

**GOVERNMENT OF INDIA
CHEMICALS AND FERTILIZERS
LOK SABHA**

STARRED QUESTION NO:377
ANSWERED ON:19.08.2010
CONVERSION OF NON-GAS BASED FERTILIZER UNITS
Shankar Alias Kushal Tiwari Shri Bhisma

Will the Minister of CHEMICALS AND FERTILIZERS be pleased to state:

- (a) the number of the non-gas based units converted into gas based urea units during the last three years and the current year;
- (b) the number of the non-gas based units identified by the Government for converting into gas based units;
- (c) the expenditure likely to be incurred thereon;
- (d) whether there is any scheme for providing incentives by the Government in case the non-gas based units are converted into gas based ones; and
- (e) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF CHEMICALS AND FERTILIZER(SHRI SRIKANT KUMAR JENA)

(a) to (e) A statement is laid on the Table of House.

Statement referred to in reply to parts (a) to (e) of Lok Sabha Starred Question No. 377 to be answered on 19-08-2010.

In the last 3 years, including the current year, 4 units i.e. Shriram Fertilizers & Chemicals Ltd., Kota,IFFCO, Phulpur-I and Phulpur-II, Chambal Fertilizers & Chemicals Ltd., Gadepan, which were earlier non-gas based units converted to gas based units. In addition, 4 FO/LSHS units i.e. National Fertilizers Limited (Nangal, Bhatinda and Panipat), Gujarat Narmada Valley Fertilizers Company Limited, Bharuch and 4 Naphtha-based units i.e. Zuari Industries Limited, Goa, Mangalore Chemicals & Fertilizers Ltd., Mangalore, Madras Fertilizers Ltd., Manali and SPIC, Tuticorin and 2 shut-down units i.e. FACT, Kochi and Duncan, Kanpur are being identified by the government for converting into gas based units.

As per the policy notification dated 08.03.2007, it has been stated that in order to provide incentives for conversion to gas, since there is no recognition of investment made by units for conversion, there will be no mopping up of energy efficiency for a fixed period of 5 years for Naphtha based as well as for FO/LSHS based units. Capital subsidy will be considered for FO/LSHS based units for which DOF will notify a separate scheme in consultation with Department of Expenditure (DOE) Ministry of Finance. Later, government notified on 6.3.2009, a policy for conversion of FO/LSHS urea units to Natural Gas which is placed at Annexure-I.

As regards expenditure for conversion to gas based unit, the cost will depend upon the existing feedstock, technology and vintage of each unit. However, as indicated above, there is no direct expenditure of Government towards the conversion project except for incentives towards conversion in the form of energy savings and special fixed cost (only FO/LSHS plants) after the conversion is completed.

Annexure-1
No. 12014/1/2008-FPP
Government of India
Ministry of Chemicals & Fertilizers
(Department of Fertilizers)

Shastri Bhawan, New Delhi.
Dated the 6th March, 2009.
To,
CMD/MD
NFL, GNVFC

Subject: Policy for Conversion of FO/LSHS urea units to Natural Gas

Sir,
I am directed to convey the approval of Government on policy for conversion of FO/LSHS units to gas based units. To expedite the

conversion of FO/LSHS units, the Government have approved to recognize cost of conversions of FO/LSHS units through a fixed cost for five years after conversion as per following parameters/conditions.

- a) Only FO/LSHS units viz. NFL- Nangal, NFL- Bathinda, NFL – Panipat and GNVFC-Bharuch would be covered under this policy.
- b) Such units would not be allowed to use FO/LSHS as feedstock after conversion.
- c) PDIL will evaluate the project report by conducting techno-economic feasibility study. The actual project cost for conversion would be admitted after scrutiny by a team comprising of representatives of PDIL, DOF, FICC and respective units and will be in accordance with the final PIB approval along with exchange rate variation and variation in statutory levies.
- d) The pre-set energy would be allowed for 5 years and savings in energy with respect to the same would be considered on designed/guaranteed basis and then same would be available to the unit for partially meeting the project cost. Keeping in view the above, the percentage of project cost to be considered for determining special fixed cost will be decided by the PIB while approving the project cost.
- e) The Special Fixed Cost Component shall include:

(i) Percentage of the Project Cost as decided by PIB

(ii) Interest on Borrowed Capital

(iii) Return on own funds

(iv) Income tax on Special Fixed Cost (after netting off with respect to allowable project depreciation under Income Tax, Revenue from special additional fixed cost and interest charge allowed)

f) 12% post tax return (pre tax 18.18% after 30% CT + 10% SC + 3% EC) would be considered for own funds deployed for the conversion project.

g) The units may fund the project with a combination of borrowed and own funds. Borrowing for project cost would be considered at the actual rate of interest subject to maximum of SBI PLR.

h) The special additional fixed cost so determined would be fixed for 5 years period and would be paid from the date of commercial production post conversion upto the end of 5 years and shall be withdrawn at the end of 5 years. The special fixed cost will be paid only for production till 100% of the re-assessed capacity.

i) The project cost considered for special additional fixed cost would not be considered/ recognized as capital addition for the purposes of NFA as well as depreciation during current pricing and future pricing if any.

j) The principal repayment would be considered on half yearly/ quarterly basis for interest computation as per loan agreement/ practice of lending Institution.

2. The above scheme would be applicable to all projects undertaken in compliance to the provisions of NPS-III for conversion of FO/LSHS units to gas based.

Yours faithfully,

Sd/-

(B.N. Tiwari)

Director

Tel No. 23381294

Copy to:

1. Secretaries of the Department of Expenditure, Department of Revenue, Department of Economic Affairs, Department of Agriculture & Cooperation, Department of Commerce, Department of Industrial Policy & Promotion, Planning Commission.
2. Director General, Fertilizer Association of India, 10, Shaheed Jit Singh Marg, New Delhi. 110067.
3. Executive Director, FICC
4. All Officers/Sections in the Department of Fertilizers and office of FICC.

Copy also to: I) Smt. Vini Mahajan, Joint Secretary, Prime Minister's Office, South Block, New Delhi.