crores need not be submitted to the Central Electricity Authority for concurrence.
- * Private sector companies can set up enterprises to operate either as licensees or as generating companies.
- * All private companies entering the Electricity Sector hereafter will be allowed a debt-equity ration upto 4:1.
- * A minimum of 20% of the total outlay should be the equity component.
- * Promoter's contribution should be at least 11% of the total outlay.
- * Not more than 40% of the total outlay can come from Indian Public Financial Institutions.
- * To ensure that private entrepreneurs bring in additionality of resources to the sector, not less than 60% of the total outlay for the project must come from sources other than Public Financial Institutions.
- * Upto hundred per cent (100%) foreign equity participation can

be permitted for projects set up by foreign private investors.

- * The condition of dividend balancing by export earnings which is normally being applied to cases of foreign investment upto 51% equity will not be applicable to foreign investments in the power sector.
- * The rates for depreciation in respect of assets have been liberalised.
- * With the approval of the Government, import of equipment for power projects will also be permitted in cases where foreign supplier(s) or agency(ies) extend concessional credit.
- * The customs duty for import of power equipment has been reduced to 20% and this rate has also been extended to machinery required for modernisation and renovation of power plants.
- * A five year tax holiday has been allowed in respect of profits and gains of new industrial undertakings set up anywhere in India for either generation or generation and distribution of power. The five year tax holiday will begin from the year of generation of power.
- * The excise duty on a large number of capital goods and instruments in the power sector has been reduced to a uniform lower rate of 5%.
- * The 16% return on the foreign equity included in the tariff can

be provided in the respective foreign currency.

- * Fixed costs can be recovered at 68.5% PLF. Attractive incentives are prescribed for performance beyond this PLF.
- * Flexibility has been allowed in including insurance in the project cost.

For generating companies the following incentives are offered:—

- * Normative parameters under which generating companies will operate have been notified which inter alia provide for 16% rate of return on the paid up and subscribed equity.
- * Generating companies operating coal based, gas based and hydro projects can sell power on the basis of a suitably structured two part tariff.
- * Government of India may consider extending a counter guarantee for the payment obligations of State Electricity Boards to the private power companies on the specific request of the concerned State Government.

The specific incentives for Licensees are:—

- * Licences of longer duration of 30 years in the first instance and subsequent renewals of 20 years instead of 20 and 10 years respectively as it was before.
- * Higher rate of return of 5% in place of the previous 2% above the RBI rate.

- * Capitalisation of Interest During Construction (IDC) at actual cost (for expansion projects also) as against 1% over RBI rate as it was before.

- * Special appropriations to meet debt redemption obligations.

[Translation]

DR. LAXMINARAYAN PANDEYA: Mr. Speaker, Sir, through you, I would like to know from the hon. Minister whether it is a fact that as no solution to the financial difficulties regarding 35 power projects has been found so far no decision has yet been taken regarding them? Further, whether it is also a fact that the National Work on Power Group has raised objections regarding these projects, especially on the ground that foreign capital investment will be quiet costly and present cost will shoot up by 16 per cent? I would like to know whether the Government is pondering over generating power at minimum cost?

[English]

THE MINISTER OF POWER (SHRI N.K.P. SALVE): Firstly it has to be appreciated that setting up of power projects in the private sector is a fairly long drawn out process. This is also the experience of UK and USA.

In USA, it took eight years' time before the first project as independent private project could come up. So, it has just taken a little longer, so far as power projects are concerned because of several factors including the long gestation period and the very high capital investment required involving tens of thousands of crores of rupees. Out of those 35 projects which are referred to, seven

of them have been cleared by CCFI which aggregate to 5,128 MWs, involving a cost of Rs. 21,867 crores. As to the objection which the refers to, I do not know what is the precise objection he is referring to. If he could pinpoint and refer to the objection itself, instead of referring to a particular institution, I might be able to deal with it.

[*Translation*]

DR. LAXMINARAYAN PANDEYA: Is it true that there is wide difference in the estimated costs of some projects evaluated by the Central Electricity Authority and the Ministry of Power and as a result of it there is difference between the bids of foreign bidders and cost estimates? Further, due to this, no final decision could be taken in this regard.

[*English*]

SHRI N.K.P. SALVE: Sir, so far as the capital cost of any project is concerned, it is not a matter which is dealt with by the Ministry as such. Under the Law, the Central Electricity Authority is the final authority as the arbiter to determine the entire financial package; and then if it is done, it is for the Central Electricity Authority to give a final verdict in the matter. Sir, in the Press I have read that several organisations have raised this question that the capital cost which has been mentioned is inflated; but there is also a provision in the Law itself and that gives transparency to it. Should anyone have any objection to the capital cost, they can raise this point with the State Government and with the Central Electricity Authority. So, there is a built-in procedure. There is not only transparency, but also a built-in procedure, for adjudication, should there be a valid grievance for any reason? Generally

saying that it is too high or this is too low, is neither here nor there.

[*Translation*]

DR. LAXMINARAYAN PANDEYA: Though on the one hand efforts are being made to increase power generation with foreign capital inflow by inviting the foreign companies, yet on the other hand, the Prime Minister's office and the Standing Committee have raised objections on the ground that foreign assistance has not been fully utilised. Even fifty per cent of it has not been utilised and due to this many projects are in doldrums. If it is so, then I would like to know the details of the steps taken by the Government in this regard for full utilisation of foreign funds and for early completion of the projects.

SHRI N.K.P. SALVE: This has already been replied to in reply to the main question.

[*English*]

"That the funds needed for investment in private power projects have to be arranged by the promoters. Therefore, the Government of India does not have to pay any commitment charges in respect of such funds."

[*Translation*]

Companies of Private Sector are not allocated funds by the Government.

DR. LAXMINARAYAN PANDEYA: I submitted that even the Standing Committee has pointed out non-utilisation of funds.

SHRI N.K.P. SALVE: I thought that the question of the hon. Member was

regarding the private sector. Funds inflow under bilateral and multilateral agreements have no connection with this question.

[English]

SHRI NIRMAL KANTI CHATTERJEE: Sir, in the guidelines several concessions have been given. I will focus on three. One is that the power projects will also be permitted in cases where foreign suppliers or agencies extend concessional credit. That is import of equipment should be permitted free. And then, the customs duty has been reduced and then the excise duty on local things, has been reduced to five per cent; and 16 per cent return on the foreign equity included in the tariff can be provided in the respective foreign currency. Now, what impact will this have on the local manufacturers of power equipment?

The Bombay Club and now all the Chambers of Commerce have started talking about level playing field. There is another point of view also that it should not be level but tilted in favour of the Indian producers.

In this case, what impact is this kind of provision—concession of customs duties and other—going to have? For instance, are they working to full capacity? They will be bound in their capacity utilisation. This is a relevant part. Why don't you give—all these concessions need not be 16 per cent in terms of level playing—to the Indian private sector producers also?

SHRI N.K.P. SALVE: We have given that. Sixteen per cent return on equity is available to an Indian or to anybody else. The policy does not discriminate between a foreign investor and an Indian investor. It is the same.

Secondly, once the private sector is brought in, it will be for the private sector to determine from where to buy the equipment. But if we were not to give facilities in respect of customs duty and if we were not to reduce the excise duty on equipment of power sector, etc...

SHRI NIRMAL KANTI CHATTERJEE: Part of GATT? Let us not forget that.

MR. SPEAKER: Leave that aside. He is going into the generalities.

SHRI N.K.P. SALVE: I was on the right track.

MR. SPEAKER: Yes, you are. You follow your track because you are on the right track.

SHRI N.K.P. SALVE: He is an old friend of mine. It is his habit that when he finds that the answer is a little articulate, then, he must confuse the Minister.

MR. SPEAKER: Does he succeed?

SHRI NIRMAL KANTI CHATTERJEE: Even if it is difficult to confuse him.

SHRI N.K.P. SALVE: I was submitting that these concessions have been provided to assure that the capital cost is not excessive and heavy because we have to keep in our mind the interests of the consumers also.

SHRI NIRMAL KANTI CHATTERJEE: He has not answered that part. What impact is it going to have on Indian capital goods producers?

MR. SPEAKER: It does not arise out of this.

SHRI P.C. CHACKO: May I know from the hon. Minister whether any financial tie-up is being arranged for the Kayamkulam Super Thermal Power Station of Kerala? In this House itself, the hon. Minister replied that the Government was negotiating with OECF of Japan. It may be OECF or any other financial company in the private sector. Has the Government finalised the financial tie-up for Kayamkulam project?

MR. SPEAKER: This is specific on the general. If you have information, give it or send it in writing.

SHRI N.K.P. SALVE: I will send it in writing.

SHRI P.C. CHACKO: This is regarding financing of project.

[*Translation*]

SHRI GEORGE FERNANDES: Mr. Speaker, Sir, firstly, I would like to submit that the Government never took the House into confidence while formulating new policy and that's why this question has cropped up. We favour a discussion on this issue in the House because it is being widely debated in the country.

I would like to submit that on the one hand the Government is granting 5 years tax holiday and on the other, guarantee of 16 per cent returns is being given on 68.5 PLF. If it increases even by 0.5 then bonus of 1 per cent or more could also be readily given to whosoever invests in these projects i.e. within five years invested amount could be recovered fully. Even then, a constant return of 16 per cent or more is being guaranteed.

We would like to know about its effects on the rates of electricity on which

you are going to sell it in the country. Moreover, it has also been said that the Government is prepared to extend facility to them to the extent that:

[*English*]

Capitalisation of interest during construction at actual cost for expansion projects also as against one per cent over RBI rate as it was before.

[*Translation*]

Who is going to determine the actual cost? If you have included insurance amount in it, who would be the monitoring authority to ascertain whether they are showing the actual cost honestly or not. Because you have given up all such responsibilities now.

One more question is related to it. I have received a document from the Ministry in which it has been stated that Rs. 40,000 crore would out flow from the country within next ten years from ENRON Power House which is being constructed. This has been stated by a group of persons through this document. This group consists of former Finance Secretary and higher officials of Power sector who have taken over this responsibility. I have just received a letter from the office of the hon. Minister in which it has been stated that:

[*English*]

"The foreign exchange outflow for Phase I for the first ten years would be considerably less than Rs. 40,000 crores."

[*Translation*]

I would like to know the amount likely to be outflowed to foreign countries

as a result of ENRON project and how much rates of electricity are likely to be increased and what would be its effect on the farmers?

[English]

SHRI N.K.P. SALVE: As to discussion, nothing would I welcome more than a discussion! One thing I want to assure the House is that in this policy, we are desirous of total and entire transparency. There is nothing that we would like to hide. We may have differences of perception, but let the policy be discussed any time, which cannot, of course, be discussed in the Question Hour.

As to ENRON, if the hon. Member wants more precise calculation, I can collect the information from the Ministry and send it to him. I may state here that plenty of disinformation and misinformation is being spread. Instead of that, if the hon. Member were to write to me on a specific project we will only be too happy to reply to him on those specific points.

SHRI NIRMAL KANTI CHATTERJEE: Mastery of evasion!

SHRI N.K.P. SALVE: As to who is going to decide what is going to be the interest, etc., I will clarify the matter. He has raised another question, which fortunately relates to accounting. What happens to interest during construction? The Supreme Court has laid down in many cases that the entire revenue expenditure during construction has to be capitalised and has to be added to the capital cost of the project itself. It is a well-known accounting principle. Also, the Institute of Chartered Accountants of India in their guidelines have stated the same. On that matter, our policy is

entirely in conformity with the recognised accounting principle.

The other question that he has asked was about the tax holiday etc. In the policy, we have provided for a return of 16 per cent on the equity as a fixed charge in the tariff to be included at 68.5 per cent plant load factor. Keeping in view the return to the existing private companies which is approximately 40 per cent at about 57 per cent plant load factor, this 16 per cent return is a very fair return. Therefore, where the interest used to be 18 per cent and 17 per cent, on a risk capital, 16 per cent is, as a policy matter, considered very fair, just and equitable.

[English]

SHRI GEORGE FERNANDES: Mr. Speaker, Sir, my question has not been replied. What are the views of the hon. Minister regarding the price of electricity on which it will be sold?

SHRI N.K.P. SALVE: The entire financial package, as I have stated earlier, has to be determined by the Central Electricity Authority, the highest authority which administers the law. It comprises the topmost people, the best technical and financial men. It is they who determine and it is not for the Ministry to determine the price. It is for the States, the generating companies and the Central Electricity Authority. The cost of power will be different from project to project.

SHRI E. AHAMED: Sir, a five-year tax holiday has been allowed in respect of profits and gains of new industrial undertaking both for power generation as well as distribution. Is there any restriction that the Government would like to

impose on these private undertakings with respect to the rates of electricity for distribution or will it be as per the whims and caprices of those companies?

SHRI N.K.P. SALVE: There is a very great misconception about the tariffs. It is not the Power Ministry which determines the tariffs. Tariff is a matter between the generating company and the purchasing Board. It is decided between the two. They go with the total financial package to the Central Electricity Authority. If it is approved, then that would be the tariff.

[*Translation*]

SHRI SANDIPAN BHAGWAN THORAT: Mr. Speaker, Sir, the power generated by the States is given to the National grid. I would, therefore, like to know whether the power generated by the private sector would also be given to the National grid? If so, whether Government has taken any decision to reserve electricity for Agriculture sector or rural areas?

SHRI N.K.P. SALVE: Sir, there is no National grid. We have five grids viz. North grid, West grid, South grid, East grid and North-East grid. And the power generated by the State Electricity Board is given to the State. The power generated by the Central sector is distributed among the different States falling under that grid. So far as the power generated by the private sector is concerned, it will be given hundred per cent to the State.

[*English*]

SHRI SRIKANTA JENA: Mr. Speaker, Sir, I presume that the policy formulated by the Ministry must have had the approval or at least recommendation of

the CEA. The Minister has said that he decides about the policy and the CEA evaluates as to what would be the final cost. Whatever finance the Minister may put in a private sector, the debt equity ratio is 4:1. Debt is cheaply available but equity practically is one per cent. In that case, why are you showing this kind of favour to the private sector undertakings?

Secondly, you have mentioned that the cost of generation comes to around Rs. 5 crore per MW. The cost of power will come to about Rs. 4 per unit. My worry is, who will buy that power? In view of this, why cannot the NTPC be allowed to bring in some loan from the foreign banks? The Ministry can give more money towards the equity of the NTPC so that it can go for this kind of project by bringing in more debt from different banks.

MR. SPEAKER: Let it be a question, please.

SHRI SRIKANTA JENA: This precisely is my question. Sir, Why is the Ministry not helping its own agency, that is the NTPC, in the equity aspect so that it can bring in some debt from different banks instead of building up a capital cost and ultimately landing at a cost which will be totally non-remunerative?

SHRI N.K.P. SALVE: Firstly, I have never said that the CEA has formulated the policy. It has been formulated by the Government.

So far as the cost per Mega Watt in the private sector is concerned, as I submitted earlier, it is a subject matter of scrutiny by the CEA. They decide what ought to be the cost and if anyone has objection to it, there is a built-in mech-

anism. One can go to the CEA or to the State and raise objections that the cost is a little inflated. Depreciation and interest, etc. are relatable not only to the approved cost but also to the actual cost. The actual cost has been interpreted in several cases for tax purposes by the Supreme Court. If it is found that it is the inflated cost and not the actual cost, it is always open for the State Electricity Board to determine what is the actual cost. This is so far as the actual cost is concerned.

So far as the higher cost of power is concerned, whether NTPC or anybody else puts it up, the cost of power is going to be the same because the capital cost is near about the same. There may be some marginal difference here and there. The hon. Member's question proceeds on a wrong premise or assumption that NTPC can go to the market and raise as much commercial loan as it likes.

The kind of money which we require here, the NTPC cannot get it in the commercial market. Therefore we have gone in for the private sector. Had it been possible for us to give that money, we would have been happy to give it. According to EPS, in 15 years' time we need 1,42,000 M.W. of electricity. Is it imaginable that NTPC will ever be able to generate 1,42,000 M.W. of electricity? It is presently generating hardly 15,000 M.W. electricity. So, it is not an impractical proposition. But I want to assure the House that whatever capacity addition that we are planning to make, we are doing that. In fact it is only in the Central sector that we are able to adhere to the targets which are given to us in the Plan. We cannot go beyond that. Because even reaching that target is very difficult for us.

Therefore so far as the tariffs are concerned, all that I want to submit is

that the tariffs that were fixed earlier are not comparable to what they are today. For a thermal plant, the gestation period is five to seven year. For a hydel plant, it is 7 to 9 years. You can see that in the next five to seven years' time the cost which is broadly about Rs. 2.25 or Rs. 2.40 today will be found reasonable just like the cost that was Rs. 1.20, five or seven years ago is reasonable today.

Every time the cost is increasing. Therefore while evaluating a comparable cost kindly envisage the gestation period which is very long in this case. This is my submission.

Steel Authority of India Limited

*506. SHRI SOMJIBHAI DAMOR: Will the Minister of STEEL be pleased to state:

(a) whether hampered rail movement, especially on the Bhilai-Visakhapatnam line, has adversely affected production and exports at SAIL;

(b) if so, the details thereof;

(c) the export target of SAIL for 1994-95; and

(d) the number of export orders received so far for the current financial year and the value thereof?

THE MINISTER OF STATE OF THE MINISTRY OF STEEL (SHRI SONTOSH MOHAN DEV): (a) No, Sir.

(b) Does not arise.

(c) Export Target has been fixed at 6.0 lakh tonnes for 1994-95.