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**STANDING COMMITTEE
ON ENERGY
(1996-97)**

ELEVENTH LOK SABHA

**FAST TRACK POWER PROJECTS
— AN EVALUATION**

MINISTRY OF POWER

*[Action taken by the Government on the Recommendations
contained in the Thirty-Sixth Report of the
Standing Committee on Energy (Tenth Lok Sabha)]*

SIXTH REPORT



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1997/ Magha, 1918 (Saka)

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SIXTH REPORT
STANDING COMMITTEE ON
ENERGY
(1996-97)

(ELEVENTH LOK SABHA)

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Thirty-Sixth Report of the Standing Committee on Energy
(Tenth Lok Sabha)]*

Presented to Lok Sabha on
Laid in Rajya Sabha on **1 MAR 1997**



LOK SABHA SECRETARIAT
NEW DELHI

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COMPOSITION OF THE STANDING COMMITTEE ON ENERGY

(1996-97)

Shri Jagmohan — *Chairman*

MEMBERS

Lok Sabha

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4. Prof. (Smt.) Rita Verma
5. Shri Gyan Singh
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(iv)

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SECRETARIAT

- | | | |
|-------------------------|---|-------------------------|
| 1. Smt. Roli Srivastava | — | <i>Joint Secretary</i> |
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| 3. Shri A.S. Chera | — | <i>Under Secretary</i> |

COMPOSITION OF SUB-COMMITTEE ON POWER OF STANDING
COMMITTEE ON ENERGY (1996-97)

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10. Shri Gaya Singh
11. Shri Vizol
12. Shri Rajendra Prasad Mody
13. Shri Manoj Kumar Sinha
14. Shri Sriballav Panigrahi

INTRODUCTION

I, the Chairman, Standing Committee on Energy having been authorised by the Committee to present the Report on their behalf, present this Sixth Report (Eleventh Lok Sabha) on Action Taken by the Government on the recommendations contained in the 36th report of the Standing Committee on Energy (Tenth Lok Sabha) on "Fast Track Power Projects—An Evaluation".

2. The Thirty-Sixth Report of the Standing Committee on Energy (Tenth Lok Sabha) was presented to Lok Sabha on 7th March, 1996. Replies of the Government to recommendations contained in the Report were received on 8th July, 1996.

3. The Sub-Committee on Power of the Standing Committee on Energy (1996-97) considered the replies of the Government to the recommendations and considered and approved the Report at their Sitting held on 5th December, 1996.

4. The Report was considered and adopted by the Standing Committee on Energy on 18th December, 1996.

5. An analysis of the action taken by the Government on the recommendations contained in the 36th Report of the Committee is given in Appendix III.

NEW DELHI;
February 6, 1997
Magha 17, 1918 (Saka)

JAGMOHAN,
Chairman,
Standing Committee on Energy.

CHAPTER I

REPORT

The Report of the Committee deals with the Action Taken by the Government on the recommendations contained in the Thirty-Sixth Report (Tenth Lok Sabha) of the Standing Committee on Energy on "Fast Track Power Projects —An Evaluation" which was presented to Lok Sabha on 7th March, 1996.

2. Action Taken Notes have been received from the Government in respect of all the 11 recommendations contained in the Report. These have been categorised as follows:—

- (i) Recommendations/Observations that have been accepted by the Government : Sl. Nos. 4, 5, 7, 8, 9 and 10.
- (ii) Recommendations/ Observations which the Committee do not desire to pursue in view of the Government's replies : Sl. No. 11.
- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee: Sl. Nos. 1 and 6.
- (iv) Recommendations/Observations in respect of which final replies of the Government are still awaited: Sl. Nos. 2 and 3.

3. The Committee require that final replies in respect of the recommendations for which only interim replies have been given by the Government ought to be furnished to the Committee at the earliest.

The Committee will now deal with the action taken by the Government on some of their recommendations:—

Cost and Tariff

Recommendation (Sl. No. 1, Part B)

4. The Committee found that of the initial batch of eight fast track projects, for which clearances had earlier been accorded, at least three were under review/ renegotiation. These included Dabhol, Ib valley and Mangalore Power Projects. Newspaper Reports stated that the tariff of Dabhol Power project

had been brought down. The promoters of Ib Valley and Mangalore Projects and also of Bhadravati projects had reportedly offered to cut down cost and reduce tariff. The Committee felt that there was a need to examine whether there was any scope for bringing down the cost and tariff of the remaining fast track power projects.

5. The Ministry of Power have stated in their reply that six of the eight fast track projects including Dabhol, Ib-Valley and Bhadravati projects have received techno-economic clearance of the Central Electricity Authority (CEA). The Ministry have stated that as per provisions of the tariff notification dated 30th March, 1992, the capital cost cleared by CEA is only the ceiling capital cost allowed by the CEA and the State Governments/SEBs are always free to negotiate a lower cost. The cost cleared by CEA is the estimated completion cost of over the period of construction upto the date of commissioning of the project. It has been stated further that the cost cleared by CEA has to be necessarily a ceiling cost and it is really upto the concerned State/SEB to negotiate a lower cost for determining a lower tariff.

6. The Committee felt the need to examine the scope of bringing down the cost and tariff of fast track power projects in view of the fact that at least three of the initial batch of fast track projects were under review/renegotiation and the promoters of some of the projects had reportedly offered to cut down the cost and reduce the tariff. Instead of addressing the issue directly, the Ministry have sought to convey the position that the capital cost cleared by CEA was only the ceiling capital cost and it was upto the concerned State Governments/SEBs to negotiate a lower cost. Considering that CEA's appraisal is undertaken only after the projects are negotiated and formulated by the State Governments/SEBs concerned, the Committee feel that fixing a 'Ceiling Capital Cost' at this stage and leaving the projects open further to the negotiating skills of State Governments/SEBs for optimising the costs would only result in delaying the projects. The Committee also infer from the reply that the Centre does not intend to play an active role in minimising the project costs and tariff. The Committee would await the Ministry's response in this regard.

Competitive Bidding and Tariff Notification

Recommendations (Sl. Nos. 2 and 3, Part B)

7. The Committee were of the view that Memorandum of Understanding (MOU) route adopted for selection of fast track projects had some inherent defi-

ciencies as was evident from the episode of Dabhol Power Project. On the other hand the Committee felt that competitive bidding—which was made mandatory since 18.02.1995—would lead to total transparencies in such deals. Reiterating the recommendation made in their earlier Report that the criteria for bidding should be the ultimate purchase price of power, the Committee urged that the Government must formulate guidelines for tariff-based bidding system for implementing private projects including those for which MOUs had been signed. The Committee also felt that the tariff notification issued by Government was based on cost-plus approach and was not relevant in the case of competitive bidding. The Committee were of the view that since the lowest price of energy could be obtained through international competitive bidding route, there should be no need for laying down norms of operation, reasonable returns, etc. The Committee accordingly suggested that the tariff notification must be reviewed forthwith.

8. The Ministry of Power have stated in their reply that the Government recognizes the need to have a bidding system in which the criteria is the ultimate price at which power would be purchased. In regard to reviewing the tariff notification, the Ministry have stated that the operational parameters and incentives prescribed in the tariff notification are only ceiling norms and that the State Governments/ SEBs could negotiate for something lower than the ceiling. It has also been stated that the tariff notification could be used as a yardstick to arrive at a reasonable sale rate of power expected from the project proposed to be awarded through competitive bidding.

9. Notwithstanding the above, the Ministry have stated that the Government are exploring alternate tariff structures and have constituted an Inter-Ministerial Committee to study the alternative tariff structures and suggest any changes that may be necessary, with the ultimate objective of enabling availability of least cost power to the State Electricity Boards. The Ministry have stated that the Inter-Ministerial Committee would *Inter-alia* go into all the above recommendations and is expected to submit its Report soon.

10. The Committee recommended formulation of fresh guidelines for tariff based bidding system and reviewing of the tariff notification issued by Government as the notification was based on cost-plus approach and was not relevant in the case of competitive bidding. An Inter-Ministerial Committee has reportedly been constituted to study the alternate tariff structures, which would, *inter-alia*, go into the recommendations of the Committee and suggest necessary changes. The Committee would like to know the details of proposals considered by the Inter-Ministerial Committee and the decisions taken or expected to be taken in this regard. The Committee expect the Ministry to furnish the required information within a period of three months.

Competitive Bidding for Procurement of Equipment

Recommendation (Sl. No. 4, Part B)

11. The Committee observed that given the cost-plus approach of the present policy, minimising project cost was critical and CEA's appraisal evidently did not suffice. The Committee were of the view that global bidding for engineering, procurement and construction (EPC) contract would help optimise costs in a transparent manner. Noting that some State Governments were insisting on bidding for equipment contract in respect of projects awarded through negotiation, the Committee urged that competitive bidding for award of EPC contract should be made mandatory to instill greater transparency and optimise the project cost and power tariff.

12. In their reply, the Ministry have stated that the Government recognises the fact that competitive bidding for procurement of equipment can result in reduction of Project cost. While stating that it is a fact that this practice is already being followed by a number of IPPs and is also being insisted upon in several cases by the States/SEBs, the Ministry have expressed the opinion that the question of making competitive bidding mandatory for procurement of equipment had to be examined in the light of the fact that bidding for award of projects has already been made mandatory. The Ministry have also stated that the Inter-Ministerial Committee set up to examine alternate tariff structures is likely to submit its report in the near future and that it is considered desirable to await this report before taking any decision on imposing the condition of bidding for EPC contracts.

13. The Committee expect the Government to take early action in the matter of making competitive bidding mandatory for procurement of equipment. The Committee feel distressed to note that inspite of recognising the fact that competitive bidding for procurement of equipment helps in optimising project costs and minimising tariff, necessary measures have not been taken to make the bidding process mandatory. The Committee wish to be informed of the steps to be taken in this regard.

14. The reply of the Ministry is silent on the question of bringing the Projects for which MOUs have been signed under the purview of Competitive bidding route for implementation. The Committee reiterate that guidelines for Competitive bidding for EPC contracts must be issued early for implementing private projects including those for which MOUs have been signed.

Counter Guarantee

Recommendation (Sl. No. 6, Part B)

15. The Committee had observed that all the eight fast track power projects for which the counter guarantee device was conceived had been delayed for one reason or the other and could hardly be claimed to be on fast track. The Committee noted that the only two projects for which counter guarantee had been signed—Dabhol and Ib Valley—were being renegotiated or under review, which implied revision of their Power Purchase Agreements (PPAs). Also, the Finance Secretary had stated before the Committee that, "if the PPA is being reviewed, that means the counter guarantee is not effective". The Committee also noted that many project proposals had matured without counter guarantee and were on fast track. As the private investors seemed to be willing to take on the risks of investing in the power sector, the Committee emphasized that in the changed scenario, there was no need for the Centre to counter guarantee any of the projects.

16. In their reply, the Ministry have stated that the counter guarantee is a transitional measure to instill a sense of confidence among the lenders to the IPPs about the security of their investment in the form of payment by the SEBs for the power purchased. It has been stated that it was decided to extend the guarantee to eight initial projects cleared from foreign investment angle irrespective of the financial standing of the SEB concerned. The Ministry have stated that there can be no question of withdrawing the counter guarantee or its assurance at this stage, since it would halt the development of the projects which have been planned on the counter guarantee route, thus denying the country the much needed capacity addition these projects would be bringing about. It has been stated further that denying the fast track projects the counter guarantee at this stage would also amount to dis-honouring the commitment made by the Government of India and would in all probability send wrong signals to the investors.

17. The Committee find no merit in the Ministry's contention that giving up the policy of counter guaranteeing would halt the development of the projects and would probably send wrong signals to the investors. The Committee had earlier been informed that the promoters of Paguthan Project—one of the initial batch of fast track Projects—had specified that they did not require any counter guarantee from the Centre. The promoters of at least one other project have reportedly opted out of seeking counter guarantee. Considering that the private promoters are willing to invest in the power sector without any counter guarantee from the Centre, the Committee are of the firm view that counter guarantee to any of the projects is uncalled for.

CHAPTER I I

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl.No. 4, Part B)

Given the cost-plus approach of the present policy, minimising project cost is critical and CEA's appraisal evidently does not suffice. The Committee hold that global bidding for engineering, procurement and construction (EPC) contract would help optimise costs in a transparent manner. The CEA Chairman also admitted during oral evidence that competitive bidding for procurement of equipment can result in reduction of project cost. The Committee note that some State Governments are insisting on bidding for equipment contract in respect of projects awarded through negotiation. The Committee urge that competitive bidding for award of EPC contract should be made mandatory to instill greater transparency and optimise the project cost and power tariff.

Reply of the Government

The Government recognises the fact that competitive bidding for procurement of equipment can result in reduction of project cost. It is a fact that this practice is already being followed by a number of IPPs and is also being insisted upon in several cases by the States/SEBs. The question of making competitive bidding mandatory for procurement of equipment has to be examined in the light of the fact that bidding for award of projects has already been made mandatory. Also as indicated against Recommendations 2 and 3 above, the inter-ministerial Committee set up to examine alternate tariff structure is likely to submit it's report in the near future. It is considered desirable to await this report before taking any decision on imposing the condition of bidding for EPC contracts. The matter is under examination in consultation with the CEA.

[Ministry of Power: OM No. P-426/95-IPC (Vol. V-A) Dated the 26th June, 1996]

Comments of the Committee

(Please see paragraphs 13 and 14 of Chapter I of the Report)

Recommendation (Sl. No. 5, Part B)

Following suggestions have been made to speed up implementation of private power projects under competitive bidding route:

- (i) Except where inter-state water issues are involved, clearance from CWC under Irrigation Act may be dispensed with.
- (ii) Fuel linkage and transportation clearance can be replaced by the commercial contracts between coal, oil companies/ Railways and IPP with appropriate conditions precedent to enforcement of the contracts. This will enable a prospective developer to negotiate fuel supply & transportation agreement even during the process of bidding and negotiations.
- (iii) The registration of company should not be construed as a clearance/ pre-requisite of other clearances as it will be otherwise enforced by State Governments under IA and also by lending institutions.
- (iv) The Ministry of Environment & Forests is to give forest clearance, environment clearance and clearance of rehabilitation and resettlement of displaced families. The Standing Committee on Energy in their 35th Report have recommended that a National Policy for Rehabilitation of persons displaced by various projects must be formulated and guidelines issued to States for implementation. A suggestion has now been made that in case any deviation is sought from the guidelines only then the clearance from the Ministry of Environment and Forests should be required. Even forest and environment clearance can be merged. Since these suggestions have far reaching implications the Committee recommend that these may be examined in depth in it's entirety and in all it's ramifications and the Committee be informed of the outcome.

Reply of the Government

- (i) While some clearances have already been reduced for the purpose of CEA's techno-economic clearance, water is considered as one of the essential inputs. No lending agency is expected to finance a project without this input. Also, consultations with the Central Water Commission/Central Ground Water Board would perhaps be necessary to ascertain whether any inter-State

aspects/committed utilizations are involved. The Government is, however, examining the suggestion to ascertain its feasibility.

(ii) Fuel linkage and fuel transportation clearance are intermediary steps before the commercial contracts are finalised between the IPP and concerned agencies. Such contracts cannot be finalised before completion of the bidding process. The present guidelines do not however, preclude IPPs from entering into fuel supply/transportation contracts while simultaneously going in for the clearances. In fact a number of IPPs have been entering into such agreements even before obtaining the formal clearance from the concerned government department. To avoid difficulties to the project developer, CEA have been asking only for the requisite fuel and transportation proposals, without insisting on detailed agreements, while considering the project for techno-economic clearance.

(iii) Registration of the Company has to be a pre-requisite, which is in accordance with Section 29 read with Section 2 (4A) of the E(S) Act, 1948. In the absence of this, the clearance would have to be given to an individual, which would not be appropriate and no purpose would also be served as, ultimately, the clearance would have to be transferred to the Generating Company, on its formation. The promoter should normally have no difficulty in registration of a company.

(iv) Guidelines for siting of thermal power stations including rehabilitation have been issued by the Ministry of Environment & Forests (MOEF). However, the impact of thermal plants on environment would need to be studied for each project depending upon location of the project with reference to reserve forest, wildlife sanctuary, existing levels of pollution etc. Keeping the above aspects in view, the Chief Secretaries of State Govts" have been addressed and guidelines issued to the States to get all clearances ready before offering the projects to IPPs, so that the time gap between the award of the project and commencement of construction is minimised. The suggestion for issue of guidelines on resettlement of displaced persons and merging the Forest and Environment clearances is, however being examined by the Government.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996]

Recommendation (Sl. No. 7, Part B)

There is a need to formulate a model power purchase agreement (PPA)

to bring about uniformity and to enable quick scrutiny by various agencies. The Finance Secretary has suggested setting up of inter-ministerial team to draw up a model PPA. The Committee would like the Power Ministry to take necessary action in the matter and ensure that a model PPA is formulated at the earliest.

Reply of the Government

There cannot be any standard PPA since PPA's have to differ from state to state, fuel to fuel etc. The Government is, however, providing the states with guidelines, model documents, training, loan for engaging consultants etc. The Government had also engaged an international consultant to develop a model PPA, which could be made use of by the states and the IPPs. The draft PPA for thermal power projects has been circulated to the states, to guide them to prepare PPAs for their projects. An attempt is also underway to develop a model PPA for Hydro projects with the help of international consultants which could also be circulated.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996]

Recommendation (Sl. No. 8, Part B)

An expert who appeared before the Sub-Committee emphasized that planning for power should completely match with the pattern of demand throughout the year. He pointed out that industrial demand for power has been declining. In his view, the domestic demand is rising at a high rate which will jack up peak requirements. The Committee feel that this would call for a stress on a mix of hydro and gas based plants for peak hours. Unlike thermal plants, it is cost effective to back down gas based plants during non- peaking hours. It is, however, found that the gas based fast track projects will be operated as base load stations. The Committee desire that the matter needs to be examined taking into account the pattern of demand. The Committee feel that in the event of backing down of generation by thermal stations during off-peak hours, it should be on proportionate basis applicable to all the plants including the private sector plants.

Reply of the Government

As advised by the CEA, technically, the gas based power plants can be backed down to a lower level of operation than a coal based plant. However,

the gas supplier viz. GAIL requires that minimum gas off-take should be 80% of the contract quantity irrespective of gas consumption. In case of liquid fuels such as naphtha, backing down is not a problem as the fuel can be stored and procurement can match with demand. The backing down of any specific project including private power plants is to be decided by the SEB. All the fast track projects provide for backing down by the generating company within specified limits.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996]

Recommendation (Sl. No. 9, Part B)

All the fast track power projects appear to have envisaged import of equipment to avail of the credit facilities available from foreign manufacturers. Though, the indigenous manufacturer-Bharat Heavy Electricals Ltd.-produce equipments of international standard in technological collaboration with leading international manufacturers, BHEL is not able to compete with them due to lack of credit facilities. The Finance Secretary assured during oral evidence that, "we would be willing to explore with BHEL for any reasonable financing mechanism that can do well". The Committee suggest that the Government should provide necessary facilities to enable BHEL to borrow funds from abroad as well as from internal sources so that it could offer sales aid financing and secure orders from private power projects.

Reply of the Government

The Government welcomes the suggestion of the Committee and is examining the same in consultation with the Finance Ministry and the Ministry of Industry.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996]

Recommendation (Sl. No. 10, Part B)

The Committee regret to point out that CEA could not furnish cost break-up of fast track power projects in the manner desired by the Committee. In the absence of the information, the Committee could not undertake detailed cost comparison of the different fast track power projects. This raises the question of CEA's relevance in the changed scenario. The Committee had earlier em-

phasized the need to restructure CEA consistent with the present needs of the power sector. The Committee would like the Government to take early action in the matter.

Reply of the Government

As informed by CEA, the cost of major items viz turnkey construction cost, taxes and duties, overheads and interest during construction, plus financing charges have already been furnished. However, detailed break-down of plant and equipment sought by the Committee could not be furnished since the private sector projects are executed on turnkey basis. Similarly, detailed breakdown of items such as fixed assets, pre-operative expenses required by the Committee are not used in CEA's cost estimates for the thermal power projects and therefore, these could not be furnished to the Committee.

The suggestion for restructuring of the CEA is separately under examination.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation (Sl.No. 11, Part B)

The Committee note that an expenditure of over \$ 22 million has been incurred by Dabhol Power Company towards developmental costs of the project. According to the representative of the company, the developmental costs include development expenditure, engineering expenditure, financing expenditure and expenditure on legal, technical and management consultants. The Ministry of Power, however, have informed that in the project report of Dabhol Plant Phase-I, the cost of preliminary feasibility, engineering, site evaluation, financing plan, legal management is \$14 million. The Committee note that there is a difference of about \$8 million in the figures furnished by the DPC and that furnished by the Ministry regarding developmental costs. The Committee desire that the difference in the developmental costs indicated by the DPC and the Ministry needs to be reconciled to remove any misgiving about the expenditure incurred.

Reply of the Government

As informed by the CEA, the figure of \$ 14 million furnished to the Committee was an estimate contained in the Project Report submitted to the CEA in April, 1993 and subsequent estimate received in CEA in December, 1994, towards preliminary expenses; whereas, the figures of \$ 22 million furnished by M/s DPC in 1994 is stated to be the expenditure incurred by the company for a similar item *i.e.* project development. Hence the difference in the two figures.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH RE- PLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 1, Part B)

The Committee find that of the initial batch of eight fast track projects, for which clearances had earlier been accorded, at least three are under review/renegotiation. These include Dabhol, Ib valley and Mangalore Power Projects. Newspaper reports state that the tariff of Dabhol Power Project has been brought down, but the Committee have not received any official intimation to this effect. The promoters of Ib valley and Mangalore projects and also of Bhadravati project have reportedly offered to cut down cost and reduce tariff. The Committee feel that there is a need to examine whether there is any scope for bringing down the cost and tariff of the remaining fast track power projects. It should also be ensured that the cost and tariff of the fast track power projects as agreed upon in the Power Purchase Agreement are not allowed to escalate subsequently on account of delay in execution of projects.

Reply of the Government

So far as the Government of India is concerned, six of the eight fast track project including Dabhol, Ib-valley and Bhadravati projects have received techno economic clearance of the Central Electricity Authority (CEA). As stressed time and again, as per provisions of the tariff notification dated 30th March, 1992, the capital cost cleared by CEA is only the ceiling capital cost allowed by the CEA and the State Governments/SEBs are always free to negotiate a lower cost. The cost cleared by CEA is the estimated completion cost of over the period of construction up to the date of commissioning of the project. Apparently the cost cleared by CEA has to necessarily be a ceiling cost and it is really up to the concerned State/SEB to negotiate a lower cost for determining a lower tariff.

Regarding the scope for reduction in cost of the remaining fast track projects, the CEA are examining the capital cost of one of the project await-

ing techno-economic clearance *viz.* Vishakhapatnam power project and is making efforts to bring the costs down in this case. As provided for in the tariff notification, necessary provisions in the PPA are being made to ensure that no cost escalation is allowed for delay by the companies.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996]

Comments of the Committee

(Please *see* paragraph 6 of Chapter I of the Report)

Recommendation (Sl. No. 6, Part B)

The counter guarantee device was conceived for the eight fast track power projects to allay the misgivings of private promoters about the security of their investments. Since then, there has been a vast change in investor's perceptions. The Committee in this connection note that the counter guarantee has so far been signed only in respect of two projects *viz.* Dabhol and Ib valley. These projects have since been renegotiated/under review which implies revision of their Power Purchase Agreements (PPA). According to the Finance Secretary, "if the PPA is being revised, that means the counter guarantee is not effective". All the initial eight fast track power projects have been delayed for one reason or the other and can hardly be claimed to be on fast track. In the meantime, many other project proposals have matured without counter guarantee and are on fast track. The private investors seem to be willing to take on the risks of investing in the power sector. The Committee, therefore, emphasize that in the changed scenario, there is no need for the Centre to counter guarantee any of the projects.

Reply of the Government

As already submitted before the Committee, counter guarantee is a transitional measure to instill a sense of confidence among the leaders to the IPPs about the security of their investment in the form of payment by the SEBs for the power purchased. It was decided to extend the guarantee to 8 initial projects cleared from foreign investment angle irrespective of the financial standing of the SEB concerned. There can be no question of withdrawing the counter guarantee or its assurance at this stage, since it would halt the development

of the projects which have been planned on the counter guarantee routes, thus denying the country the much needed capacity addition these projects would be bringing about. Denying the fast track projects the counter guarantee at this stage would also amount to dis-honouring the commitment made by the Government of India and would in all probability send wrong signals to the investors.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996]

Comments of the Committee

(Please *see* paragaraph 17 of Chapter I of the Report)

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation (Sl. No. 2, Part B)

The Competitive bidding route for selection of projects was made mandatory since 18.2.1995. As per the information furnished by Ministry of Power, Memorandum of Understanding has been signed for 189 projects including the fast track projects. The MOU route adopted for the fast track projects has some inherent deficiencies as is evident from the episode of Dabhol Power Project. On the other hand, competitive bidding will lead to total transparencies in such deals. The criteria for bidding as already recommended by the Committee in their 26th Report should be the ultimate price at which power is to be purchased. The Committee urge that the Government must formulate guidelines for tariff-based bidding system for implementing private projects including those for which MOUs have been signed.

Reply of the Government

The Government recognizes the need to have a bidding system in which the criteria is the ultimate price at which power would be purchased. An Inter-Ministerial Committee has been constituted to study the alternative tariff structures and suggest any changes that may be necessary, with the ultimate objective of enabling availability of lease cost power to the State Electricity Boards. The Committee *will inter-alia* go into all the above recommendations and is expected to submit it's report soon. A part from this, the CEA are also in the process of reviewing the Operational Parameters.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996.]

Comments of the Committee

(Please *see* paragraph 10 of Chapter I of the Report)

Recommendation (Sl. No. 3, Part B)

The Committee find that the tariff notification issued by Government is based on cost-plus approach and is not relevant in the case of competitive bidding. The notification leaves it entirely to the initiatives and the negotiat-

ing skills of the State Governments and their respective SEBs to negotiate competitive tariffs with private producers and to cut down costs. The Finance Secretary has pointed out that the notification needs to be changed for tariff based competitive bidding. The committee are of the view that since the lowest price of energy can be obtained through international competitive bidding route, there should be no need for laying down norms of operation, reasonable returns, etc. The Committee accordingly suggest that the tariff notification must be reviewed forthwith and fresh guidelines for tariff based bidding system formulated as recommended in the preceding paragraph.

Reply of the Government

It has already been submitted before the Standing Committee that the operational parameters and incentives prescribed in the tariff notification are only ceiling norms and that the State Governments/SEBs could negotiate for something lower than the ceiling. Moreover, the tariff notification could be used as a yardstick to arrive at a reasonable sale rate of power expected from the project proposed to be awarded through competitive bidding.

Notwithstanding the above facts, as already submitted against Recommendation No. 2, the Government are exploring alternate tariff structures and have constituted an Inter - Ministerial Committee to study the alternative tariff structures and suggest any changes that may be necessary, with the ultimate objective of enabling availability of least cost power to the State Electricity Boards.

[Ministry of Power: OM No. P-426/95-IPC (Vol.V-A) Dated the 26th June, 1996.]

Comments of the Committee

(Please see paragraph 10 of chapter of the Report)

NEW DELHI;
February 6, 1997
Magha 17, 1918 (Saka)

JAGMOHAN,
Chairman,
Standing Committee on Energy.

APPENDIX II

EXTRACTS OF MINUTES OF THE NINTH SITTING OF STANDING COMMITTEE ON ENERGY HELD ON 18TH DECEMBER, 1996.

The Committee sat from 1630 to 1700 hours.

PRESENT

Shri Jagmohan — *Chairman*

MEMBERS

2. Shri Lalit Oraon
3. Prof. (Smt.) Rita Verma
4. Prof. Om Pal Singh Nidar
5. Shri Muni Lal
6. Shri Manoj Kumar Sinha
7. Shri Sriram Chauhan
8. Shri Ishwar Prasanna Hazarika
9. Shri Sandipan Thorat
10. Shri P. Kodanda Ramiah
11. Shri Haradhan Roy
12. Shri Ramendra Kumar
13. Shri Ramji Lal
14. Shri Ved Prakash Goyal
15. Shri Dipankar Mukherjee
16. Smt. Basanti Sarma

SECRETARIAT

1. Shri G.R. Juneja — *Deputy Secretary*
2. Shri A.S. Chera — *Under Secretary*

2. The Committee considered and adopted the following Draft Action Taken Reports:—

- | | | | |
|-------|---|----|----|
| (i) | ** | ** | ** |
| (ii) | Action Taken by the Government on the recommendations contained in the 36th Report of the Standing Committee on Energy (1995-96) (Tenth Lok Sabha) on "Fast Track Power Projects— An Evaluation". | | |
| (iii) | ** | ** | ** |
| (iv) | ** | ** | ** |
| (v) | ** | ** | ** |

3. The Committee also authorised the Chairman to finalise the above mentioned Reports and present the same to Parliament.

The Committee then adjourned.

** Paras 2 (i), (iii), (iv) and (v) of the Minutes relating to consideration and adoption of 4 other Draft Reports have not been included.

APPENDIX III

(Vide Para 5 of Introduction)

ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE 36TH REPORT OF THE STANDING COMMITTEE ON ENERGY (10TH LOK SABHA)

(i) Total Number of Recommendations made	11
(ii) Recommendations that have been accepted by Government (vide recommendations at Sl. Nos.4, 5, 7, 8, 9 and 10) Percentage of total	6 54.5%
(iii) Recommendations which the Committee do not desire to pursue in view of the Government's replies (vide recommendation at Sl. No. 11) Percentage of total	1 9.09%
(iv) Recommendations in respect of which replies of the Government have not been accepted by the Committee (vide recommendations at Sl. No. 1 and 6) Percentage of total	2 18.1%
(v) Recommendations in respect of which final replies of the Government are still awaited (vide recommendations at Sl. No. 2 and 3) Percentage of total	2 18.1%