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STANDING COMMITTEE ON ENERGY (1998-99)

TWELFTH LOK SABHA

DEPARTMENT OF ATOMIC ENERGY

DEMANDS FOR GRANTS (1998-99)

[Action Taken by the Government on the Recommendations contained in the First Report of the Standing Committee on Energy (Twelfth Lok Sabha)]

TWELFTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

February, 1999/Phalguna, 1920 (Saka)

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Presented to Lok Sabha on 1999
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7. Shri Nuthana Kalva Ramakrishna Reddy
8. Shri Rajbanshi Mahto

INTRODUCTION

I, the Chairman, Standing Committee on Energy having been authorised by the Committee to present the Report on their behalf, present this Twelfth Report (Twelfth Lok Sabha) on the Action Taken by the Government on the recommendations contained in the First Report of the Standing Committee on Energy (Twelfth Lok Sabha) on "Demands for Grants (1998-99) of the Department of Atomic Energy".

2. The First Report (Twelfth Lok Sabha) of the Standing Committee on Energy was presented to Lok Sabha on 4th July, 1998. Replies of the Government to all the recommendations contained in the Report were received on 2nd December, 1998. The Sub-Committee on Action Taken Reports considered the Action Taken Replies received from the Government and considered and adopted the Report at its sitting held on 15th February, 1999.

3. The Standing Committee on Energy considered and adopted this Report at their sitting held on 23rd February, 1999. The Committee place on record their appreciation of the work done by the Sub-Committee on Action Taken Reports.

4. An analysis of the action taken by the Government on the recommendations contained in the First Report (Twelfth Lok Sabha) of the Committee is given at Annexure-III.

5. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in bold letters in the body of the Report.

NEW DELHI;
February 27, 1999
Phalguna 8, 1920 (Saka)

K. KARUNAKARAN,
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 First Report (Twelfth Lok Sabha) of the Standing Committee on Energy on "Demands for Grants (1998-99) of Department of Atomic Energy" which was presented to Lok Sabha on *4th July, 1998.*

2. Action Taken Notes have been received from the Government in respect of all 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, 4, 5, 6, 7, 9, 10 and 11.

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

Nil

(iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:

Nil

(iv) Recommendations/observations in respect of which final replies of the Government are still awaited :

Sl. No. 8

3. The Committee desire that final reply in respect of the recommendation for which only interim reply has been given by the Government should 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.

A. Budgetary Allocation

Recommendation (Sl. No. 1, Para 1.14)

5. The Committee had observed that during the VIII Plan period, the total expenditure of the Department was short of the initially approved outlay by as much as Rs. 986.49 crore. While there was a shortfall to the tune of Rs. 1514.62 crore in mobilisation of Internal and Extra Budgetary Resources (IEBR), an excess amount of Rs. 528.13 crore was spent by the Department over and above the budgetary support component. Realisation of IEBR by both I&M and Power Sectors had been far short of the envisaged amount. Whereas expenditure out of the budgetary support component of R&D and Power Sectors had exceeded the approved outlay, the same in respect of the I&M Sector had registered a shortfall of as much as Rs. 185.82 crore. Thus, neither had the amount of IEBR been fixed at realistic levels nor had the Department made accurate budget estimates during this period. The Committee had expected the Department to take corrective measures in this regard. The Committee had also noted that the Department had not been able to raise funds from international markets due to the Nuclear Non-Proliferation Regime in force since the 1974 test and that the capacity to raise funds from domestic market was also limited. As such, the Committee had expected the Planning Commission to make more realistic targets of IEBR for the Department and to extend maximum budgetary support to its programmes especially for R&D Sector.

6. The Department of Atomic Energy have *inter-alia,* stated in their reply that while approving the VIII Plan, owing to resource constraints, the proposed outlay was reduced from Rs. 14,400 crore to Rs. 4,119 crore. The budgetary support was also curtailed from the proposed Rs. 4,273 crore to Rs. 619 crore (*i.e.* only 15%) and an IEBR of Rs. 3,500 crore (as against the proposed Rs. 10,127 crore) was approved. The Department have also stated that in spite of their best efforts, the IEBR as approved by the Government could not be mobilised due to adverse market conditions and high interest rates on bonds to be mobilised from the capital market. The Department have further stated that in accordance with the recommendation of the Standing Committee on Energy, the Planning Commission have approved the IEBR on a realistic basis during the current year *i.e.* 1998-99 as proposed by NPCIL, at Rs. 139 crore and for I&M Sector Rs. 39 crore. The Department have added that they will take up the matter with the

Ministry of Finance and Planning Commission and prevail upon them to extend maximum budgetary support for the Department, in particular for the R&D programmes.

7. The Committee are glad to note that the Planning Commission have approved the IEBR on a realistic basis during the year 1998-99 and hope and trust that the Department of Atomic Energy would prevail upon the Ministry of Finance and Planning Commission and be able to get maximum budgetary support for itself. The Committee are, however, not clear as to why the Department have explained the position about NPCIL only whereas the Committee had commented upon the financial allocations of the full Department consisting of Power Sector, I&M Sector and R&D Sector taken together. The Committee desire that analysis of the full Department as given in their recommendation may be furnished to them.

B. Electronics Corporation of India Limited (ECIL)

Recommendation (Sl. No. 3, Para 1.22)

8. The Committee had noted with concern that the physical and financial performance of the Electronics Corporation of India Limited (ECIL) had been dismal over the years. The production and net sales of ECIL had fallen short of the targets during 1995-96, 1996-97 and 1997-98 as also the gross earnings, cost of sales, gross profit and net profit. The Committee were not convinced by ECIL's inability to commit resources for the year 1996-97 towards building up of work-in-progress as the reason for the variance in production. The Committee had felt that lack of concerted efforts on the part of the Corporation had contributed significantly to its dismal performance. Considering the performance of the Corporation in the previous years, the Committee had expressed grave concerns as to how the targets set for 1998-99 would be achieved by ECIL. The Committee were also unhappy to note that unrealistic targets had been fixed for the Corporation since 1995-96. The Committee had felt that targets should be fixed realistically based on the actual performance of the Corporation. The Committee had hoped that the reasons for poor performance would be analysed in detail and the performance of ECIL improved in future.

9. In their reply the Department of Atomic Energy have, *inter-alia,* stated that the product portfolio and the core competencies acquired by ECIL over the years have been essentially towards serving the

needs of three key sectors, namely. Defence, Telecommunications and Nuclear Power. The Ministry of Defence (MoD) and Department of Telecommunications (DoT) have their own public sector undertakings (PSUs) and ECIL has to compete against these preferred PSUs to get a share of the Defence & DoT business. The Department have further stated that the volume of supplies for nuclear power stations have also come down since ECIL's business in this area consists mainly of supplying control & instrumentation equipment for the few power plants of the Nuclear Power Corporation of India Ltd. (NPCIL) and no new nuclear power station could be taken up by the NPCIL during the VIII Plan period. All these factors resulted in ECIL's turnover not showing significant growth in 1995-96 and thereafter and the profits were accordingly marginal. The Department have also stated that the problem has got accentuated because of the heavy salary bill which has become a fixed cost and has to be borne by the Company despite diminishing contributions from several business lines. They have added that analysis of the prevailing market conditions reveals that competition is going to increase, further affecting the already thin profit margins. The only way to achieve at least a break-even position is thus by increasing the turnover. Keeping this in view, the targets were fixed at higher levels, as compared with the previous years achievements. The Department have also stated that inspite of these serious odds, the company is making all efforts to maximise order booking and execution in 1998-99 and expects to be able to book the necessary orders to meet the current year's sales target. Dialogues have been started at high levels with the MoD & DoT to ensure a fair share of business from these sectors. Efforts are also underway to improve the availability, of working capital and ensure utilisation of Government budgetary support to fund capital investments which will lead to better margins in future. To reduce redundant manpower, higher allocation of Government assistance to voluntary retirement scheme has been sought.

10. **The Committee expect the Electronics Corporation of India Limited (ECIL) to improve its performance and get into a position so as to be able to compete against the preferred public sector undertakings to get a share of the Defence and DoT business. The Committee feel that the undertaking can achieve its objective by putting in concerted efforts rather than fixing targets at higher levels. The Committee would like to know the specific efforts made to improve the availability of working capital and maximise order booking and execution in 1998-99. The Committee would also like**

to be apprised of the outcome of dialogues initiate with the MoD and DoT to ensure a fair share of business from these sectors. The Committee also desire to know the result of the efforts made to reduce the number of redundant employees working in the corporation at present.

C. Nuclear Power Corporation of India Ltd. (NPCIL)

Recommendation (Sl. No. 8, Para 1.41)

11. The Committee had noted that NPCIL at present operated ten nuclear power reactors with a capacity of 1840 MWe. It was pursuing a programme of establishing 10,000 MWe by the turn of this century. Though at the time of formation of company, a debt-equity ratio of 1 : 1 with equity flowing initially was committed by the Government, the debt-equity ratio increased to 2 : 1 due to lack of requisite budgetary support over a period of time. In spite of mobilising a substantial amount of funds from the capital market through issue of bonds the corporation had been plagued by difficulties in going in for substantial market borrowings because of short maturity, period of bonds in the context of longer gestation period (8 years) of nuclear power projects, coupled with prevailing high market interest of loans. The tariff structures were also not conducive to resource mobilisation. On account of corporation's small operating base, the generation of sizeable internal surpluses was not possible. The outstanding dues of as much as Rs. 2,000 crore from State Electricity Boards had affected the liquidity of the Corporation. The strategic nature of operation of NPCIL forbade it to have access to foreign sources of funding. The Committee were of the opinion that unless and until drastic steps were taken, realisation of a total installed capacity of 6,560 MWe of nuclear power by the year 2009 would remain a distant dream. It was in this context that the Committee had recommended that the benefits/ incentives of infrastructural projects be extended to nuclear power stations and long-term loans and lower rate of interest be made applicable to them. The Committee had noted that since the country had demonstrated ample indigenous technology and capability of designing, constructing, operating and maintaining nuclear power plants, a beginning had to be made to reduce the gestation period of nuclear power plants from the present level of 8 years to 5-5-$^{1}/_{2}$ years. This would not only yield much needed resource, but would also

reduce the capital cost of the project, to a large extent. The Committee had also recommended perspective planning to increase the share of atomic energy in electricity generation.

12. The Department of Atomic Energy in their reply have stated that they have noted the recommendation of the Committee. They have also stated that a detailed review on project implementation of all the Nuclear Power Plants built by NPCIL has been carried out and several steps have been identified for reduction in gestation period, which would be implemented in the future projects.

13. The Committee find that the reply of the Government is silent on the Committee's recommendation for a perspective planning to increase the share of atomic energy in electricity generation. The Committee expect the Department to take urgent action in the matter. The Committee would like to know the outcome of the review on project implementation of all the Nuclear Power Plants built by NPCIL as well as the steps identified for reduction in gestation period of Nuclear Power Plants.

D. PFC Assistance to NPCIL

Recommendation (Sl. No. 9, Para 1.42)

14. The Committee were pained to note that whereas power generating units of State Electricity Boards were financed through PFC, no such mechanism existed for nuclear operated power generation units. The Committee were of the view that power generation entities, whether in hydel, thermal or nuclear sector ought to be on equal pedestal. The Committee had, therefore, recommended that PFC should also extend term-finance to NPCIL for power generation projects.

15. The Department of Atomic Energy in their reply have stated that the recommendation of the Committee will go a long way in giving a boost to the Nuclear Power Sector by providing long-term finance at a reasonable rate of interest which in turn will reduce the cost of financing the projects.

16. The Ministry of Power in their reply to the recommendation of the Committee have stated that Power Finance Corporation considers

financial assistance for all types of projects related to generation, transmission and distribution of power in the State Sector, Central Sector, Co-operative and Private Sector. PFC has generally not been extending assistance to Central PSUs and so far only National Hydro-Electric Power Corporation (NHPC) had been sanctioned a loan which, also, was not finally availed of by NHPC. There is no bar to FFC's lending to Central PSUs including NPCIL and individual projects can be financed by PFC subject to their meeting the eligibility conditions of PFC.

17. The Committee have been informed by Ministry of Power that Power Finance Corporation (PFC) considers financial assistance to all types of projects related to generation, transmission and distribution of power in the State Sector, Central Sector, Co-operative and Private Sector. There is no bar to PFC's lending to Central PSUs including NPCIL. The Committee, therefore, recommend that NPCIL should also approach PFC for financing their power generation projects and desire to be apprised of the outcome thereof.

E. Resource Mobilisation by NPCIL

Recommendation (Sl. No. 10, Para 1.43)

18. The Committee had noted that in the matter of tariff fixation and distribution, the writ of CEA prevailed to a large extent and such activities were within the domain of it (CEA). The tariff fixed for nuclear power units were not so lucrative and conducive to attract adequate resource mobilisation. The Committee had hoped that with the setting up of tariff fixation authorities at Centre, the resource mobilisation might find a sea-change. However, the Committee were still in doubt whether a corresponding reform in the distribution system would also be forthcoming. The Committee were of the firm view that certain extent of freedom and autonomy should be provided to NPCIL especially in the matter of distribution of power. The Committee had also noted that NPCIL transmitted and distributed its power mainly to State Electricity Boards in a manner decided by CEA. The Committee had recommended that NPCIL should be afforded an opportunity to market its bulk produce not only to SEBs but also to a cluster of industries, co-operatives or any other group entity through MoU route.

19. The Department of Atomic Energy in their reply have stated that it would definitely help if NPCIL is given some flexibility in

allocating power to those SEBs who are prepared to open letters of credit and who do not default in payment of current bills. This would improve the realisation of dues. Supplying to a cluster of industries, co-operatives or any other group entity would also improve the realisation substantially.

20. In their reply the Ministry of Power have stated that under Section 43-A(i) (c) of the Electricity (Supply) Act, 1948, a Generating Company may enter into a contract for the sale of electricity generated by it with any other person with the consent of the competent Government or Governments. Thus the powers are already vested with a Generating Company to supply power *inter-alia* to a cluster of industries, co-operatives or any other group entity if they are juristic persons.

21. The Committee note that under Section 43-A(i)(c) of the Electricity (Supply) Act, 1948, a Generating Company is entitled to enter into a contract for the sale of electricity generated by it with any other person with the consent of the competent Government. The Committee, therefore, recommend that NPCIL should, therefore, take up the matter with the State Governments etc., enabling it (NPCIL) to sell its produce to a cluster of industries, co-operatives and other groups alike so that adequate resources are mobilised for its operations. It can also consider the viability of selling its power to Railways directly which would also be benefitted in its electrification of routes with assured power supply from NPCIL.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 1, Para No. 1.14)

The Committee observe that during the VIII Plan period, the total expenditure of the Department was short of the initially approved outlay by as much as Rs. 986.49 crore. While there was a shortfall to the tune of Rs. 1514.62 crore in mobilisation of Internal and Extra Budgetary Resources (IEBR), an excess amount of Rs. 528.13 crore was spent by the Department over and above the budgetary support component. Realisation of IEBR by both I&M and Power Sectors has been far short of the envisaged amount. Whereas expenditure out of the budgetary support component of R&D and Power Sectors has exceeded the approved outlay, the same in respect of the I&M sector has registered a shortfall of as much as Rs. 185.82 crores. This indicates that neither has the amount of IEBR been fixed at realistic levels nor has the Department made accurate budget estimates during this period. The Committee expect the Department to take corrective measures in this regard. The Committee note that the Department has not been able to raise funds from international markets due to the Nuclear Non-Proliferation Regime in force since the 1974 test. The capacity to raise funds from domestic market is also limited. As such, the Committee expect the Planning Commission to make more realistic targets of IEBR for the Department and to extend maximum budgetary support to its programmes especially for R&D Sector.

Reply of the Government

In this connection, it is clarified that the original proposal from NPCIL for the VIII Plan period and the approvals communicated by the Govt. as well as the cumulative of annual plan proposals and corresponding approvals were as under:—

VIIIth Plan

		VIII Five-year plan proposed by NPCIL	VIII five year plan Approved by Govt.	Cumulative VIII Plan proposed by NPCIL on annual plan basis	Cumulative VIII Plan approved Govt. on annual plan basis	Actual Released/ Achieved
				(Rs. in crores)		
1.	Equity	4273	619.00	3018.00	1080.80	1359.66
2.	IEBR	10127	3500.00	3209.78	4077.37	2337.24
	Total	14400	4119.00	6227.78	5158.17	3696.90

As can be seen from the above table, IEBR of Rs. 10127 crore, proposed by NPCIL for the VIII Five Year Plan was based on the capacity build-up of 7700 MWe of Nuclear Power by the year 2002. However while approving the VIII Plan owing to resource constraints the proposed outlay was reduced from Rs. 14,400 crore to Rs. 4119 crore. The budgetary support was curtailed from the proposed Rs. 4273 crore to Rs. 619 crore (*i.e.* only 15%) where as an IEBR of Rs. 3500 crore (as against the proposed Rs. 10127 crore) was approved. In respect of annual plans based on reduced budgetary support, the actual budgetary support extended to NPCIL was for less than the cumulative requirements of each annual plan. Further, inspite of best efforts, the IEBR as approved by the Govt. could not be mobilised due to adverse market conditions and high interest rates on bonds to be mobilised from the capital market.

However, in accordance with the recommendation of the Standing Committee on Energy, the Planning Commission have approved the IEBR on a realistic basis during the current year *i.e.* 1998-99 as proposed by NPCIL, at Rs. 139 crore and for I&M Sector Rs. 39 crore.

The Department will take up the matter with the Ministry of Finance and Planning Commission and prevail upon them to extend maximum budgetary support for the Department, in particular for the R&D programmes.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II, November 23, 1998]

Comments of the Committee

(Please *see* paragraph 7 of Chapter I of the Report.)

Recommendation (Sl. No. 2, Para No. 1.20)

The Committee feel constrained to observe that the physical performance of the Indian Rare Earths Limited has shown a declining trend during 1996-97 and 1997-98. The production of minerals such as ilmenite, zircon, rutile, zirflor and monazite as well as rare earths like R.E. chloride and T.S.P. was for short of the target during 1996-97. Similarly, the undertaking also failed to achieve the production target in respect of items like zircon, zirflor, monazite, R.E. chloride and T.S.P. during 1997-98. The financial performance of the undertaking has also not been very promising. The Committee are distressed to known that the profit of IRE before depreciation and interest during 1996-97 has been short of target fixed in this regard. Equally disturbing is the fact that the gross earnings and cost of sales of the undertaking during 1997-98 have not matched the targets. Another matter for concern is that the targets fixed for the year 1998-99 with regard to profits before and after depreciation and interest are far short of the provisional achievements of the year 1997-98. The Committee are at a loss to understand the rationale behind fixation of such low targets for the year 1998-99. The Committee trust that the physical and financial performance of the undertaking will be analysed in detail and improvements brought in.

Reply of the Government

1. PHYSICAL PERFORMANCE OF (IREL) IN 1996-97

Production of minerals and rare earths was lower in 1996-97 mainly on account of the following :

(i) During 1996-97, beach-washing collection (one of the important sources of raw materials at Chavara, Distt. Kollam in Kerala State suffered a serious set-back because of agitation of the local inhabitants. The local people apprehend that the sea erosion in the area is due to IREL's beach washing collection, though there is no *prime facie* evidence for this. This resulted in lower production at Chavara. The production was further reduced because of a strike by the employees of the unit during August-November, 1996. The Company could not, therefore, achieve the targeted production of various minerals at Chavara.

(ii) Similarly, because of local agitation, the Company could also not collect beach washing at Manavalakurichi (MK), in the Kanyakumari Distt. of Tamil Nadu State and had to depend only on the dredged sand. Mineral content in dredged sand is lower as compared with that in the beach washings. This resulted in lower production at MK.

(iii) At OSCOM, Chaatrapur District, in Orissa State, production of minerals was lower because a major technical de-bottlenecking exercise had to be taken up, requiring shut-down of the mining activity for more than two months.

(iv) In the Rare Earths (RE) Division, at Alwaye in Kerala State, processing of monazite was affected resulting in lower production of rare earths chlorides and tri-sodium phosphate. This was a result of the difficulties in the movement of one of the co-products, *viz*., Thorium Hydroxide, which had to be transported for long term storage at a location away from Alwaye.

2. FINANCIAL PERFORMANCE OF IREL IN 1996-97

Profit before depreciation and interest was lower on account of the following :

(i) Loss of production at Chavara and other Units, for the reasons indicated under 'Physical Performance' above, led to lower revenue by 9.9% *vis-a-vis* that targeted for the year.

(ii) Extraordinary provision of Rs. 6.36 crore on account of arrears of cess on royalty on sands collected at MK had to be made as per a judgement of the Supreme Court.

(iii) Extraordinary provision of Rs. 3.04 crore on account of retirement benefit for previous years had to be made on account of the Accounting Standard AS-15 becoming mandatory.

3. PHYSICAL PERFORMANCE OF IREL IN 1997-98

Production was lower than the target because of the following reasons :

(i) Production of zircon was lower only at MK. This is because of the fact that MK had to depend on dredged sand, in which the mineral contents are different compared with that in the beach washings.

(ii) Difference in the mineral content in the feed sand was also responsible for the lower production of monazite in MK.

(iii) Reasons for lower production at the R.E. Division are the same as at 1(iv) above.

4. FINANCIAL PERFORMANCE OF IREL IN 1997-98

Cost of sales and gross earnings were lower because of the following reasons :

(i) The budgeted sales and cost of sales/gross earnings had envisaged production of 11,000 MT of Synthetic Rutile valued at Rs. 20.41 crore. However, the Synthetic Rutile Plant (SRP) in OSCOM had to be shut down since June 1997 to enable undertaking necessary technical modifications. Hence, both the cost of sales and the gross earnings were lower than budgeted.

(ii) Because of lower landed prices of imports, IREL was not in a position to sell some of its products as targetted. During the latter half of 1997-98, however the situation improved as imports fell.

(iii) IREL still made a profit of Rs. 2.65 crore (before tax) against the budgeted profit of Rs. 3.10 crore because it succeeded in producing and selling/exporting larger quantities of ilmenite at/from most of its units.

5. PERFORMANCE OF IREL IN 1998-99

(i) Expenditure budget includes provision for pay revision to the officers and supervisory staff due with effect from 01 January 1997 and for unionised staff w.e.f. 01 July 1998. This provision of Rs. 20 crore approx. is extra-ordinary and expected to have a corresponding impact on the profit.

(ii) Performance trend during 1998-99 has, however, been encouraging. As against the estimated loss of about Rs. 6 crore during April-August 98, the Company estimates to have generated some profit, due to better production at Chavara, MK as well as OSCOM.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II/ dated November 23, 1998]

Recommendation (Sl. No. 3, Para No. 1.22)

The Committee note with concern that the physical and financial performance of the Electronics Corporation of India Limited (ECIL) has been dismal over the years. The production and net sales of ECIL have fallen short of the targets during 1995-96, 1996-97 and 1997-98 as also the gross earnings, cost of sales, gross profit and net profit. ECIL's inability to commit resources for the year 1996-97 towards building up of work-in-progress has been cited as the reason for the variance in production. However, the Committee are not convinced by this explanation. The Committee feels that lack of concerted efforts on the part of the Corporation has contributed significantly to its dismal performance. Considering the performance of the Corporation in the previous years, the Committee express grave concerns as to how the targets set for 1998-99 would be achieved by ECIL. The Committee are also unhappy to note that unrealistic targets have been fixed for the Corporation since 1995-96. The Committee feel that targets should be fixed realistically based on the actual performance of the Corporation. The Committee hope that the reasons for poor performance would be analysed in detail and the performance of ECIL improved in future.

Reply of the Government

Performance of Electronics Corporation of India (ECIL)

1. The product portfolio and the core competencies acquired by ECIL over the years have been essentially towards serving the needs of three key sectors, namely, Defence, Telecommunications and Nuclear Power. The Ministry of Defence (MoD) and Department of Telecommunications (DoT) have their own public sector undertakings (PSUs) and ECIL has to compete against these preferred PSUs to get a share of the Defence & DoT business. The volume of supplies for nuclear power stations has also come down since ECIL's business in this area consists mainly of supplying control & instrumentation equipment for the new power plants of the Nuclear Power Corporation of India Ltd. (NPCIL) and no new nuclear power station could be taken up by the NPCIL during the VIII Plan period. All these factors resulted in ECIL's turnover not showing significant growth in 1995-96 and thereafter and the profits were accordingly marginal.

2. The problem has got accentuated because of the heavy salary bill which has become a fixed cost and has to be borne by the Company despite diminishing contributions from several business lines.

3. Analysis of the prevailing market conditions reveals that competition is going to increase, further affecting the already thin profit margins. The only way to achieve at least a breakeven position is thus by increasing the turnover. Keeping this in view, the targets were fixed at higher levels, as compared with the previous years' achievements.

4. In spite of these serious odds, the Company is making all efforts to maximise order booking and execution in 1998-99 and expects to be able to book the necessary orders to meet the current year's sales target. Dialogues have been started at high levels with the MoD & DoT to ensure a fair share of business from these sectors. Efforts are also underway to improve the availability of working capital and ensure utilisation of Government budgetary support to fund capital investments which will lead to better margins in future. To reduce

redundant manpower, higher allocation of Government assistance for voluntary retirement scheme has been sought.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II/ dated November 23, 1998]

Comments of the Committee

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

Recommendation (Sl. No. 4, Para No. 1.24)

The Committee observe with dismay that the Nuclear Fuel Complex (NFC) has not been able to achieve the production targets of some major items during 1996-97 and 1997-98. NFC failed to achieve the targets in the production of PHWR Fuel and coolant Tubes during 1996-97. Similarly, during 1997-98 the production of BWR Fuel and Coolant Tubes fell short of the targets fixed in this regard. The Committee expect that the reasons for failure on the part of the Nuclear Fuel Complex to achieve the fixed targets would be analysed and its performance improved.

Reply of the Government

Performance of Nuclear Fuel Complex (NFC) in 1996-97 & 1997-98

1. It needs to be emphasised that NFC's targets for production of items relating to the pressurised heavy water reactors (PHWR) and boiling water reactors (BWR) are fixed in accordance with the requirements of these items projected by the Nuclear Power Corporation of India Ltd. (NPCIL). These targets are, therefore, at times modulated in tune with the mid-year reviews.

2. The actual requirement of NPCIL with respect to fuel products has been met fully by NFC in all the years upto 1997-98 though the targets per-se for some individual years may not have been achieved. There was considerable improvement in the production of PHWR fuel during 1996-97 and 1997-98, as compared with that in the years upto 1995-96. In fact, considering the figures of actual production of PHWR fuel, that in 1996-97 (161 MT) was the highest till then, though the target of 180 MT could not be achieved fully on account of some persistent problems relating to recovery. Some of these problems were resolved in 1997-98 as a result of which NFC was able to produce

212 MT of PHWR fuel against the target of 200 MT (this production being the highest ever in NFC). The BWR fuel pencils equivalent to 85 assemblies were fabricated during 1997-98 though the number of finished fuel assemblies was 71. The reasons for this shortfall have been fully analysed and NFC is confident of improved performance in 1998-99.

3. The target for production of coolant tubes was fixed based on the requirement of NPCIL (320 nos.) spread over two years, *viz.*, 1996-97 and 1997-98. In 1996-97, a higher target of 240 was kept and, based on the likely achievement during 1996-97, again a higher target of 220 was kept for 1997-98. During these two years, the actual total production was 398 nos. while the total demand of NPCIL was 320 nos., as stated above.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II/ dated November 23, 1998]

Recommendation (Sl. No. 5, Para No. 1.26)

The Committee are troubled to note that the estimated gross margin and the estimated net profit of the year 1998-99 in case of the Tarapur Atomic Power Station (TAPS), Madras Atomic Power Station (MAPS) and Narora Atomic Power Station (NAPS) are significantly lower than the provisional gross margin and the provisional net profit for the year 1997-98. The Committee are particularly concerned about NAPS in which case the gross margin and the net profit projected for the year 1998-99 (estimated) are lower than those of the previous three years. The figures of gross margin and net profit projected for the year 1998-99 for MAPS are also not encouraging compared to the similar figures of the preceding two years. The Committee desire to be apprised of the reasons for such low projection as also the corrective measures taken in this regard.

Reply of the Government

The reasons for lower targets of gross margin and net profit in case of TAPS, MAPS and NAPS for the financial year 1998-99 as compared to the actual (provisional) gross margin and net profit for the financial year 1997-98 are as follows :—

The table below shows the actual generation and targeted generation in the financial year 1997-98 and targeted generation in the financial year 1998-99 for TPS, MAPS & NAPS.

Stations	Target generation (MUs) 1997-98	Actual generation (MUs) 1997-98	Target generation (MUs) 1998-99
TAPS	1740	2134	1740
MAPS	1810	1892	1900
NAPS	2520	3450	2640

The target in case of TAPS for the financial year 1998-99, has been kept at the same level as that of the target for 1997-98 due to a planned refuelling outage for unit-2 which, though it was to be taken up during the previous year, is being taken from August 1998 to October 1998 for three months. The above mentioned postponement of the outage for refuelling had resulted in higher generation in 1997-98, registering a higher gross margin and net profit as compared to the estimates for the financial year 1998-99.

Though the targeted generation of power from MAPS for the financial year 1998-99 is almost the same as the actual generation in the financial year 1997-98, the shortfalls in the targeted gross margin and net profit for the financial year 1998-99 are due to increased operating costs which are mainly due to the following :—

(i) For the year 1998-99, heavy water loss has been assumed at the normative level. However, in the year 1997-98, the station could restrict the heavy water losses to a lower level which reduced the operating expenditure.

(ii) The cost of repair and maintenance cost has been estimated at a higher level for the year 1998-99 in view of the in service inspection of coolant channels of MAPS-2. However, the actual repair and maintenance costs for the year 1997-98 were at a lower level, which resulted in a lower operating expenditure.

With regard to NAPS the targeted generation for 1998-99 has been set at a higher level than the target for 1997-98 and the average performance of the past five years (average P.L.F. of NAPS for the past five years is 53.5%). However, the actual performance registered in the preceding three individual years is higher than the targeted generation for 1998-99 due to the fact that the original plan for the annual maintenance outage of both units of NAPS in 1997-98 was abandoned in view of the better performance of the systems and the continued operation resulted in higher generation. As the gross margin and net profit values are dependent on the level of generation, the estimates for 1998-99 correspond to the set targeted values.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II/ dated November 23, 1998]

Recommendation (Sl. No. 6, Para No. 1.39)

The Committee note with concern that the Plant Load Factor of the year 1998-99 (estimated) of the Nuclear Power Corporation of India Limited (NPCIL) is lower than that of the year 1997-98 (provisional) and 1996-97. Further, the gross margin and net profit of the company are likely to be considerably lower in 1998-99 as compared to the preceding two years. The Committee direct the Department to make remedial measures so as to effect improvement in plant load factor, gross margin and net profit of the company.

Reply of the Government

The targeted Plant Load Factor (PLF), Gross margin and Net Profit for the financial years 1997-98 and 1998-99 are given below :—

Targets	1997-98	1998-99
Plant Load Factor (%)	63.12	66.16
Gross Margin (Rs. in crores)	531.01	539.78
Net Profit (Rs. in crores)	202.20	176.52

As can be seen from the above table, the targeted Plant Load Factor is higher by about 3% for the financial year 1998-99 as compared to the targeted PLF for the year 1997-98. The targeted gross margin for the year 1998-99 is higher as compared to the targeted gross margin for 1997-98. The targeted net profit for the year 1998-99 is less as compared to the targeted net profit for the financial year 1997-98 because of higher operating cost of the units in the year 1998-99 as compared to 1997-98.

The higher performance in the financial year 1997-98 with a PLF of 71% is mainly due to better performance of both the units at NAPS. The operating performance of NAPS was higher in the financial year 1997-98 as the annual maintenance shutdown planned while setting the targets, was not resorted to in both the units in view of the better performance of the systems.

The actual gross margin and net profit for the financial year 1997-98 are higher because of better performance of the units.

However, the targets for 1998-99 have been set on the basis of the average performance of the past five years and after providing for the planned outages for maintenance work, regulatory requirements etc. Accordingly, the targets for 1998-99 are higher than the average performance of the stations in the preceding five years, (average PLF for past five years was 57%) but less than the actual performance in the preceding two years. The profitability figures are based on the performance targets. Since the performance targets are lower as compared to actual achievements in the preceding two years, the profitability figures estimated are also low for the financial year 1998-99.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II/ dated November 23, 1998]

Recommendation (Sl. No. 7, Para No. 1.40)

The Committee are happy to learn that scientists and engineers of DAE have been able to make RAPS-II critical, using indigenous technology only. What is more heartening to note is that in spite of embargoes put by foreign countries in respect of men, material, machinery and technology, the nuclear scientists have been able to demonstrate their skill and capabilities beyond doubt. By this singular feat, the Government was able to save around Rs. 200 crore, as compared to what would have been the position had the project been handled by foreign agencies/companies. Furthermore, the commissioning schedule was reduced by as many as six months. The Committee hope and trust that with the commissioning of this unit, the chronic problem of power shortage in Northern Grid will be met to a large extent.

Reply of the Government

The observation of the Committee has been noted.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II dated November 23, 1998]

Recommendation (Sl. No. 9, Para No. 1.42)

The Committee are pained to note that whereas power generating units of State Electricity Boards are financed through PFC, no such mechanism exists for nuclear operated power generation units. The Committee are of the view that power generation entities, whether in hydel, thermal or nuclear sector ought to be on equal pedestal. The Committee, therefore, recommend that PFC should also extend term-finance to NPCIL for power generation projects.

Reply of the Department of Atomic Energy

The recommendation has been noted and it is hoped that it will go a longway in giving a boost to the Nuclear Power Sector by providing long-term finance at a reasonable rate of interest which in turn will reduce the cost of financing the projects.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II dated November 23, 1998]

Reply of the Ministry of Power

Power Finance Corporation considers financial assistance for all types of projects related to generation, transmission and distribution of power in the State Sector, Central Sector, Cooperative and Private Sector.

PFC has generally not been extending assistance to Central PSUs and so far only National Hydro-electric Power Corporation (NHPC) had been sanctioned a loan which, also, was not finally availed of by NHPC. There is no bar to PFC's lending to Central PSUs including NPCIL and individual projects can be financed by PFC subject to their meeting the eligibility conditions of PFC.

Comments of the Committee

(Please *see* paragraph 17 of Chapter I of the Report.)

Recommendation (Sl. No. 10, Para No. 1.43)

The Committee further note that in the matter of tariff fixation and distribution, the writ of CEA prevails to a large extent and such activities are within the domain of it (CEA). At present, the tariff fixed for a nuclear power units are not so lucrative and conducive to attract adequate resource mobilisation. The Committee hope and trust that with the setting up of tariff fixation authorities at Centre, the resource mobilisation may find a sea-change. However, the Committee are still in doubt whether a corresponding reform in the distribution system would also be forthcoming. The Committee are of the firm view that certain extent of freedom and autonomy should be provided to NPCIL especially in the matter of distribution of power. At present NPCIL transmit and distribute its power mainly to State Electricity Boards in a manner decided by CEA. The Committee recommend that NPCIL should be afforded an opportunity to market their bulk produced not only to SEBs but also to a cluster of industries, co-operatives or any other group entity through MOU route.

Reply of the Department of Atomic Energy

The recommendations are noted. These recommendations would definitely help if NPCIL is given some flexibility in allocating power to those SEBs who are prepared to open letters of credit and who do not default in payment of current bills. This would improve the realisation of dues. Supplying to a cluster of industries, co-operatives or any other group entity would also improve the realisation substantially.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II/
dated November 23, 1998]

Reply of the Ministry of Power

Under Section 43-A(i) (c) of the Electricity (Supply) Act, 1948 a Generating Company may enter into a contract for the sale of electricity generated by it with any other person with the consent of the competent Government or Governments. Thus the powers are already vested with a Generating Company to supply power *inter-alia* to a cluster of industries, cooperatives or any other group entity if they are juristic persons.

Comments of the Committee

(Please *see* paragraph 21 of Chapter I of the Report.)

Recommendation (Sl. No. 11, Para No. 1.44)

It has been brought to the notice of the Committee that menace of outstanding dues has plagued the operation of NPCIL too. The CMD, NPCIL was candid enough to admit before the Committee that arrears amounting to Rs. 2,000 crore was due from State Electricity Boards which had a deleterious effect on the operating performance of NPCIL. The Committee are of the firm view that outstanding dues of cash strapped PSUs like NPCIL ought to be wiped out at the first opportunity. The Committee note that in order to liquidate the dues of SEBs to public sector undertakings, the Government has formulated a guarantee scheme for the power sector. The Committee recommend the similar benefits should also be made applicable to central power entities under the Department of Atomic Energy. Alternatively, SEBs drawing power from NPCIL should open LoC for meeting the expenditure.

Reply of the Department of Atomic Energy

The recommendations are noted. With the implementation of these recommendations, the cash flow problems experienced in NPCIL would be solved as far as the current bills are concerned. However, the problem of outstanding dues would still remain for which a better alternative than recovery of outstanding dues from SEBs through appropriation from Central Plan Assistance would have to be evolved in line with the proposed securitisation of past receivables from SEBs which is under consideration of the Government.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II
dated November 23, 1998]

Reply of the Ministry of Power

The Finance Minister in his Budget Speech for 1998-99 announced that the Government would evolve a guarantee scheme to cover dues from SEBs to PSUs of Ministry of Coal and Power. Hence the scheme under consideration relates to outstanding dues of these PSUs only. However, dues of PSUs under Department of Atomic Energy (upto November/December, 1996) are being recovered from the Central Plan Assistance of the concerned States subject to an overall ceiling of 15% of the Central Plan assistance payable to State Government.

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

—NIL—

CHAPTER V

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

Recommendation (Sl. No. 8, Para No. 1.41)

The Committee note that NPCIL at present operates ten nuclear power reactors with a capacity of 1840 MWe. It was pursuing a programme of establishing 10,000 MWe by the turn of this century. Though at the time of formation of the company, a debt-equity ratio of 1:1, with equity flowing initially was committed by the Government, the debt equity ratio increased to 2:1 due to lack of requisite budgetary support over a period of time. In spite of mobilising a substantial amount of funds from the capital market through issue of bonds, the Corporation has been plagued by difficulties in going in for substantial market borrowings because of short maturity period of bonds in the context of longer gestation period (8 years) of a nuclear power projects, coupled with prevailing high market interest of loans. The tariff structures are also not conducive to resource mobilisation. On account of Corporation's small operating base, the generation of sizeable internal surpluses is not possible. the outstanding dues of as much as Rs. 2,000 crores from State Electricity Boards has affected the liquidity of the Corporation. The strategic nature of operation of NPCIL forbid it to have access to foreign sources of funding. The Committee are of the opinion that unless and until drastic steps are taken, realisation of a total installed capacity of 6500 MWe of nuclear power by the year 2009 will remain a distant dream. It is in this context that the Committee recommend that the benefits/incentives of infrastructural projects be extended to nuclear power stations and long-term loans and lower rate of interest be made applicable to them. Since the country has demonstrated ample indigenous technology and capability in designing, constructing, operating and maintaining nuclear power plants, a beginning has to be made to reduce the gestation period of nuclear power plants from the present level of 8 years to 5-$5^1/_2$ years. This will not only yield much needed resource, but will also reduce the capital cost of the project, to a large extent. The Committee also recommend perspective planning to increase the share of atomic energy in electricity generation.

Reply of the Government

The recommendations/observation are noted. A detailed review on project implementation of all the Nuclear Power Plants built by NPCIL has been carried out and several steps have been identified for reduction in gestation period, which would be implemented in the future projects.

[Department of Atomic Energy O.M. No. 1/2(6)/98-B/Vol. II dated November 23, 1998]

Comments of the Committee

(Please *see* paragraph 13 of Chapter I of the Report.)

NEW DELHI;
February 27, 1999
Phalguna 8, 1920 *(Saka)*

K. KARUNAKARAN,
Chairman,
Standing Committee on Energy.

ANNEXURE I

EXTRACTS OF MINUTES OF THE FIRST SITTING OF SUB-COMMITTEE ON ACTION TAKEN REPORTS OF STANDING COMMITTEE ON ENERGY (1998-99) HELD ON FEBRUARY 15, 1999

The Sub-Committee met from 15.00 hrs. to 16.00 hrs.

PRESENT

MEMBERS

Shri Ghulam Nabi Azad — *Convenor*

2. Shri Sushil Chandra Verma

3. Shri Nuthanna Kalva Ramakrishna Reddy

SECRETARIAT

Shri R.S. Kambo — *Under Secretary*

2. At the outset, the Convenor of the Sub-Committee welcomed the Members of the Sub-Committee to its first sitting.

3. The Sub-Committee then considered the following draft reports :—

(i) Action taken by the Government on the recommendations contained in the First Report of the Standing Committee on Energy (1998-99) on Demands for Grants (1998-99) of Department of Atomic Energy.

(ii) ** ** **

(iii) ** ** **

(iv) ** ** **

4. The Sub-Committee adopted the Draft Reports mentioned at (i), (ii) and (iv) above relating to Department of Atomic Energy, Ministry of Coal and Ministry of Power respectively without any change.

5. ** ** **

6. The Sub-Committee authorised the Convenor to finalise the reports and submit these to the Chairman for consideration by the Standing Committee on Energy.

The Sub-Committee then adjourned.

** Sub-Para (ii), (iii) and (iv) of Paragraph 3 and Paragraph 5 relating to other Reports have not been included.

ANNEXURE II

EXTRACTS OF MINUTES OF THE THIRTEENTH SITTING OF STANDING COMMITTEE ON ENERGY (1998-99) HELD ON FEBRUARY 23, 1999

The Committee met from 15.30 hrs. to 16.15 hrs.

PRESENT

Shri K. Karunakaran — *Chairman*

MEMBERS

2. Shri Basudeb Acharia
3. Shri Parasram Bhardwaj
4. Shri K.C. Kondaiah
5. Shri Salkhan Murmu
6. Shri Amar Roy Pradhan
7. Shri Kanumuru Bapi Raju
8. Shri Braj Mohan Ram
9. Shri Anantha Venkatrami Reddy
10. Shri Larang Sai
11. Shri Shailendra Kumar
12. Prof. (Smt.) Rita Verma
13. Shri Jalaludin Ansari
14. Shri Gandhi Azad
15. Shri Ghulam Nabi Azad
16. Shri Brahmakumar Bhatt
17. Shri Bangaru Laxman
18. Shri Ramashanker Kaushik
19. Shri S. Agniraj

SECRETARIAT

1. Shri John Joseph — *Joint Secretary*
2. Shri P.K. Bhandari — *Deputy Secretary*
3. Shri R.S. Kambo — *Under Secretary*

2. At the outset, the Chairman of the Committee welcomed the Members of the Committee to its Thirteenth sitting.

3. The Committee then considered the following draft reports:—

(i) Action taken by the Government on the recommendations contained in the First Report of the Standing Committee on Energy (1998-99) on Demands for Grants (1998-99) of Department of Atomic Energy.

(ii) ** ** **

(iii) ** ** **

(iv) ** ** **

4. The Committee adopted the aforesaid Draft Reports without any amendments.

5. The Committee also authorised the Chairman to finalise the above mentioned Reports after making consequential changes arising out of factual verification by the concerned Ministry/Department and to present the same to both the Houses of Parliament.

The Committee then adjourned.

**Sub-Para (ii), (iii) and (iv) of Paragraph 3 relating to other Reports have not been included.

ANNEXURE III

(*Vide* Para 4 of Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FIRST REPORT OF THE STANDING COMMITTEE ON ENERGY (TWELFTH LOK SABHA)

I.	Total No. of Recommendations made	11
II.	Recommendatons that have been accepted by the Government (*Vide* recommendations at Sl. Nos. 1, 2, 3, 4, 5, 6, 7, 9, 10 and 11	10
	Percentage of total	90.1
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	Nil
V.	Recommendations in respect of which final replies of the Government are still awaited (*Vide* recommendation at Sl. No. 8)	1
	Percentage of total	9.9