THIRTY-SECOND REPORT

STANDING COMMITTEE ON ENERGY (1995-96)

(TENTH LOK SABHA)

NEW POLICY INITIATIVES IN POWER SECTOR— STATUS OF IMPLEMENTATION AND THEIR IMPACT ON THE ECONOMY

MINISTRY OF POWER

[*Action Taken by the Government on the recommendations contained in the 26th Report of the Standing Committee on Energy (Tenth Lok Sabha)*]

Presented to Lok Sabha on 22

Laid in Rajya Sabha on 22 DEC 1995

LOK SABHA SECRETARIAT
NEW DELHI

December, 1995/Agrahayana, 1917 (Saka)

C.E. No. 047

Price : Rs. 20.00

PARLIAMENT LIBRARY
Central Govt. Publications
Acc. No. RC 93586 (1)
Date 31/1/96
L
328.3657R
N5.32

© 1995 By Lok Sabha Secretariat

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eighth Edition) and Printed by M/s. Jainco Art India, 1/21, Sarvapriya Vihar, New Delhi-110016.

CORRIGENDA TO THE THIRTY-SECOND REPORT OF THE STANDING COMMITTEE ON ENERGY (1995-96)

Page	Para	Line	For	Read
(i)	Appendices-I	1	Minutes of the	Extracts of the Minutes of the
1	(iii)	2	acceptance	accepted
2	10	6	from he	from the
13	1	15	through review.	thorough review.
20	1	1	A Number	A number
21	1	2	MOUs which	MOUs with
23	2	9	PPAs abd FPAs	PPAs and FPAs
25	2	7	Ministry that are	Ministry there are
27	last line of the page		OECF in as mush	OECF in as much
29	6	second line from below	Delete the word can after the word data	
32	Add the word Part-B at the end of the Heading Recommendation (Serial No.4)			
33	2	3	economic des-patch ability	economic despatcha-bility
34	5	2	CMD, BEHL	CMD, BHEL
48	2	1	2. Thereafter, the	2. The

CONTENTS

COMPOSITION OF THE STANDING COMMITTEE ON ENERGY (1995-96)

CHAIRMAN

Shri Jaswant Singh

MEMBERS

Lok Sabha

2. Shri Bhawani Lal Verma
3. Shri Murli Deora
4. Shri Motilal Singh
5. Shri Khelsai Singh
6. Shri Khelan Ram Jangde
7. Shri Parasram Bhardwaj
8. Shri S. Thota Subba Rao
9. Shri K.P. Reddaiah Yadav
10. Shri Shiv Charan Mathur

*11. Dr. Krupasindhu Bhoi

12. Shri Dalbir Singh

*13. Shri Vilas Muttemwar

14. Shri P.C. Chacko
15. Shri Arjun Singh Yadav
16. Shri Virender Singh
17. Shri Laxminarain Tripathi
18. Prof. Rita Verma
19. Shri Shankersinh Vaghela
20. Shri Haradhan Roy
21. Shri Anil Basu
22. Shri Keshari Lal
23. Shri Rajesh Kumar

---

* Ceased to be a Member of the Committee consequent upon his appointment as Minister in the Union Council of Ministers w.e.f. 13.10.95.

24. Shri Vijay Kumar Yadav
25. Dr. Venkateswara D. Rao
26. Shri Chitta Basu
27. Shri Mohan Singh (Ferozpur)
28. Shrimati Dil Kumari Bhandari
29. Shrimati Lovely Anand
30. Shri B. Shankaranand

Rajya Sabha

31. Shri Parmeshwar Kumar Agarwalla
32. Shri M.M. Hashim
33. Shri Bhubaneswar Kalita
34. Shri Dipankar Mukherjee
*35. Shri M. Rajasekara Murthy
36. Shrimati Ila Panda
**37. Shri J.S. Raju
38. Shri T. Venkatram Reddy
39. Shri Rajni Ranjan Sahu
40. Shri Viren J. Shah
41. Dr. Naunihal Singh
42. Shrimati Kamla Sinha
43. Shri Joy Nadukkara

SECRETARIAT

1. Shri S.N. Mishra — *Additional Secretary*
2. Smt. Roli Srivastava — *Joint Secretary*
3. Shri G.R. Juneja — *Deputy Secretary*
4. Shri A. Louis Martin — *Under Secretary*

---

* Ceased to be a Member of the Committee consequent upon his appointment as Minister in the Union Council of Ministers w.e.f. 13.10.95.

** Ceased to be a Member of the Committee consequent on his retirement from Rajya Sabha w.e.f. 24.7.1995.

INTRODUCTION

I, the Chairman, Standing Committee on Energy having been authorised by the Committee to present the Report on their behalf, present this Thirty-Second Report (Tenth Lok Sabha) on Action Taken by the Government on the recommendations contained in the 26th Report of the Standing Committee on Energy (Tenth Lok Sabha) on "New Policy initiatives in Power Sector—Status of implementaiton and their impact on the economy".

2. The 26th Report of the Standing Committee on Energy was presented to Lok Sabha on 31st May, 1995. Replies of the Government to all the recommendations contained in the report were received on 17th October, 1995.

3. The Report was considered and adopted by the Standing Committee on Energy at their sitting held on 18th December, 1995.

4. An analysis of the action taken by the Government on the recommendations contained in the 26th Report of the Committee is given in Appendix-II.

NEW DELHI;
18 December, 1995
27 Agrahayana 1917 (Saka)

JASWANT SINGH,
Chairman,
Standing Committee on Energy.

CHAPTER I

REPORT

The Report of the Committee deals with Action Taken by the Government on the recommendations contained in the Twenty Sixth Report (Tenth Lok Sabha) of the Standing Committee on Energy on "New Policy initiatives in Power Sector—Status of implementation and their impact on the economy" which was presented to Lok Sabha on 31st May, 1995.

2. Action Taken Notes have been received from the Government in respect of all the 27 recommendations contained in the Report. These have been categorised as follows :

(i) Recommendations/Observations that have been accepted by the Government Sl. Nos. 1, 2, 3, 8, 9, 11, 16, 17, 21, 22, 24, 25 and 27.

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's reply : Nil

(iii) Recommendations/Observations in respect of which replies of the Government have not been acceptance by the Committee : Sl. Nos. 4, 5, 6, 18, 19 and 20.

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited : Sl. Nos. 7, 10, 12, 13, 14, 15, 23 and 26.

3. The Committee require that final replies in respect of the recommendations for which only interim replies have been given by the Government (Sl. Nos. 7, 10, 12, 13, 14, 15, 23 & 26) ought to be furnished to the Committee at the earliest.

4. The Committee will now deal with the Action Taken by the Government on some of their recommendations:—

Return on Equity

Recommendation (Sl. No. 4, Part-B)

5. The Committee felt that the equity return of 16% at a lower PLF of 68.5% allowed to investors was questionable and called for a review. The Committee accordingly recommended that on the basis of

experience gained so far and in the light of public debate on the issue, the PLF linked equity return should be reviewed and appropriate correctives applied so as to bring it to reasonable matching of rate of return and PLF in the national interest.

6. The Government have stated in their reply that the amended notification dated 12.01.95 to the tariff notification provides that the norms laid down are the ceiling norms only and this would not preclude the Boards and Generating Companies for negotiating improved performance with commensurate commercial benefits. The Ministry of Power have also stated that the Board can negotiate tariffs so that higher than intended IRR is not available to Generating Companies.

7. The Committee are aware that the norms laid down in the tariff notification are the ceiling norms. What the Committee recommended was a review of these ceiling norms as there appears to be an imbalance between the PLF and the linked equity return as currently allowed. The Committee therefore, reiterate it earlier recommendation and urge the Govt. to undertake a review of PLF linked equity return with a view to initiating suitable corrective measures.

Delivered Price Concept

Recommendation (Sl. Nos. 5 & 6, Part-B)

8. The Committee had recommended that the Government should examine the desirability of adopting a standard practice of specifying a single rate at which private investors are asked to sell power. The Committee felt that adoption of simple tariff system will also eliminate the need of offering guaranteed PLF linked return on equity.

9. The Government have stated in their reply that single rate tariff was earlier followed in the case of Central Sector Generating Stations. This was found unsuitable from the point of view of economic despatchability and hence switch over to two part tariff was made based on K.P. Rao Committee recommendations. The Government expects that competitive bidding system would be able to take care of this and related issues suitably.

10. The Committee's recommendation relates to adoption of delivered price system in place of cost-plus approach. The Committee are of the firm view that tariff at which the private power projects could sell power should be the basis for selecting private investors through competitive bids. The Government have stated that single rate tariff was found unsuitable from he point of view of economic despatchability. If that is the case, the Committee feel that the

Government should examine the possibility of evolving a delivered price system with two part tariff structure which should be made as the basis for investor selection.

Power Purchase Agreements

Recommendations (Sl. Nos. 7 & 10, Part-B)

11. The Committee had observed that to the extent PPAs either guarantee off-take of power or make arrangements for financial recompense of plant availability at levels significantly greater than the peak load demand for power, they imply that the existing power generation plants will have to back down well beyond the present rates thereby making them inefficient and financially non-viable. The Committee therefore, urged that CEA should conduct critical review of such PPAs and ensure that interest of consumers as well as that of the economy are safeguarded. The Committee further recommended that the scrutiny of PPAs should be made a part of techno economic appraisal by the CEA. The Committee also felt that it would be useful if a measure of uniformity could be achieved on the factors common to PPAs.

12. The Government have stated that the PPAs of the projects which are considered by the CEA for techno-economic clearance are examined by them with regard to tariff norms. Government of India is at present examining the necessity of making scrutiny of PPAs, as whole, a part of the techno-economic appraisal of the power projects by the CEA.

13. The Committee regret to note that no decision has been taken so far on the question of making Power Purchase Agreements a part of techno-economic appraisal by the CEA. The reasons for delay in taking a decision in this matter have not been given. The Committee desire that the Government should expeditiously consider the issue and arrive at an early decision so that CEA could critically review PPAs and ensure that the interest of consumers are safeguarded.

14. The Government have also not furnished any reply with regard to the question of achieving a measure of uniformity in PPAs. The Committee hope that Government have taken note of this recommendation.

Counter Guarantee

Recommendation (Sl. No. 8, Part-B)

15. The Committee had opined that Counter-guaranteeing for any project is uncalled for since several IPPs are ready to implement

projects without any counter guarantee. The Committee also felt that there appeared to be no justification for giving counter guarantee only to selective fast track projects. The Committee further felt that once the concerned SEB became financially viable, there is no case for the centre to continue as a guarantor.

16. In their reply, the Government have stated that the counter guarantee is a transitional measure to instil among the investors and lenders a sense of comfort about security of their investment in the form of payment by the SEBs for the power purchased. It has been further stated that the Government have taken several measures towards SEB reform and that SEBs have been gradually improving their performance over the years.

17. The Committee are distressed to note that no justification has been given for extending counter-guarantee to only selected fast track power projects. Considering the fact that some of power projects for which counter guarantee proposed to be given are located in States whose SEBs are financially healthy, the Committee are of the firm view that counter guarantee to these projects are uncalled for.

18. The Government's reply is silent on the question regarding the need for the centre to continue as a guarantor even when the concerned SEB becomes financially viable. The Committee would await the Ministry's response to this suggestion.

Restructuring CEA

Recommendation (Sl. No. 12, Part-B)

19. The Committee observed that the CEA was charged with the responsibility of developing a sound and uniform national power policy in a situation where more generation was in the public sector. The Committee felt that for meeting the changed situation, there was a need to reorient its role consistent with the growing presence of the private sector in the field of power. The Ministry of Power had proposed to reorient CEA to discharge the function of a Regulatory Commission. The Committee expressed a hope that this task would be completed soon.

20. The Government have stated in their reply that an exercise is being carried out in the CEA to restructure the authority, keeping in view the regulatory and other needs of the power sector

21. The Government have not explained why there is delay in restructuring CEA. The Committee urge that this task should be

undertaken early and the Committee be informed of the steps taken.

Integrated Fuel Policy

Recommendation (Sl. No. 13, Part-B)

22. The Committee had desired that a comprehensive fuel policy should be laid down. The Committee further desired that at the time of finalisation of project proposal Fuel Purchase Agreement should be taken into consideration. The Committee noted in this connection that guidelines for fuel supply arrangements and for coal transportation by Railways were stated to be under preparation. The Committee urged that the guidelines should be framed and issued expeditiously.

23. The Government have stated in their reply that a comprehensive fuel policy is no doubt needed to ensure rationalisation and optimal use of national energy resources. The Government have expressed hope that such a policy would adequately cover the requirements of the power sector, both short and long term. The Ministry of Power is stated to be at present working expeditiously to finalise the policy regarding hydrocarbon liquid fuels for IPPs in consultation with concerned Ministries and Planning Commission. Regarding integrated fuel policy for power generation it has been stated that Planning Commission has been requested to take up an exercise in this regard.

24. As regards Fuel Purchase and Transport Agreement the Ministry of Power is reportedly considering hiring an international consultant under a World Bank assistance to prepare draft Fuel Purchase and Transport Agreements. It has been stated that consultations are currently going on with the World Bank on their terms of reference, scope of work etc.

25. Regarding integrated fuel policy for Power generation, the Ministry of Power appear to have drawn satisfaction by simply requesting the Planning Commission to take up an exercise in this regard. The Ministry have not bothered to inform whether the Planning Commission has accepted the Ministry's request and initiated any action to formulate an integrated fuel policy. The Committee would await this information.

26. The Committee had earlier been informed that guidelines for fuel supply agreements had been under preparation. The Power Ministry have, however, now stated that they are considering the hiring of an international consultant under World Bank assistance to prepare draft Fuel Purchase and Transport Agreements. The Ministry have not explained the reasons for their move to hire an international

consultant for drafting these agreements. Neverthless, the Committee would like to emphasise that there should be no avoidable time lag in formulating these model agreements.

Competitive Bidding for Pocurement of Equipment

Recommendation (Sl. No. 15, Part-B)

27. The Committee had observed that there was no reason why international competitive bidding should not be made mandatory for private projects in the matter of procurement of equipments. The Committee desired that this should be done forthwith keeping in view the need to get competitive price for equipments. The Committee also recommended that Government should provide necessary facilities to BHEL so that it could also offer sales aid financing as offered by international equipment manufacturers.

28. The Government have stated in their reply that the process of competitive bidding had already been made mandatory for setting up of power projects in the private sector. It has been stated further that the Ministry of Power is examining alongwith BHEL and Ministry of Heavy Industry, guidelines that would increase the business of BHEL with IPPs.

29. The reply of the Government is silent with regard to the question of making international Competitive bidding mandatory for Private Projects in the matter of procurement of equipments. The Committee reiterate that guidelines in this regard must be issued early, if not already issued.

30. As regard the question of increasing the business of BHEL with IPPs, the Ministry of Power is reportedly examining suitable guidelines alongwith BHEL and Ministry of Heavy Industry. The Committee would like to know the details of proposals that are under consideration and how soon decision is expected to be taken in this regard.

Responsibility for Non-Implementation of NLC-Zero Unit Project

Recommendation (Sl. No. 18, Part-B)

31. The Committee were distressed to find that no serious attempt was made for over two and half years to implement the 210 MW Neyveli Lignite Corporation Zero Unit Project which was sanctioned by the Government in March 1989 at an estimated cost of Rs. 396 crores. Over 32 months were spent on negotiations with suppliers without actually placing orders. The Committee felt that had the

administrative Ministry taken action-oriented review meetings to monitor the project implementation, the project could have been implemented as per the original plan.

32. In their reply the Government have explained the sequence of events pertaining to the implementation of Zero Unit Project of NLC. It has been stated further that strenuous efforts were made throughout to implement the project since it was sanctioned. The Ministry was reportedly over-seeing the efforts of NLC. Because of escalating quotations, the precarious foreign exchange situation and the resource crunch, the project could not proceed. It has been stated that there was no lack of seriousness in taking up implementation of the project.

33. The explanation of the Government is not convincing considering the fact that NLC failed to place order for procurement of Power Plant during a period of over two and half years after getting sanction for the project. It is necessary to find out why and how the delay occurred and at what level. The Committee, therefore, reiterate that an investigation should be conducted to fix responsibility for NLC's failure in this regard.

34. Nothing has been indicated in the reply, whether the Coal Ministry had been regularly conducting the Quarterly Performance Review Meeting during the said period and if so, what directions were given by the Ministry to ensure timely implementation of the project. The Committee will await this information.

Probe into the Transfer of NLC-Zero Unit Project

Recommendation (Sl. No. 19, Part-B)

35. The Committee had observed that the Zero Unit Project was transferred form the public sector Neyveli Lignite Corporation to a private investor in circumstances which gave rise to serious suspicion about the bonafides of the transfer. The Committee had found on scrutiny of original files that on 26th November, 1991 a private investor wrote to the then CMD of NLC proposing to put up the zero unit plant. On the very next day i.e. on 27th November, 1991, the proposal was considered by the NLC Board of Directors and a letter was also sent on the same day by the CMD to the Coal Secretary suggesting consideration of the proposal of the private investor on the claim of inadequate funds with NLC. When the Sub-Committee had undertaken on the spot study visit to NLC the officials of NLC had however informed that NLC was in a position to put up this project on its own without budgetary support and it had even laid foundation stone for the unit. The investor was reported to have experience in

software, communication and broadcasting and real estate and did not have any experience in matter relating to power. The Committee had required that an independent probe into the circumstances in which the project was transferred from NLC to a private party should be got conducted and facts brought to light.

36. The Government in their reply have stated as follows:

While Department of Coal and NLC were involved in revising the cost of Zero unit and taking necessary approvals, the Government was facing a resource crunch and the foreign exchange position was precarious. The finance of NLC were insufficient to meet even the requirements of on-going projects. NLC, therefore, required higher budgetary support, which however had declined.

Budgetary Support (actual)

1989-90	Rs. 302 crores
1990-91	Rs. 120 crores
1991-92	Rs. 130 crores

It was in November, 1991 that a proposal was received from an NRI, Shri Sharad Tak that he was willing to put up the Zero Unit project either totally in the private sector or jointly with NLC and that he was prepared to put up the necessary Rupees as well as foreign exchange resources. The NLC Board was to meet on 28.11.91, the notice for the meeting having been issued already on 11.11.91. The meeting had to be preponed to 27.11.91 at Neyveli because of certain exigencies *viz*. requirement of stock exchange, a threatened strike and mine flooding making a visit to Madras difficult. The CMD, NLC put up Shri Tak's proposal before this meeting. The Board considered the proposal and recommended it to the Government was requested to give expeditious clearance so as to enable NLC to discuss further details with Shri Tak. It may be recalled that about this time efforts were being made to attract private investment in the development of infrastructure. On 26.12.1991, the Prime Minister had taken a meeting with the Secretaries of the Economic Ministries and stressed the need for particular attention to the infrastructure sector. Since public resources were limited, there was no option but to develop methods to involve the private sector in the infrastructure area; innovative methods of attracting funds had to be worked out by each Department.

An inter-Ministerial meeting was held on 20.1.92 in which it was decided to recommend the transfer of Zero Unit to Shri Sharad Tak, in principle, subject to further negotiations and completion of the steps outlined by the Department of Power as per their new policy on power project in the private sector.

On 10.3.1992, a detailed report for the project was sent by Shri Tak to CMD, NLC. The proposal was examined by the NLC Board on 20.3.1992 and its recommendations sent to the Ministry of Coal on 1.5.1992.

As regards the NLC officials' discussions with the Sub-Committee at Neyveli, the NLC management's understanding is that NLC officials and submitted to the Sub-Committee that while the NLC had the technical capability to implement the project, it did not have the financial resources for it. NLC could not have implemented the project without higher budgetary support, which however was shrinking.

Since Shri Tak's letter was in the nature of an intent to invest this has to be viewed in the background of the liberalised policy for private investment in the power sector, which was announced in October, 1991. Shri Tak has tied up with a well-known power generation company, CMS of USA, to take up this project.

It is, therefore, submitted that the matter may be viewed in the context that NLC's resources did not enable it to proceed with the implementation of the project whose estimated cost had shot up from Rs. 3397.26 crores to Rs. 712.05 crores, and the power sector was opened up for private investment. It has been the policy of Government since liberalisation of the power sector in October, 1991 to attract private investment in this area. Therefore, Government does not consider it necessary to have any probe into the Zero Unit project being taken up in the private sector.

37. The Committee are not satisfied with the reply of the Government. The doubts about the bonafies of transfer of the project from NLC to a private promoter still remain uncleared. The Committee therefore, reiterate that an independent probe in this matter should be got conducted in order to bring out the facts to light.

Cost Appraisal by CEA

Recommendation (Sl. No. 20, Part-B)

38. The Committee had expressed surprise that the zero Unit's present day cost of Rs. 767 crores when adjusted for completed cost on turn key execution in private sector would rise to the order of Rs. 1325 crores. The Committee had desired to be apprised of the details of the justification for the cost index employed by CEA while adjusting for completed cost of private sector projects.

39. The Government in their reply have stated as follows :

"The cost of lignite based power station is higher than a coal based power stations because of the large size boiler required to be used on account of high moisture content of 50%, as against 10% adopted for coal fired boilers. It is also mentioned that the cost per MW of a single unit is always higher than that of 2 units configuration because of the various factors, such as economy of scale, common auxiliaries etc. While appraising the ST-CMS project, the cost of the project was compared with the cost of NLC's extension of the Stage-I IPS 2 × 210 MW. The turn-key budgetary offers received from the various firms by NLC in July, 1994 were in the range of Rs. 4.05 crores to Rs. 5 crores per MW after making adjustment for single unit configuration and escalation even with the lowest offer of Rs. 4.25 crores per MW, the completed cost of the project works out to Rs. 5.65 crores per MW. Therefore on this basis the cost per MW of Rs. 5.3 crores for ST-CMS single unit project was found justified.

As regard the present day price of Rs. 767 crores (Rs. 3.65 crores/ MW), this is a present day estimated cost derived from the approved cost of Rs. 306.61 crores (Rs. 1.89 crores/MW) after making adjustment for exchange rate variation, price escalation and scope change. The presented cost of Rs. 767 crore is an estimate and not a firm cost. This estimate includes a contingency provision of 3% used for public sector projects, and insurance of about 1% for the requirement on individual contract package basis. However, in the case of the private sector, the project developer obtains firm completion price from the turn-key contractors. Since the turn-key contractor is responsible for firm price he has to build up certain additional elements, include variation in scope of work, time delay, insurance for loss of business, accidents etc.

For the purpose of cost analysis, the Ministry has mentioned following figures to be considered.

(i) Escalation at 8% per annum.

(ii) Contingency at 10%

(iii) Comprehensive insurance at 2.5%

(iv) Element of liquidated damage 5%

(v) Turn key contract fee at 5%

With the above elements taken into account the project cost works out to Rs. 5.33 crores/MW."

40. The Govt. have not satisfactorily explained how the cost of Rs. 1325 crores was arrived at for the NLC Zero Unit project. The present day estimated cost of the project is stated to be Rs. 767 crores. If the various elements of cost analysis (about 47.8%) indicated by the Ministry are taken into account, the completed cost of the project would work out to approx Rs. 1134 crores and not Rs. 1325 crores. This leaves a gap of Rs. 191 crores unexplained. The Govt. have also not indicted the figures that are considered for additional elements built up by turnkey contractor for variation in scope of work, time delay, insurance for loss of business, accidents etc. The Committee would like the Govt. to give complete details and justification for each item of cost allowed and detailed analysis of how the figure of the total cost was arrived at.

Kameng Hydroelectric Project

Recommendation (Sl. No. 21, Part-B)

41. The Committee were concerned to observe that a 600 MW Kameng Hydroelectric project which had been identified for implementtion by the North-Eastern Electric Power Corporation (NEEPCO) as a Central Sector project and for which fund had been earmarked to enable investment approval had been shifted to private sector by the State Government of Arunachal Pradesh. Considering the merits of continuing the projects in the Central Sector the Committee desired that the Ministry of Power should take up the matter seriously with the State Government, for executing the project in the Central Sector.

42. The Government have stated in their reply as given below:

"The matter has been taken up with the Government of Arunachal Pradesh and Minister of Power has written to Chief Minister. Arunachal Pradesh requesting him to reconsider the matter of inviting private promoters for setting up of this project. The Government of Arunachal Pradesh has been told that over 2 years have elapsed since the MOU was signed with the Private Promoters and no work at any level has yet commenced, Government of Arunachal Pradesh should allow NEEPCO to execute the project in the Central Sector. Government of Arunachal Pradesh was also informed that the delay in execution has resulted in cost escalation beside delaying availability of additional power in the North Eastern Region.

43. Nothing has been indicated in the Government's reply as regard the response of the Government of Arunachal Pradesh for executing the Kameng Hydroelectric project in the Central Sector. The Committee will await this information.

Involvement of Private Sector in Transmission Project

Recommendation (Sl. No. 24, Part-B)

44. The Committee had *inter-alia* pointed out that Power Ministry had not taken a firm view about the role to be assigned to the private sector in construction of high voltage transmission lines. The Government have not given any reply to this observation. The Committee would like to know what is Govt's policy regarding involvement of private sector in construction of high voltage transmission lines.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Serial No. 1, Part B)

The policy to encourage greater private sector participation in Power Sector was introduced in 1991 to augment resources and to supplement the efforts of the public sector. However, the Committee's examination reveals that there appeared to be an onrush of transferring of public sector power projects to private sector thereby diluting the objective of the policy. The Sub-Committee's visit to some States brought to light at least three such cases. In one case 50% of the work is stated to have been completed before the project was transferred to a joint sector company. There could be more of such cases. This can, however, be brought out only through a comprehensive review by the Government. The Committee, therefore, require the Government to undertake such a review and assess the impact of the new policy on public sector projects. The new policy also has some disquieting features and indicate undue incentives to private sector which need a through review. The new policy is not comprehensive and appeared to have resulted in high cost project. The Committee observe that not a single MW of capacity has been added by the Independent Power Producer even after a lapse of over three and half years since announcement of the new policy. Only one company is reported to have achieved financial closure in March, 1995. There appear to be no likelihood of the project being commissioned during the 8th Plan period. The various issues arising out of the Committee's examination of the subject are brought out in the subsequent paragraphs.

Reply of the Government

Only a few of the public sector projects where the progress of work was slow, or where no works could be taken up at all due to non-availability of the required financial resources, have been offered to the private sector. List of on-going hydroelectric and thermal power projects which were transferred to private sector due to paucity of funds is given at Annexure-I. The decision to transfer these projects was taken by the concerned State Governments. It may be reiterated that entrusting the power projects within its jurisdiction to private promoters is within the competence of State Governments. These projects were entrusted to private sector, as there was no alternative, since it would not have been possible to complete these power projects in the public sector, in the near future, due to financial resource constraints.

The policy has been formulated based on the report of the expert Committee and modified from time to time after comprehensive examination of all the issues involved and consultations with expert agencies. In fact the policy is being modified from time to time, based on the feedback received from the SEBs/State Governments based on their interaction with the private power promoters. The incentives offered are in tune with the liberalisation of the economy and are considered necessary to encourage private sector participation.

Adequate care has been taken in the private power development policy to ensure that the capital expenditure projected by the Investor is realistic. The costs are scrutinished thoroughly by the CEA and is set out in the techno-economic clearance. The State Electricity Boards which sign the Power Purchase Agreements have also to ensure that the capital cost is reasonable and the least possible. In the Tariff Notification, a provision has therefore, been kept that in case the PPA provides for a ceiling on capital expenditure, the capital cost for computing the tariff shall not exceed such ceiling. It is, therefore, necessary for the SEBs themselves to negotiate and bring down the capital cost to a level acceptable to them. The investor may have a tendency to inflate the capital expenditure, especially in view of the long gestation period and the accompanying uncertainties. This can be controlled by the CEA during the techno-economic appraisal since the CEA has adequate information about the trend of equipment cost, civil construction expenditure etc. over a period of time in the country an to some extent, outside. SEBs have also information about the cost of power projects set up indigenously, as also by funding through bilateral sources. The two major element of the cost estimates of a power project are (a) equipments cost, and (b) the cost of financing. Since the overall cost will depend on both these factors, the SEBs have to consider carefully the source of equipment and the source of finance, so as to arrive at a cost acceptable to them. The Power Purchase Agreements (PPAs) normally provide for completed cost, unlike the practice followed for public sector projects where the cost is approved at the level of start-up of construction by the Planning Commission/Public Investment Board. The Private Investors would like to include the cost of escalation during the scheduled completing period and it is in this context that the role of the SEBs and the CEA becomes important. Recently, Ministry of Power has taken a decision to provide the assistance of Consultants to the CEA to enable them to evaluate the cost of projects very carefully. It is also necessary for SEBs themselves to obtain the assistance of reputed and reliable consultants to enable them to evaluate the project cost and negotiate the other commercial terms and conditions properly which also have a bearing on costs. Incidentally, the Central Government has made arrangements to provide funds to meet the Consultant's cost through PFC's assistance. It is expected that these measures will help in avoiding 'over capitalisation' of projects.

Moreover, it has been found that the cost of power from the private projects cleared by CEA is comparable with similar public sector projects cleared by them. The details are given in the Annexure-II.

Not a single MW has been added:

It is not a fact that not a single MW has been added since 1991. Till date 860 MW has been added in the private sector in the eighth plan from the existing licensees and new generating companies which were formed after 1991. (18 MW Shivpur HEP in Karnataka and 12 MW Maniyar HEP in Kerala). Eventhough the policy was initiated in 1991 the clear cut tariff guidelines were ready only by March, 1992. Any new policy would take sometime to take off as the investors will take some time to understand the benefits of the policy. The response has so far been encouraging, but due to numerous statutory/non-statutory clearances each power project has to obtain in addition to tieing up required finances, which invariably involve time consuming processes, the proposals are taking time to achieve financial closure. In addition to one project which has achieved financial closure a few more projects are on line for achieving financial closure soon. In view of the long gestation period of the power projects it would take some time for large scale capacity addition in the private sector.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated: 18.09.95]

ANNEXURE-I

DETAILS OF ONGOING PUBLIC SECTOR PROJECTS WHICH WERE TRANSFERRED TO PRIVATE SECTOR

Sl No.	Name of Project	Capacity (MW)	Type	Name of Company
1.	Karbi Langpi HEP	2 x 50	HYDEL	M/s Bharat Hydro Power Corpn. Ltd.
2.	Maneri Bhali II HEP	304	HYDEL	Under Bidding
3.	Srinagar HEP	330	HYDEL	M/s Duncan Agro Ind. Ltd.
4.	Vishnu Prayag HEP	4 x 100	HYDEL	Jaiprakash Ind. Ltd.
5.	Amguri GBPP	280	GAS	Assam Power Partners, Northern Engg. Inc. USA/ Agro Indus
6.	Pench TPS	500	COAL	Soros Fund Management, USA.
7.	Khaperkheda units 3 & 4	2 x 250	COAL	M/s Ballarpur Industries Ltd.
8.	Ib Valley TPS units 3 & 4	420	COAL	AES Corporation, USA.

COST DETAILS OF CEA CLEARED PRIVATE SECTOR POWER PROJECTS

Sl. No.	Name of the Scheme	Capacity (MW)	Type	CEA Cleared completion cost Rs. crs/MW	Cost of Gen. (Ist yr.) Rs/kwh	Commissioning Schedule
1.	Paguthan CCGT	655	Gas	3.51	2.00	1996
2.	Jegurupadu CCGT	235	Gas	3.82	2.21	1996
3.	Godavari CCGT	208	Gas	3.60	2.03	1996
4.	Ib Valley (Units 5 & 6)	420	Coal	4.75	2.34	1997/98
5.	NLC Zero Unit	250	Lig.	5.30	2.63	1997
6.	Ballagarh	500	Coal	4.47	2.46	1998
7.	Bhadravati	1072	Coal	4.84	2.75	1998
8.	Dabhol CCGT (Ph-I)	695	Distillate oil No. 2/ LNG	3.68	2.40	1998

COST DETAILS OF CEA CLEARED PUBLIC SECTOR POWER PROJECTS

Sl. No.	Name of the Scheme	Capacity (MW)	Type	CEA Cleared cost Rs. crs/MW	Cost of generation Rs./kwh (Present day cost)
	<u>1992</u>				
1.	Bakreswar	1050	Coal	3.55	1.50
2.	Unchahar II	420	Coal	2.75	1.69
3.	Kathalguri	291	Gas	3.15	0.96
4.	Agartala	84	Gas	3.52	1.40
	<u>1993</u>				
5.	Muzaffarpur II	500	Coal	2.90	1.62
6.	Rayalaseema II	420	Coal	3.03	2.00
7.	Kothagudem	500	Coal	3.78	2.32
8.	Ramgarh	35.5	Gas	3.40	2.21
	<u>1994</u>				
9.	Gandhinagar Extn U-5	210.00	Coal	3.14	2.40

Recommendation (Serial No. 2 Part 'B')

Establishment of a transparent bidding procedure and a set of criteria against which bids could be evaluated is essential for selecting appropriate power companies for Power Projects. Sadly, this was not done until recently. Instead of taking advantage of international experience in promoter selection, the Government preferred to go in for the bilateral route on the plea that in view of non-crystallisation of methodologies and lack of investors' confidence the negotiated route was the only option. It was only after the matter was taken up by the Committee that the Centre issued guidelines to State Governments on 18.1.1995 making the competitive bidding route mandatory. Hopefully, the change over to the system of competitive bidding would bring transparency to the business of private sector participation and result in competitive tariff proposals.

Reply of the Government

In line with the international practice both MOU and bidding routes have been followed in the initial phase of the policy by the States. It is for the States to decide depending on available data on each project either to follows MOU or bidding route. This was essential to speed up finalisation of the proposals. In case of allowing only the bidding route, the policy would take considerable time to take-off as the bidding process is basically cumbersome and time consuming and not easily adoptable as has been the experience in other countries like the USA. The method of following both the routes in the initial phase is, infact, a lesson learnt from international experience. Since almost all the SEBs/State Governments had not been at all exposed to private power prior to the policy, it was prudent to provide flexibility in the initial phase of the policy and as such both MOU and bidding routes were allowed. Once the SEBs/State Governments gained some experience in this field over the period of past 4 years, bidding was made mandatory since February' 95.

The decision taken by the GOI in January, '95 is neither adhoc nor simply an out-come of the interaction with the Committee on Energy, as the following discussion would show.

The Minister of Power had addressed a letter in October, 1993 to all Chief Ministers/Governors of States advising them, *inter alia,* to introduce the competitive element by open bidding. They were also advised to avail of the World Bank technical assistance loan available with PFC for pre-investment purposes. This was followed up with another letter from Secretary (P) in November, 1993 addressed to all Chief Secretaries of States, reiterating these issues and requesting them to consider fixing a date beyond which the SEBs will not offer projects, except through competitive offers.

A Number of workshops for State/SEB officers were organised so that they could prepare scientific bidding documents. The noticeable among these workshops are (i) 'Technical Workshop on Competitive Bidding in Private Power' organised with the help of World Bank in Hyderabad in June, 94 and (ii) training course at Administrative College of India, Hyderabad during February, 1995 on "Bid Solicitation, Project Appraisal and Negotiation". These have been attended by a large number of State/SEB officials. In fact, some of the States like Andhra Pradesh, Maharashtra, Rajasthan and Haryana have finalised their latest batch of projects on a partial bidding route.

Subsequently, keeping in view the experience gained by some of the States in competitive bidding, exposure of most of the States to Private Power Policy over the years and facilities developed such as World Bank Technical Assistance Loan being administered by PFC, Government of India made competitive bidding mandatory and communicated the same to the State Governments in January, 95 alongwith a set of guidelines which could assist the State Governments in adopting the bidding route.

Ministry of Power O.M. No. P-426/94-IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 3, Part 'B')

Incidentally, the Committee note from media reports that one State Government signed as many as 23 MOUs with potential private investors to beat the deadline fixed by the Central Government for switching over to the competitive bidding route and sought further time to accommodate 42 more applicants. The Committee in this connection feel that there is a need to weed out non-serious proposals. Currently, 136 projects in all are stated to be at various stages of negotiation. The Committee find from the information furnished by the Ministry of Power that the validity period of some of the MOUs signed by State Governments, is as long as five years. The Committee feel that a long time lag for finalisation of a project will hinder the goal of achieving faster growth of private sector and preclude the opportunities for genuinely interested investors. The Committee, therefore, recommend that the Government should examine the reasonableness of the validity period allowed in MOUs signed so far and if found unreasonable, issue suitable guidelines to weed out non-serious as well as high cost project proposals. The guidelines should also emphasis review of MOUs keeping in view the load requirements of a particular State and the need to avoid over concentration of projects.

Reply of the Government

The State Governments have been requested to review the progress of the existing MOUs which a view to weed out non-serious proposals. They have also been reminded in this regard. No review of the MOUs in the context of load requirements is necessary since MOU does only confer a right to set up the project after obtaining all necessary clearances including techno-economic clearance of CEA which looks at the necessity of the project *vis-a-vis* the grid requirement etc.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 8, Part 'B')

The controversial counter guarantee instrument is stated to be a product of investor misgiving about the reliability of SEBs. According to the Ministry of Power counter guarantee from the Government of India has been envisaged as a transitionary measure for SEB's payment obligations in respect of a few initial projects. It has so far been signed only in respect of Dabhol and Ib Valley projects. The Dabhol Power Company informed the Sub-Committee during informal discussion at Bombay that the DPC neither insisted nor expected any guarantee on payment obligation, except may be from Government of Maharashtra and that following announcement of the policy of counter guaranteeing by the Government of India the company took advantage of it. In the opinion of the Committee counter guaranting for any project is uncalled for since several IPPS are ready to implement projects without any counter guarantee. Also there appear to be no justification for giving counter guarantee only to selective fast track projects. It is observed from the information furnished to the Sub-Committee that the counter guarantee extended to the Dabhol Power Company is to expire after 12 years or at the earliest after several specified events. The Committee are, however, not clear about the events which would forestall the guarantee. In any case, once the concerned SEB becomes financially viable, there is no case for the Centre to continue as a guarantor. In case the agreement does not contain a provision to this effect the agreement ought to be amended to incorporate the same. The Ministry has suggested various alternatives to counter guarantee such as direct supply of power by private projects to HT consumers; opening of a Escrow account Blended counter guarantee, PPA with Power Grid quarantee, etc. The Committee are of the view that the Power Ministry's set of alternatives addresses the symptoms and not the disease plaguing the electricity sector. What is required is a clear and time bound programme of action to make SEBs viable as discussed in the succeeding paragraph.

Reply of the Government

The counter guarantee is a transitional measure to instill among the investors and lenders a sense of comfort about security of their investment in the form of payment by the SEBs for the power purchased. Essentially the private power projects have to stand as commercial agreements between the developer on the one hand and the power purchaser on the other. The private power policy can proceed on a sustainable basis only on the financial strength and the paying capability of the SEB. The Government has, therefore, taken several measures towards SEB Reform. Six of the SEBs namely Orissa, Haryana, Rajasthan, Bihar, Andhra Pradesh and Madhya Pradesh has agreed for reforming of their SEB under a World Bank aided programme. Considerable progress has been made in Orissa to bring out structural changes in the power sector which would improve their SEB's performance. SEBs have been gradually improving their performance over the years. Whereas only 5 SEBs earned the statutory 3% rate of return in 1990-91 at present 12 SEBs qualify for this category, Similarly on tariff restructuring, 20 SEBs have raised their Agricultural Tariff to a minimum of 50 Paise/kwh.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 9, Part 'B')

The Private Power Development could effectively take off only if the financial health of SEBs improve. At present most of the SEBs operate at sub-optimal levels of capacity utilisation, have negative rates of return and increasing commercial losses. In order to restore the financial health of SEBs, as rightly pointed out by the Planning Commission, immediate measures are required to rationalise tariff, to improve operational efficiency and to bring about an all round improvement in the billing and collection system, cost control efforts, optimum management to human and other resources, etc. All this call for a careful review of the existing organisational structure of SEBs. The Committee in this connection observe that the process of restructuring SEBs has been set in motion. In Orissa, the State Government has initiated the process of restructuring its SEB. The SEB of Meghalaya is reported to have been abolished and its activities handed over to private companies. Five SEBs are undergoing reform studies and one more State Government is to get its SEB studied by a consultant. The Committee have been informed that 18 States and Union Territories have agreed to fix tariff at the minimum rate of 50 paise per unit and 12 SEBs have signed their operational and financial action plan with the Power Finance Corporation. The resistance, if any, to tariff revision is apparently due to inefficient service by SEBs. The Committee feel that the reform process cannot wait beyond the 8th plan period. The Committee, therefore, urge that the remaining State Governments/SEBs should be persuaded to fix tariff so as to earn the statutory minimum return of 3% and also to implement reforms keeping in view the need to make SEBs viable and vibrant.

Reply of the Government

This has already been covered under response to recommendation No: 8.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 11, Part 'B')

The confidentiality of Power Purchase Agreement and Fuel Purchase Agreements (FPAs) have sparked intense debate in the media and in various other forums and there is widespread perception of biased contracts. It is observed that a confidentiality clause has been inserted in the PPAs for Dabhol Power Company and some others. Such lack of transparency is regrettable, as it precludes public scrutiny and gives rise to avoidable misgivings. The Committee, therefore, desire that the Government should issue guidelines requiring the SEBs/State Governments to make all the PPAs abd FPAs public documents with the exception of any confidential data contained therein.

Reply of the Government

The PPA is an agreement between the IPP and the SEB. This document is drawn upon the prevalent commercial practice and in the best commercial interest of the parties. Normally the parties would, therefore, not like to disclose the commercial details up front and it should be best left to the judgement of the contracting parties. Moreover, the Dabhol PPA was made public after the project achieved financial closure. Ministry of Power had advised Government of Orissa also to make the IB Vally PPA public. Though GOI has no reservations on the issue, it would not be prudent for GOI to issue any guidelines in the nature of a mandatory directive to the States on this issue. The guidelines issued by us only indicates "confidentiality" as one of the aspects to be considered by the SEB while negotiating a Power Purchase Agreement in line with prevalent practice.

The two coal/lignite fuel purchase agreements signed so far are of the Ib Valley and the Neyveli Zero Unit project and these contain confidentiality clauses. Moreover, Ministry of Power is working on model documents for coal supply and transportation agreements.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 16, Part 'B')

The Committee observe that the Government has taken various steps to allow more flexibility to the Central Power Generating Organisations in their commercial operations. The Committee in this connection note National Thermal Power Corporation's plea that for expeditious decision-making in the case of projects where no budgetary support is contemplated from the Government, the authority for investment approval may be vested in its Board. The Power Ministry has, however, taken a stand that investment decisions need to be considered by the Government to scrutinise various aspects such as external commercial borrowings, justification for the project in a particular region, maintaining regional balances etc. The Committee urge that there should be no avoidable time lags in investment approvals for public sector projects and clearance should be accorded within a specified time frame. The Committee also desire that the question of giving approval to the completed cost as in the case of private sector projects needs to be examined with a view to providing level playing field to public sector projects and the Committee be apprised of the outcome.

Reply of the Government

GOI is taking every possible measure to expedite the decisions required for speedy and timely execution of the projects in the public sector involving budgetary or no budgetary support. An officer of the rank of Joint Secretary has been nominated to the Board of the each PSU with a view to expedite the decision making on matters relating to PSUs. The status of the pending issues is reviewed through periodical meetings and action has been taken expeditiously whenever necessary.

CEA has already been directed to appraise the public sector projects based on completed cost estimates.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 17, Part 'B')

The Committee desire that the Central Public Undertakings like BHEL and NTPC should come together and explore the possibility of taking up power projects on joint venture basis along with Electricity Boards.

Comments of BHEL

BHEL has been in correspondence with NTPC to explore the possibility of taking up power projects jointly. Recently, BHEL has suggested to NTPC for joint working in respect of 650 MW Combined Cycle Gas Project at Shankerpalli near Hyderabad and 2 x 500 MW Vizag Phase-II Thermal Project which have been allotted to NTPC by the Government of Andhra Pradesh.

On the subject of BHEL and NTPC joining hands to take up power projects, Secretary (HI) has written to Special Secretary, Ministry of Power. It has been decided to constitute an inter-departmental committee in which Chief Executives of BHEL and NTPC can participate to firm up the modalities for collaboration between BHEL and NTPC on a long term basis.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 21, Part 'B')

The Committee are concerned to observe that a 600 MW Kameng Hydroelectric project which had been identified for implementation by the North-Eastern Electric Power Corporation (NEEPCO) as a Central sector project and for which funds had been earmarked to enable investment approval and initiation of work has been shifted to private sector by the State Government of Arunachal Pradesh. According to Power Ministry, that are merits of continuing the project in the Central sector in view of the stage of development, size of the project, inter-regional transfer of power and implementation of condition of environmental and forest clearance. On the question of implementing the project in the Central sector, the Power Secretary was candid in his admission that "we did not pursue it the way we ought to have". Considering the fact that over two years have elapsed without any tangible progress since signing of the MOU by the State Government with private company at least now the Ministry of Power should take up the matter seriously with the State Government, for executing the project in the Central sector. The Committee will await the Ministry's efforts in this direction.

Reply of the Government

The matter has been taken up with the Government of Arunachal Pradesh and Minister of Power has written to Chief Minister, Arunachal Pradesh requesting him to reconsider the matter of inviting private promoters for setting up of this project. The Government of Arunachal Pradesh has been told that over 2 years have elapsed since the MOU was signed with the Private promoters and no work at any level has yet commenced, Government of Arunachal Pradesh should allow NEEPCO to execute the project in the Central Sector. Government of Arunachal Pradesh was also informed that the delay in execution has resulted in cost escalation besides delaying availability of additional power in the North Eastern Region.

[Ministry of Power O.M. No. P-426/94—IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 22 Part 'B')

The Committee learn that the State Sector Karbi Langpi Project which was partly financed by OECF has been transferred to a joint sector company in March, 1993. 50% of the work of the project had reportedly been completed at the time of transfer. It has been stated that OECF normally funds only public sector project. Since then OECF has been requesting for adequate safeguarding of the equipment supplied under its loan. The Committee are not clear about the role of Central Government in the loan extended by OECF to the project and whether any attempt was made by the Centre to retain the project in public sector. In view of the transfer of the project to a joint sector company it is also not clear whether commitments, if any, made to OECF can be fulfilled without violating its conditions. The Committee would await a clarification in this regard.

Reply of the Government

In 1993, the Government of Assam signed a Memorandum of Understanding (MOU) with M/s Subhash Project Marketing Ltd. and a new company namely M/s Bharat Hydro Power Corporation Ltd. took over the execution of Lower Borpani Project. In this new company, Assam State Electricity Board has 11% share and the majority share is held by M/s Subhash Project Marketing Ltd. At the time the MOU was signed by the Government of Assam, no permission from the Government of India was obtained, even though this project was being financed by the OECF.

The Government of India took up the matter immediately after the MOU was signed and Government of Assam was asked to explain the circumstances under which it was decided to hand over the project to the private sector and the steps Government of Assam proposed to take to safeguard the equipment lying at the project site. The Government of Assam in November, 1993 informed Ministry of Finance that—

"While it appreciated concerns expressed by Government of India, the State Government had to take the decision under compelling circumstances. The project was originally approved by the Planning Commission in 1979 and was to be completed by 1986. However, the original contractor M/s Sibson was extremely slow and failed to meet his contractual terms and the contract had to be terminated. The work was then awarded to a Public Sector undertaking, M/s National Projects Construction Corporation in 1988. Once again this Contractor failed to execute the Project as per the agreed time-schedule and there was no alternative but to terminate this contract in December, 1992. In the meanwhile huge liabilities were being accumulated. It was estimated that if ASEB was to undertake the project on their Own, at least another Rs. 1000 crores would be required in addition to the Rs. 116 crores already spent] and given the size of the State plan and financial limitations experienced by the State Government there was no way to provide this magnitude of resources for the project. The machinery on site had to be maintained and a large number of employees had also to be paid. The investment made so far had yielded no returns, while there was seemingly endless drain on the ASEB's resources in terms of wages and maintenance expenditure. It was in these circumstances, that the Government of Assam considered the option of getting the Project executed by a Private Company who were prepared to take on the Project, invest their own resources and generate power within an agreed time-schedule. The offer of M/s Subhash Project Marketing Ltd. for taking over the project on a "as is where is" basis was accepted by the Government and a memorandum of understanding signed with them on 25th March, 1993."

The MOU signed for the project envisaged that the project would be completed by June, 1995. However, the preparation of Detailed Project Report [DPR] and application to financial institutions for funding of the project have taken a long time and active works on the project are now being taken up with the award of works by the new company to civil contractors.

The OECF funds for the project were routed through the Government of India and to that extent, it is the responsibility of the Central Government to repay the loan of OECF. The project is in the state sector and was being executed by the Assam State Electricity Board. The loan was therefore, "on lent" to the State Government. The OECF loans are available to Public Sector projects in the Central Sector as also to state sector projects being executed by the agencies of the State Government. The OECF has also been expressing its concern at this decision of the State Government and has been taking up the matter with the Central Government.

The Government of India expressed its concerns to the State Government especially on the need to safeguard the equipments imported under the OECF loan. The transfer of the project by the Government of Assam also violates the commitments made to the OECF in as mush as the executing agency designated in the loan agreement was changed from Assam State Electricity Board to a Joint Sector Company. The Government of Assam have in May, 1995 informed Government of India that as per the present indications–

> "the construction of the Dam is likely to be completed by June, 1996. Suitable provisions have been made in the MOU to safeguard the interest of the parties concerned including those of OECF. The ownership of the assets will remain with Assam State Electricity Board until the entire expenditure incurred by the ASEB is fully repaid by the new Company through sale of power at the rates to be determined in accordance with the Government of India guidelines."

The Government of Assam have assured that the equipments purchased with the OECF loans will not be diverted for any other use and these are stored under proper conditions so that they can be used in the Project.

The Ministry of Power has now requested North Eastern Electric Power Corporation [NEEPCO] to approach the State Government to consider the possibility of handing over the remaining activities to NEEPCO. NEEPCO has written to the Government of Assam in this regard in June, 1995. Response of the State Government is awaited.

[Ministry of Power O.M. No. P-426/94-IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 24, Part 'B')

According to an estimate of Power Grid Corporation of India Limited nearly 10,000 MW of power can be saved by establishing inter-regional links at an approximate cost of Rs. 10,000 to Rs. 15,000 crores. This can be reportedly achieved through improved hydro-thermal mix of combined regions. The Power Ministry has not yet taken a firm view about the role to be assigned to the private sector in construction of these high voltage Transmission lines. The POWERGRID, however, has signed a MOU with National Grid Corporation of UK setting up a joint venture for construction of such lines. It should be ensured that the schemes of establishing inter-regional links are examined and taken up for implementation on a time bound programme after critical review of various aspects including load requirements.

Reply of the Government

An MOU was signed between POWERGRID and NGC, UK on 23.9.94, which envisaged cooperation between the two companies for developing transmission projects in India through joint ventures. The first such project identified was 400 KV inter-regional link between Northern (Mau) and Eastern region (Biharshraiff). However, due to involvement of 12 states in the two regions it was felt difficult to obtain a back up agreement for recovery of transmission charges from each SEB. It was therefore, decided to implement the project with POWERGRID financing.

A number of inter-regional links are being established by POWERGRID, which are as follows :

1. Southern (Ramagundam)-Western (Chandrapur)—All the major packages for this project have been awarded and is under execution with expected commissioning in 1997-98.

2. Eastern (Jeypore)—Southern (Gazuwaka)—All the major packages for this project have been awarded and is under execution with expected commissioning in 1998-99.

3. Northern (Mau)—Eastern (Biharshariff)—Which is under advanced stages of approval with expected commissioning in IX Plan.

[Ministry of Power O.M. No. P-426/94-IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 25, Part 'B')

The Committee are not impressed by the response received from private sector for setting up hydel projects. Only 26 schemes for a total capacity of 4165 MW have been so far received. The Committee in this connection observe that as against the desired hydro-thermal mix of 40 : 60 for providing peaking support, the present ratio is 27 : 73. Out of 1,30,000 MW of economically exploitable hydro electric potential in the country only 14% has been exploited so far. Non-availability of geological and hydrological data which are reportedly being treated as 'classified', and inadequate incentive to hydel projects considering their special problems are stated to be the reasons for private investors not evincing much interest and not making desirable progress in hydro projects. The Ministry of Power has informed that in a further bid to encourage private investment in hydro power, a separate policy for hydel tariff is under consideration. The Committee urge that this should be finalised early. The Committee also recommend that the issue regarding availability of geological and hydrological data can must be examined and appropriate corrective measure taken so that private investors are not put to avoidable difficulties.

Reply of the Government

A separate policy for hydel tariff has since been notified on 12.1.1995. The matter related to timely supply of Geological and Hydrological data is being taken up with the "Geological Survey of India". and "Ministry of Water Resources" on a case to case basis.

[Ministry of Power O.M. No. P-426/94-IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 27, Part 'B')

The Committee in their third report as well in the thirteenth report had pointed out that a reduction in Transmission & Distribution losses from 23 to 18 per cent can be easily achieved during the Eighth Plan period. The Committee had further emphasised that such losses need to be eventually brought down to a level of 15%. The Committee observe that various steps taken by the Government have helped reduction of T & D losses from 22.83% in 1991-92 to 21.80% in 1992-93 showing a reduction of 1%. The Committee desire that sustained efforts should be made to bring down the T & D losses to the level of 15%.

Reply of the Government

Keeping in view the present trend in the reduction of T & D losses, it is felt that a figure of 20% is most likely to be achieved by the end of 1996-97, the terminal year of the 8th Plan. Hence, there will be an achievement of 3% in the reduction of T & D losses during the 8th Plan period. It would be, therefore, most appropriate to plan a reduction of 5% during the 9th Plan period. This will bring down the losses to a level of 15% suggested by the Standing Committee on Energy.

For achieving the above target there should be appreciable reduction in technical and commercial losses. The technical losses can be reduced through formulation and implementation of system improvement schemes in urban and rural area of the country. The State Electricity Boards and Electricity Departments have brought to the notice of Central Electricity Authority that they have been taking various meausres for reduction of T & D losses and for improving the quality and reliability of power supply in a limited manner due to the paucity of funds. Actually most of the power utilities could not implement system improvement schemes techno-economically cleared by CEA or approved within their power due to resource crunch.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

CHAPTER III

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

—NIL—

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 4)

The current power policy provides 16% return on equity at 68.5% PLF with additional incentive upto 0.7% of return for each percentage point of additional PLF. The Committee find that at 68.5% PLF the equity internal rate of return (IRR) of some of the gas based projects cleared by CEA is in the range of 12.6% to 15.85%. The Committee learn that according to the Electric Power Research Institute of California, a reasonably well maintained power plant would operate at 80% in the first 10 years and at 75% at the end of the 20th year. The Committee in this connection observe that most of the private power projects cleared so far have been guaranteed off-take of power well above 80% PLF or allowed third party sales. The return on equity at a normally achievable PLF of 80% is upto 24.5% with corresponding rise in IRR. Viewed in this background, the Committee feel that the equity return of 16% at a lower PLF of 68.5% allowed to investors is questionable and calls for a review. The Committee accordingly recommend that on the basis of experience gained so far and in the light of public debate on the issue, the PLF linked equity return should be reviewed and appropriate correctives applied so as to bring it to reasonable matching of rate of return and PLF in the national interest.

Reply of the Government

The amended notification dated 12.01.95 to the tariff notification provides that the norms laid down are the ceiling norms only, and this will not preclude the Boards and Generating Companies from negotiating improved performance, with commensurate commercial benefits.

Further, incentives for operation beyond 68.5% PLF shall not exceed 0.7% of return on equity for each percentage point increase of PLF.

The Board can, therefore, negotiate tariffs so that higher than intended IRR is not available to Generating Companies.

[Ministry of Power O.M. No. P-426/94-IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 5, Part 'B')

The tariff structure based on 'cost plus' approach is stated to have advantages in the initial phase because of compatibility with CEA procedure for project approval and SEBs' own experience with this form of pricing. Surprisingly, the Ministry of Power has argued that there is nothing wrong with the present cost plus approach. The Committee do not agree with this view. The Committee feel that private investors appear to have a tendency to inflate costs which would finally translate into higher tariff. Besides, the cost plus approach has given rise to avoidable controversies. The Committee, therefore, recommend that the Government should examine the desirability of adopting a standard practice of specifying a single rate at which private investors are asked to sell power. Incidentally, adoption of simple tariff system will also eliminate the need of offering guaranteed PLF linked return on equity.

Reply of the Government

Single rate tariff was earlier followed in the case of Central Sector Generating Stations. This was found unsuitable from the point of view of economic despatch ability and hence switch over to two part tariff was made based on K.P. Rao Committee recommendations.

It is, expected that competitive bidding system would be able to take care of this and related issues suitably.

[Ministry of Power O.M. No. P-426/94-IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 6, Part 'B')

There are four gas based and 3 coal based power projects in the private sector cleared by CEA so far. Out of the four gas based projects the per megawatt (MW) cost in respect of three projects (Jegurupadu, Godavari and Paguthan) was between Rs. 3.52 crores and Rs. 3.74 crores while for Dabhol, the cost per MW was Rs. 4.19 crores. Of the three coal based projects, the cost per MW of Visakhapatnam project at Rs. 5.82 crores is considerably higher than the Ib Valley at Rs. 4.82 crores and Mangalore project at Rs. 5.08 crores. BHEL in this connection has pointed out that turn key costs in respect of projects with BHEL equipment could cost only around Rs. 3.6 crores to 4.3 crores per MW after making suitable adjustments for development cost, inflation and interest during construction. The cost per MW of private projects in general and Dabhol and Visakhapatnam projects in particular appear to be much higher than that indicated by BHEL. The Committee feel that guaranteed rate of return are tempting the investors to inflate their costs to ensure better returns. According to experts lack of competitive bidding has led to significant padding in the investment costs. The Committee desire that the Government should ensure that cost of private power projects should be so determined as it conforms to the same tariff structure recommended in the preceding paragraph. Efforts should also be made to dispel doubts with regard to reasonableness of the cost of private power projects.

Reply of the Government

The issue of high cost of power projects has already been dealt at Item 1. CEA has not so far cleared the Visakhapatnam and Mangalore power projects from techno-economic angle and as such any comparison based on the tentative figures is not justified. Regarding the cost of Dabhol power project it may be mentioned that the cost per MW is Rs. 3.68 crores/MW and is comparable to that of other similar projects *viz.*, Paguthan-Rs. 3.51 crores, Godavari-Rs. 3.60 crores and Jegurupadu-Rs. 3.83 crores.

Ministry of Industry have made available the following comments of BHEL in this regard :

Comments of BHEL

The normal scope of supply of BHEL equipment (*i.e.* Turbine, Generator, Boilers, Pumps, Condensers, Heaters, Piping etc.) for a thermal power plant is around 50% of the total project cost. The completed cost of the power project does not depend only on BHEL equipment but also on other areas like coal handling system, ash handling system, station C&I, DM system, civil works, erection and commissioning etc.

As per para 2.57 of the "Background Analysis " of the Report, during oral evidence, CMD, BEHL, had mentioned that the cost of projects with BHEL equipment would come to around Rs. 3.8 crores to Rs. 4.0 crores per MW after making suitable adjustments for development cost, inflation and interest during construction.

BHEL in its written reply (partly quoted at para 2.59 of the "Background Analysis" of the Report) had pointed out that the exact like to like comparison between the cost of project with BHEL equipment and that with improted equipment would be rather difficult. It has been pointed out that the installed costs of thermal projects being set up by various IPPs, as reported in the newspapers, are ranging between Rs. 4.85 crores to Rs. 5.80 crores per MW. Making suitable adjustments for development cost, inflation and interest during construction, the turnkey cost in case of IPPs in our view may work out to around Rs. 3.6 crores to Rs. 4.3 crores per MW which corresponds to figures of Rs. 2.50 crores to Rs. 2.75 crores per MW furnished by BHEL in February, 1994. However, under recommendation S. No. 6, it has been mentioned that "Turnkey cost in respect of projects with BHEL equipment would cost around Rs. 3.6 crores to Rs. 4.3. crores per MW:" While the figures are indicative only, it may be mentioned that, as given in para 2.57 of the "background analysis" of the Report, the turnkey cost in respect of projects with BHEL equipment will be around Rs. 3.8 crores to Rs. 4 crores per MW instead of Rs. 3.6 crores to Rs. 4.3 crores per MW mentioned in the recommendation against S. No. 6. It is suggested that the above could be brought to the kind attention of the Committee".

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 18, Part 'B')

The Committee is distressed to find that no serious attempt was made for over two and half years to implement the 210 MW Neyveli Lignite Corporation Zero Unit Project which was sanctioned by the Government in March, 1989 at an estimated cost of Rs. 396 crores. It is amazing that orders for procurement of power plant were not be placed during the period of over two and half years after sanction of the project. Over 32 months were spent on negotiations with suppliers without actually placing orders. If any thing, this indicates lack of seriousness on the part of authorities and those at helm of affairs who were entrusted with the task of implementing the project. The Committee require that the matter should be investigated with a view to fixing responsibility for gross failure in implementing the project as sanctioned. The Committee feel that had the administrative Ministry taken action-oriented review meetings to monitor the project implementation, the project could have been implemented as per the original plan. The Ministry of Coal owe an explanation on this regard.

Reply of the Government

The sequence of events pertaining to the implementation of Zero Unit Project of Neyveli Lignite Corporation (NLC) is submitted below:—

At the time of sanctioning the project in March, 1989 at a capital cost of Rs. 397.26 crores (7/88 base) the project was proposed to be implemented by the NLC. Sanction was given on the basis that the project will be financed out of equity and loan to be released on an annual basis subject to the provision in each year's annual plan with reference to availability of resources and approval by Government.

NLC's TPS-II Stage-I project for which equipment was supplied by one Hungarian and two Italian parties was commissioned in January, 1988. It was felt by NLC that repeat order on these firms would enable expeditious implementation of the project. In July, 1989, the Government of India had signed a credit agreement of US $ 200 million with the People's Republic of Hungary and this agreement provided an opportunity to obtain credit facility for the Zero Unit from the Hungarian company from which a part of the equipment was proposed to be acquired.

However, during negotiations it turned out that Hungarian credit would not be sufficient to cover the cost of equipment to be procured from Hungarian sources because some components of the steam generator package to be supplied by Hungary were to be imported from Germany and Hungarian credit would not cover this. In addition, the Hungarian supplier also increased their prices considerably, and so did the other firms. NLC was thus faced with much higher prices than expected of a repeat order. The Department of Coal, therefore, advised NLC on 27.11.89 to obtain quotations from BHEL for this project.

NLC obtained quotation from BHEL and compared it with the quotations received from the foreign suppliers and sent the proposal to the Department of Coal for advice. The BHEL quotation on turnkey basis was found to be higher than the least cost option. The Department of Coal suggested to NLC to re-negotiate with BHEL without any commitment. These negotiations and evaluation exercises continued for nearly a year and NLC's revised proposal containing the re-negotiated offer of BHEL along with its comparison with foreign firms' offer was sent to the Department of Coal in December, 1990. The Department of Coal sought the opinion of the Finance Ministry in January, 1991 who opined on 27.3.1991 as follows :—

(a) if the project cost has increased beyond 20%, the proposal has to be re-examined as per the standard procedure; and

(b) the Department should explore the possibility of tying up foreign credit for all imports for project in view of the difficulty in locating foreign exchange resources for this project.

This position has to be viewed in the context of the precarious foreign exchange situation prevailing in the country at that time and the downward adjustment of the Rupee. By that time, it was clear that the project cost would increase by over 20% and therefore, as advised by the Finance Ministry, revised cost estimates had to be prepared for getting the necessary approvals. The first revised estimate was prepared in April 91 (3/91 base), and the second estimate was prepared in August 91 (7/91 base). A third revision in cost estimates was necessitated by the change in the rate of interest (from 15% to 16%) and the requirement of higher return on equity (from 10% to 12%), and re-scheduling of the completion date (from 36 to 48 months).

A proposal was received in November 91 by NLC from Shri Sharad Tak, an NRI, for investing in this project and for providing the entire foreign exchange requirement as well as Indian Rupees.

The above chronology of events would show that strenuous efforts were indeed made throughout to implement the project since it was sanctioned. The Ministry was over-seeing the efforts of NLC. Because of escalating quotations, the precious foreign exchange situation and the resource crunch, the project could not proceed.

It is humbly submitted that there was no lack of seriousness in taking up implementation of the project.

[Ministry of Coal O.M. No. 54012/5/95-CML Dated : 25.7.95]

Recommendation (Serial No. 19, Part 'B')

What is worse, the Zero Unit project was transferred from the public sector Neyveli Lignite Corporation to a private investor in the circumstances which give rise to serious suspicion about the bonfides of the transfer. The Committee found on scrutiny of original files that on 26th November, 1991 a private investor wrote to then CMD of NLC proposing to put up the zero unit plant. On the very next day i.e. on 27th November, 1991, the proposal was considered by the NLC Board of Directors and a letter was also sent on the same day by the CMD to the coal Secretary suggesting consideration of the proposal of the private investor on the claim of inadequate funds with NLC. When the Sub-Committee undertook on the spot study visit to NLC the officials of NLC however informed that NLC was in a position to put up this project on its own without budgetary support and it had even laid foundations for the unit. The investor was reported to have experience in software, communication and broadcasting and real estate and do not have any experience in matters relating to power. The Committee require that an independent probe into the circumstances in which the project was transferred from NLC to a private party should be got conducted and facts brought to light.

Reply of the Government

While Department of Coal and NLC were involved in revising the cost of Zero Unit and taking necessary approvals, the Government was facing a resource crunch and the foreign exchange position was precarious. The finances of NLC were insufficient to meet even the requirements of on-going projects. NLC, therefore, required higher budgetary support, which however had declined.

Budgetary support (actual)

1989-90	Rs. 302 crores
1990-91	Rs. 120 crores
1991-92	Rs. 130 crores

It was in November, 1991 that a proposal was received from an NRI, Shri Sharad Tak that he was willing to put up the Zero Unit project either totally in the private sector or jointly with NLC and that he was prepared to put up the necessary Rupees as well as foreign exchange resources. The NLC Board was to meet on 28.11.91, the notice for the meeting having been issued already on 11.11.91. The meeting had to be preponed to 27.11.91 at Neyveli because of certain exigencies *viz.* requirement of stock exchange, a threatened strike and mine flooding making a visit to Madras difficult. The CMD, NLC put up Shri Tak's proposal before this meeting. The Board considered the proposal and recommended it to the Government to take view in the matter. The Government was requested to give expeditious clearance so as to enable NLC to discuss further details with Shri Tak. It may be recalled that about this time efforts were being made to attract private investment in the development of infrastructure. On 26.12.1991, the Prime Minister had taken a meeting with the Secretaries of the Economic Ministries and stressed the need for particular attention to the infrastructure sector. Since public resources were limited, there was no option but to develop methods to involve the private sector in the infrastructure area; innovative methods of attracting funds had to be worked out by each Department.

An inter-Ministerial meeting was held on 20.1.92 in which it was decided to recommend the transfer of Zero Unit to Shri Sharad Tak, in principle, subject to further negotiations and completion of the steps outlined by the Department of Power as per their new policy on power projects in the private sector.

On 10.3.1992, a detailed report for the project was sent by Shri Tak to CMD, NLC. The proposal was examined by the NLC

Board on 20.3.1992 and its recommendations sent to the Ministry of Coal on 1.5.1992.

As regards the NLC officials discussions with the Sub-Committee at Neyveli, the NLC management's understanding is that NLC officials had submitted to the Sub-Committee that while the NLC had the technical capability to implement the project, it did not have the financial resources for it. NLC could not have implemented the project without higher budgetary support, which however was shrinking.

Since Shri Tak's letter was in the nature of an intent to invest this has to be viewed in the background of the liberalised policy for private investment in the power sector, which was announced in October, 1991. Shri Tak has tied up with a well-known power generation company, CMS of USA, to take up this project.

It is, therefore, submitted that the matter may be viewed in the context that NLC's resources did not enable it to proceed with the implementation of the project whose estimated cost had shot up from Rs. 397.26 crores to Rs. 712.05 crores, and the power sector was opened up for private investment. It has been the policy of Government since liberalisation of the power sector in October, 1991 to attract private investment in this area. Therefore, Government does not consider it necessary to have any probe into the Zero Unit project being taken up in the private sector.

[Ministry of Coal O.M. No. 54012/5/95-CML Dated : 25.7.95]

Recommendation (Serial No. 20, Part 'B')

It is distressing to find that the cost of the Zero Unit project now being set up by the private company *viz.* (ST-CMS) Electric Company is Rs. 1325 crores i.e. Rs. 5.3 crores per MW as against the NLC's originally estimated cost of Rs. 397 crore i.e. Rs. 1.89 crore per MW. The present day cost of the unit taking into account various factors including scope of ST-CMS works out to Rs. 767 crores including cost of common facilities to be provided for the new location. The Committee could hardly believe that the present day cost of Rs. 767 crores when adjusted for completed cost (to be completed in 38 months) on turn key execution in private sector would rise to the order of Rs. 1325 crores. The Committee feel that something is seriously wrong in the cost index allowed by CEA for private sector. The Committee would like to be appraised of the details of the justification for the cost index employed by CEA while adjusting for completed cost of private sector projects.

Reply of the Government

The Committee has sought the details of the justification for the cost index employed by CEA while adjusting for completed cost of private power projects.

The cost of lignite based power station is higher than a coal based power station because of the large size boiler required to be used on account of high moisture content of 50%, as against 10% adopted for coal fired boilers. It may also be mentioned that the cost per MW of a single unit is always higher than that of two-units configuration because of the various factors, such as economy of scale, common auxiliaries etc. While appraising the ST-CMS project, the cost of the project was compared with the cost of NLC's extension of the Stage-I TPS 2 × 210 MW. The turn-key budgetary offers received from the various firms by NLC in July, 1994, were in the range of Rs. 4.05 crores to Rs. 5 crores per MW after making adjustment for single unit configuration and escalation even with the lowest offer of Rs. 4.25 crores per MW, the completed cost of the project works out to Rs. 5.65 crores per MW. Therefore, on this basis the cost per MW of Rs. 5.3 crores for ST-CMS single unit project was found justified.

As regard the present day price of Rs. 767 crores (Rs. 3.65 crores/MW), this is a present day estimated cost derived from the approved cost of Rs. 306.61 crores (Rs. 1.89 crores/MW) after making adjustment for exchange rate variation, price escalation and scope change. The present day cost of Rs. 767 crores is an estimate and not a firm cost. This estimate includes a contingency provision of 3% used for public sector projects, and insurance of about 1% for the requirement on individual contract package basis. However, in the case of the private sector, the project developer obtains firm completion price from the turn-key contractors. Since the turn-key contractor is responsible for firm price he has to build up certain additional elements, include variation in scope of work, time delay, insurance for loss of business, accidents etc.

For the purpose of cost analysis, the following figures were considered :

(i) Escalation at 8% per annum.

(ii) Contingency at 10%.

(iii) Comprehensive insurance at 2.5%.

(iv) Element of liquidated damage 5%.

(v) Turn-key contract fee at 5%.

With the above elements taken into account the project cost works out to Rs. 5.33 crores/MW.

[Ministry of Power O.M. No. P. 426/94-IPC (VOL-IV) Dated : 18.09.95]

CHAPTER V

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

Recommendation Serial No. 7

The Committee observe that to the extent the PPAs either guarantee off-take of power or make arrangements for financial recompense of plant availability at levels significantly greater than the peak load demand for power, they imply that the existing power generation plants will have to 'back down' well beyond present rates thereby making them inefficient and financially non-viable. This alone would significantly increase the average cost of power to the consumer. The Committee, therefore, urge that CEA should conduct critical review of such PPAs and ensure that interest of consumers as well as that of the economy as safeguarded.

Reply of the Government

The Committee has urged CEA to conduct critical review of the power purchase agreement and safeguard the interests of the consumers as well as that of the economy. The PPAs of the projects which are considered by the CEA for techno-economic clearance are examined by them with regard to tariff norms. GOI is at present examining the necessity of making scrutiny of PPAs as whole, a part of the techno-economic appraisal of the power projects by the CEA.

[Ministry of Power O.M. NO. 426/94-IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 10, Part 'B')

Power Purchase Agreement (PPA) is basically a commercial contractual agreement between the SEB and the generating company. The PPA allocates the risks associated with a power project, including fuel prices and other operating costs, financing costs, construction costs and various performance parameters. The Committee feel that it will be useful if a measure of uniformity could be achieved on the factors common to PPAs. The scrutiny of PPAs should be made a part of techno-economic appraisal by the Central Electricity Authority. The Committee desire that instructions in this regard should be issued early.

Reply of the Government

The PPAs of the projects which are considered by the CEA for techno-economic clearance are examined by them with regard to tariff norms. GOI is at present examining the necessity of making scrutiny of PPAs as whole, a part of the techno-economic appraisal of the power projects by the CEA.

[Ministry of Power O.M. NO. P-426/94-IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 12, Part 'B')

Emphasis has been laid by many experts on the need for establishment of an independent regulatory body for power sector on the lines of similar organisation in countries like USA. The Committee observe the CEA was charged with the responsibility of developing a sound and uniform national power policy in a situation where more generation was in the public sector. For meeting the changing situation there is a need to reorient its role consistent with the growing presence of the private sector in the field of power. At the instance of the Committee, the Ministry of Power has proposed to reorient CEA to discharge the function of a Regulatory Commission. The Committee hope that this task will be completed soon and the Committee be informed of the outcome.

Reply of the Government

At the instance of MOP an exercise is being presently carried out in CEA to restructure the Authority, keeping in view the regulatory and other needs of the power sector.

[Ministry of Power O.M. NO. 426/94-IPC (VOL-IV) Dated : 18.09.95]

Recommendation (Serial No. 13, Part 'B')

Success of the power policy to a considerable extent depends on an integrated fuel policy. This is however not the case today. In the absence of comprehensive fuel policy there have been proposals to set up hydrocarbon or diesel based power projects. Considering the fact that the availability of indigenous natural gas and petroleum products are limited and these are the best feed stock for both fertilizers and petrochemicals, the question of using these as fuel for power projects requires examination and calls for a clear policy guidelines. A policy decision in this regard is stated to be under consideration of the Government. The Committee desire that a comprehensive fuel policy should be laid down. The Committee further desire that at the time of finalisation of project proposals. Fuel Purchase Agreement should be taken into consideration. The Committee find in this connection that guidelines for fuel supply arrangements and for coal transportation by Railways also have not yet been finalised and are stated to be under preparation. The Committee urge that the guidelines should be framed and issued expeditiously.

Reply of the Government

A comprehensive fuel policy is no doubt needed to ensure rationalisation and optimal use of national energy resources. It is hoped that such a policy would adequately cover the requirements of the power sector, both in short and long term. The Ministry of Power is at present working expeditiously to finalise the policy regarding hydrocarbon liquid fuels for IPPs in consultation with concerned Ministries and Planning Commission. Regarding integrated fuel policy for power generation Planning Commission has been requested to take up an exercise in this regard.

As regards Fuel Purchase and Transport Agreement, the Ministry of Power is considering hiring an international consultant under a World Bank assistance to prepare draft Fuel Purchase and Transport Agreements. Consultations are currently going on with the World Bank on the Terms of Reference, scope of work etc.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 14, Part 'B')

As regard gas supply, there have been complaints about the quantity and quality of gas supply to power stations and the contract signed by users with the Gas Authority of India Limited is stated to be a one way contract. There is no legally enforceable agreement to ensure a committed supply of gas. According to the Power Secretary, "this is something on which we have not so far made anything." The Committee desire that the matter should be taken up with the Petroleum Ministry and a feasible solution worked out to remove the lacuna.

Reply of the Government

The matter had been taken up in the past but the Ministry of Petroleum & N.G. had expressed its inability primarily because gas reserves are yet to be firmed up and may take a few more years to do so. Ministry of Power has again raised this issue with the Ministry of Petroleum & N.G.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 15, Part 'B')

Most of the private sector projects cleared by CEA envisage import of equipment for the main plant. As admitted by the Ministry of Power domestic manufacturing capability would be affected to that extent. The Committee in this connection observe that the BHEL with production capacity of 6000 MW per annum had orders just for 5034 MW as on 1.4.94 as against the requisite order book position of about two to three years' production. According to the expert due to lack of competitive bidding, the cost of equipments in the private power projects have been hiked up. The Committee do not agree with the Power Ministry's view that it would be difficult to compel the private investors about the modality to be adopted by them in sourcing their equipment. The Committee see no reason why international competitive bidding should not be made mandatory for private projects in the matter of procurement of equipment. The Committee require that this should be done forthwith keeping in view the need to get competitive price for equipments. Incidentally, this will also enable BHEL to participate in the bids. The Committee are distressed to find in this connection the Government's stand against providing counter guarantee for the commercial borrowings of BHEL which is a public sector undertaking while counter guarantees have been extended to private sector projects. The Committee recommend that Government should provide necessary facilities to BHEL so that it can also offer sales aid financing as offered by international equipment manufacturers.

Reply of the Government

The process of competitive bidding has already been made mandatory for setting up of power projects in the private sector. Ministry of Power is examining alongwith BHEL and Ministry of Heavy Industry, guidelines that would increase the business of BHEL with IPPs.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 23, Part 'B')

Transmission and Distribution have been a neglected area of the power sector in the past. It continues to be so even as per the current power policy. The Committee feel that this neglect of T & D will defeat the very purpose of setting up new generation capacity. T & D ought to receive about 50% of the total allocation of the power sector. The allocation of funds for T & D system under the plans particularly under the Sixth, Seventh and Eighth Plans has been very much less i.e. less than 30% of the total. As a result, the development of transmission systems has not been commensurate with the growth of installed capacity. The Committee are distressed to observe in this connection that the 600 MW power station at Farakka is not able to operate at optimum level due to insufficient downstream T & D facilities in the Eastern Region. It is also unable to link up with the grid because of lack of evacuation facilities. The situation may further deteriorate with the commissioning of balance units of 1000 MW at Farakka. The Committee have been informed that the power evacuation system for 9 out of 11 power projects cleared by CEA has already been finalised and is required to be constructed by the concerned States. Considering the financial position of SEBs it appears necessary to attract private sector to step up investments in T & D. Concrete policy in this respect, which is stated to be under formulation, must be finalised soon and steps should be taken to augment investment in T & D.

Reply of the Government

There is adequate EHV transmission system available for evacuation of power from Farakka power stations (Stage-I & II). All five units of Farakka have since been commissioned and in even early'95 there are instances wherein all the five units have been in operation. As on date, the transmission system for Farakka-II has been commissioned and is successfully evacuating the power to the beneficiary States. In fact, two of the transmission lines associated with Talcher Transmission Project *viz*. Talcher-Rengali 400 KV D/C and Talcher-Rourkela 400 KV D/C have been commissioned in Feb'95 and March' 95 respectively. The downstream T & D problems, if any can be primarily attributed to inadequate State level T & D network and high distribution losses. A lack of adequate load growth in the region is also responsible for occasional backing down of generation in the region and is in no way connected with EHV transmission constraints. In view of the above, EHV transmissions system is adequate to evacuate power from Farakka Power Station and is adequately linked with the Eastern Region grid.

Policy in respect of improvement in the Transmission & Distribution sector is under formulation and would be finalised soon. However, it may be noted that private sector participation as licenses as per extent laws enables them to cater to T & D requirements in these franchise areas.

In view of resource crunch in the implementation of transmission schemes, project authorities are advised to decide priorities, take up and concentrate their construction activities on such transmission works which would take care of evacuation of power from the generating plants and its utilisation even if there is redundancy, to provide for desired level of security and reliability of power supply at specified parameters. Emphasis is also laid that the transmission requirements need to be given due priority by way of not only allocation of adequate funds but also earmarking the same and simultaneously ensuring a smooth and adequate flow of funds throughout the year for effective execution of transmission works. Construction and completion of transmission works are closely and actively monitored in the Central Electricity Authority. However, adequate fund availability is a prerequisite for timely implementation of transmission schemes planned.

With the September, 1991 policy decision of Government of India, the field for T & D is open for private sectors' participation. However, the private enterprises have not so far evinced much interest in this activity. Only a few proposals are under consideration. Necessary notification for facilitating private sector participation in T & D are to be finalised.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

Recommendation (Serial No. 26, Part 'B')

According to present indications of the Ministry of Power the country will face peaking and energy shortage to the tune of 28.22% and 14.5% respectively at the end of Eighth Plan. To meet the gap in supply and demand, alternatives which are less capital intensive and which could be implemented in a shorter time span are necessary. Renovation and modernisation of old plants is one such option. R & M of thermal and hydel units in the country is expected to create effectively a new generating capacity of 3,966 MW at a total cost of Rs. 3,365 crores. There is, however, only one R & M proposal in the private sector. There is a need to give a greater push to private sector participation in this field. The Committee recommend that guidelines under preparation must be finalised expeditiously and optimal performance of old plants ensured with private sector participation.

Reply of the Government

Guidelines for private sector participation in this sphere of activity are under preparation and would be finalised soon.

[Ministry of Power O.M. No. P-426/94-IPC (Vol-IV) Dated : 18.09.95]

NEW DELHI;	JASWANT SINGH,
18 December, 1995	*Chairman,*
27 Agrahayana, 1917 (Saka)	*Standing Committee on Energy.*

APPENDIX-I

EXTRACTS OF THE MINUTES OF THE TENTH SITTING OF THE STANDING COMMITTEE ON ENERGY HELD ON 18TH DECEMBER, 1995

The Committee sat from 16.00 hrs. to 16.30 hrs.

PRESENT

Shri Jaswant Singh — *Chairman*

MEMBERS

2. Shri Khelsai Singh
3. Shri K.P. Reddiah Yadav
4. Shri Arjun Singh Yadav
5. Shri Virender Singh
6. Shri Anil Basu
7. Shri Rajesh Kumar
8. Shri Chitta Basu
9. Smt. Dil Kumari Bhandari
10. Shri Dipankar Mukherjee
11. Smt. Ila Panda
12. Shri Rajni Ranjan Sahu
13. Smt. Kamla Sinha

SECRETARIAT

1. Shri G.R. Juneja	—	*Deputy Secretary*
2. Shri A Louis Martin	—	*Under Secretary*

2. Thereafer, the Committee considered and adopted the following Draft Reports :—

(i)	**	**	**
(ii)	**	**	**
(iii)	**	**	**
(iv)	**	**	**
(v)	**	**	**

(vi) Draft Action Taken Report on the recommendations contained in the 26th Report of the Standing Committee on the subject, "New Policy initiatives in Power Sector-Status of implementation and their impact on the economy."

3. The Committee placed on record their appreciation of the work done by the Sub-Committees.

4. The Committee also authorised the Chairman to finalise the above mentioned reports and present the same to Parliament after factual verification of the reports by the Ministries concerned.

The Committee then adjourned.

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

APPENDIX II

(*Vide* Para 4 of Introduction)

Analysis of Action Taken by Government on the recommendations contained in the Twenty-Sixth Report of the Standing Committee on Energy (Tenth Lok Sabha).

I.	Total No. of recommendations made	27
II.	Recommendations that have been accepted by the Government (*vide* recommendations at Sl. Nos. 1, 2, 3, 8, 9, 11, 16, 17, 21, 22, 24, 25 and 27	13
	Percentage of total	48.1%
III.	Recommendations which the committee do not desire to pursue in view of the Government's replies.	Nil
IV.	Recommendations in respect of which replies of the Government have not been accepted by the Committee	6
	Percentage of total	22.2%
V.	Recommendations in respect of which final replies of the Government are still awaited	8
	Percentage of total	29.7%