20

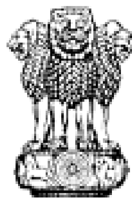
STANDING COMMITTEE ON ENERGY (2010-2011)

FIFTEENTH LOK SABHA

MINISTRY OF POWER

[Action Taken on the recommendations contained in the Ninth Report (15th Lok Sabha) on 'Funding of Power Projects']

TWENTIETH REPORT



LOK SABHA SECRETARIAT
NEW DELHI

August, 2011/Bhadrapada, 1933 (Saka)

TWENTIETH REPORT

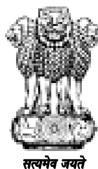
STANDING COMMITTEE ON ENERGY
(2010-2011)

(FIFTEENTH LOK SABHA)

MINISTRY OF POWER

[Action Taken on the recommendations contained in the Ninth Report (15th Lok Sabha) on 'Funding of Power Projects']

Presented to Lok Sabha on 30th August, 2011
Laid in Rajya Sabha on 30th August, 2011



LOK SABHA SECRETARIAT
NEW DELHI

August, 2011/Bhadrapada, 1933 (Saka)

COE No. 214

Price : Rs. 70.00

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Fourteenth Edition) and printed by M/s. The Indian Press, Delhi-110 033.

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COMPOSITION OF THE STANDING COMMITTEE ON ENERGY (2010-2011)

Shri Mulayam Singh Yadav—*Chairman*

MEMBERS

Lok Sabha

2. Mohammad Azharuddin
3. Shri S.K. Bwiswmuthiary
4. Shri P.C. Chacko
5. Shri Adhir Ranjan Chowdhury
6. Shri Ram Sundar Das
7. Shri Paban Singh Ghatowar@
8. Shri Syed Shahnawaz Hussain*
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11. Shri Sanjay Nirupam
12. Shri Jagdambika Pal
13. Shri Ravindra Kumar Pandey
14. Shri Nityananda Pradhan
15. Shri M.B. Rajesh
16. Shri K. Chandrasekhar Rao
17. Dr. K.S. Rao#
18. Shri Ganesh Singh
19. Shri Radha Mohan Singh
20. Shri Vijay Inder Singla
21. Shri E.G. Sugavanam

@Ceased to be member of the Committee *w.e.f.* 12th July, 2011.

*Nominated *w.e.f.* 18th October, 2010 *vice* Shri Arjun Munda.

**Nominated *w.e.f.* 27th September, 2010 *vice* Shri Subhash Bapurao Wankhede.

#Ceased to be member of the Committee *w.e.f.* 28th January, 2011.

Rajya Sabha

22. Shri Govindrao Adik
23. Shri V.P. Singh Badnore
24. Shrimati Shobhana Bhartia***
25. Shri Shyamal Chakraborty
26. Shri Rama Chandra Khuntia
27. Shri Bhagat Singh Koshyari
28. Shri Jesudasu Seelam
29. Shri Mohammad Shafi***
30. Shri Motilal Vora
31. Shri Veer Pal Singh Yadav

SECRETARIAT

1. Shri Brahm Dutt — *Joint Secretary*
2. Shri Abha Singh Yaduvanshi — *Director*
3. Shri N.K. Pandey — *Additional Director*
4. Shri Rajesh Ranjan Kumar — *Deputy Secretary*

***Nominated *w.e.f.* 21st September, 2010.

INTRODUCTION

I, the Chairman, Standing Committee on Energy having been authorized by the Committee to present the Report on their behalf, present this 20th Report on the action taken by the Government on the recommendations contained in 9th Report of the Standing Committee on Energy on 'Funding of Power Projects'.

2. The 9th Report was presented to the Lok Sabha/laid in Rajya Sabha on 10th August, 2010. Replies of the Government to the recommendations contained in the Report were received from the Ministry of Finance (Deptt. of Financial Services) on 8th November, 2010, from the Ministry of Finance (Deptt. of Revenue) on 9th November, 2010, from the Ministry of Power on 4th January, 2011 and from the Ministry of Finance (Deptt. of Economic Affairs) on 30th June, 2011.

3. The Committee took evidence of the representatives of the Ministry of Power and Ministry of Finance on 3rd June, 2011 to seek clarifications on certain important aspects regarding the subject.

4. The Report was considered and adopted by the Committee at their sitting held on 24th August, 2011.

5. An Analysis on the Action Taken by the Government on the recommendations contained in the 9th Report of the Committee is given at Appendix-IV.

6. 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;
29 *August*, 2011
7 *Bhadrapada*, 1933 *(Saka)*

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on Energy.

CHAPTER I

REPORT

This Report of the Standing Committee on Energy deals with the action taken by the Government on the Observations/Recommendations contained in their Ninth Report (Fifteenth Lok Sabha) on the subject 'Funding of Power Projects' pertaining to the Ministry of Power and the Ministry of Finance.

2. The Ninth Report was presented to Lok Sabha on 10th August, 2010 and was laid on the Table of Rajya Sabha on the same day. The Report contained 15 Observations/Recommendations.

3. Action Taken Notes in respect of all the fifteen Observations/ Recommendations contained in the Report have been received from the Government. These have been categorized as follows:

(i) Observations/Recommendations which have been accepted by the Government:

Serial Nos. 1, 3, 4, 6, 7, 8, 9, 13 and 14

Total–09
Chapter-II

(ii) Observations/Recommendations which the Committee do not desire to pursue in view of the Governments replies:

Serial Nos. 5 and 12

Total–02
Chapter-III

(iii) Observations/Recommendations in respect of which the replies of the Government have not been accepted by the Committee and which require reiteration:

Serial Nos. 2, 10, 11 and 15

Total–04
Chapter-IV

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

Nil

Total–00

Chapter–V

4. After considering and being dissatisfied with the replies furnished by the Ministry of Power pertaining to the issues of bridging the funding gap and creation of National Electricity Fund (NEF) and the Ministry of Finance (Deptt. of Revenue) on the issues of allowing tax free bonds for power sector and tax exemption for interest income on the investments in power sector (categorized under Chapter IV of this Report), the Committee at their sitting held on 19th May, 2011 decided to take further evidence of the representatives of both the Ministries for seeking clarifications on various aspects. Accordingly, the Committee at their sitting held on 3rd June, 2011 discussed in detail the actions taken by both the Ministries on the recommendations contained in their Ninth Report.

5. The Committee, in the light of the Action Taken Notes furnished by the Government and the evidence of the representatives of both the Ministry of Power and the Ministry of Finance, have dealt with the action taken by the Government on some of their recommendations that require reiteration or merit comments, in succeeding paragraphs. **The Committee desire that Action Taken Notes on the Observations/Recommendations contained in Chapter-I of the Report be furnished to them within three months of the presentation of this Report.**

A. Strategy to meet the Plan targets

(Recommendation Sl.No. 2, Para No. 2.2)

6. Based on the data of the physical targets, achievements made, fund allocated and expenditure incurred during the 9th, 10th and 11th Five-Year Plan periods so far, the Committee in their Ninth Report had pointed out that the planning for capacity addition *vis-à-vis* proposed funding provisions had been grossly unrealistic. The Committee had also taken note of the fact that the target of capacity addition during the 11th Plan period had been reduced from 78,700 MW to 62,000 MW in the mid-term appraisal.

Besides, it had been observed that transmission and distribution were the areas which required immediate and positive attention of all the stakeholders. The Committee had recommended that necessary spadework, taking into account the past experiences, should be ensured before embarking on a new initiative for capacity addition and other projects in transmission/distribution and social sector schemes like Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY). It was emphasized that inter-se-priority among the various heads/stages of the capacity addition resulting in the benefit to the end-users be decided keeping in view the stakes from all the concerned *vis-à-vis* their obligation in the achievement of the target and thereafter a well thought out, realistic, implementable strategy be drawn ensuring the management of the finances and other base work essential for setting up of power projects and its essential arms like transmission and distribution network.

7. The Ministry of Power, in their written reply, stated:—

"As per the mid term appraisal of the XI Plan the capacity addition target of 62,374 MW for 11th Plan has been fixed by Planning Commission considering the preparedness of the projects for likely commissioning during 11th Plan. While fixing up the target for 11th Plan, main reason for slippages of projects during previous plans were analyzed in details and taken care while selecting the projects for 11th Plan. Besides a careful selection of projects feasible during 11th Plan, a well thought out Strategy has been evolved towards implementation of these projects as per their schedule. The coming up of a project in time is dependent on a number of factors. Major Issues identified for timely Implementation of project during 11th Plan and beyond were as follows:

- Manufacturing Capability of Main Plant and Balance of Plant Equipment to be commensurate with capacity addition.
- Adequate Construction and Erection Agencies.
- Adequate Construction Machinery.
- Availability of Adequate Fuel and Key materials.
- Adequate Transportation facilities for Equipment and Fuel.
- Manpower development including training facilities.

- Slow process of decision making and cumbersome payment procedure adopted by Utilities.

It may be mentioned that as against the above target, a capacity of 29361 MW has been commissioned till November 20, 2010 in the XIth Plan. As far as funding gap of about Rs.4 lakh crore is concerned, the Sub-Committee has submitted the Report and likely to be adopted by GoM on 29.10.2010."

8. The Committee desired to know the updated status of the report of the Sub-Committee regarding funding gap, which was to be adopted by GoM on 29th October, 2010. The Ministry of Power in a written reply have stated that the Sub-Committee had made various recommendations, which were later considered and adopted by the Group of Ministers on Power Sector issues in its meeting held on 29th October, 2010.

9. The Committee in their Ninth report had highlighted a very important issue of logical and realistic planning taking into account the past experiences on both physical and financial fronts. In view of non-achievements of targets and unavailability of adequate funds to reach them, the Committee had recommended the Ministry to draw well thought out, realistic and implementable strategy and decide inter-se-priority among the various heads/stages of the capacity addition ensuring the management of finances and other base work essential for generation, transmission and distribution projects. The Committee do not concur with the Ministry on the statement that while fixing up the target for 11th Plan, main reason for slippages of projects during previous plans were analysed in details and taken care while selecting the projects for 11th Plan. Had the Government analysed in detail the main reasons for slippages of projects during previous Plans and taken adequate care, a downward revision of the capacity addition target upto the level of 62,374 MW in the mid-term appraisal of the 11th Plan would not have arisen. Further, the Committee are not convinced with the claim of the Ministry that a careful selection of project feasible during 11th Plan was done and a well thought out strategy was evolved towards implementation of these projects as per their schedule. The achievement of merely 34,462 MW of capacity addition during the first

four years of the 11th Plan itself speaks volumes about poor implementation of the 11th Plan projects. Moreover, the major issues identified by the Ministry affecting the timely implementation of projects appear to be well within the reach of the Ministry provided these are attended in a planned way with full alertness. Even the exigencies like tightening of visa norms for foreign personnel working in the power sector, geological surprises for hydro projects, loading of Balance of Plants vendors beyond their capacity to deliver, local agitation, contractual issues and suspension/revocation of environmental clearance on account of environmental concerns etc., as enumerated by the Ministry are not the ones which cannot be foreseen and taken care of at the time of formulation of the plan, its implementation schedule, financial aspects and the overall target of the Plan.

10. With regard to funding gap of about Rs. 4 lakh crore, the Committee have been informed that the Sub-Committee has submitted the Report which was adopted by the GoM on 29th October, 2010. Regarding action taken on most of the recommendations of GoM, the Committee have been informed that the issues are being submitted to Cabinet Committee on Infrastructure (CCI) for its guidance. On setting up National Electricity Fund (NEF), the Ministry of Power have informed that they are submitting a Memorandum for consideration of the Cabinet. With regard to tax related measures, the Committee have been given to understand that the Ministry of Power has submitted the proposals to the Ministry of Finance as a part of Annual budgetary exercise. The Committee feel that the matter has been dealt with in a routine manner and the seriousness of the matter has been undermined as conclusive action is yet to be taken by the Government on recommendations of the Group of Ministers. Now that the proposed measures are meant to bridge the huge funding gap in Power sector to the tune of Rs. 4 lakh crore, have been adopted by the Group of Ministers, the Committee desire that the issues may be pursued with utmost urgency to save the precious time so as to be able to achieve the targets. The outcome may be intimated to the Committee at the earliest. The Committee also desire that the details of the planning and strategy of the Ministry to achieve about 28,000 MW of capacity

addition during the terminal year of the XIth plan and their financial management plans for not only generation projects, but also for accomplishment of transmission and distribution projects during the current plan period be worked out and acted upon.

B. Allowing Tax free Bonds for Power Sector

(Recommendation Sl. No. 10, Para No. 2.10)

11. The Committee, without making any comment on the policy decision of the Ministry of Finance to discourage tax free bonds in general, had emphasized in their Ninth Report that in any developing country, the Government has to set priorities to nurture the key infrastructure sectors including the power sector as the development of power sector would lead to increase in overall economic activities. In view of the huge investment required in the power sector and in view of a huge potential of investment available in small savings sector, the Committee had recommended that the Ministry of Finance should allow PFC and REC to issue tax free bonds to raise funds, as a special case.

12. The Ministry of Finance (Department of Revenue) in their written reply stated:—

"The recommendation of the Committee is not acceptable. In this regard a considered policy decision has been taken involving Department of Revenue, Department of Economic Affairs and Economic Advisor to Finance Minister. The considered opinion of the Ministry of finance has been that the fiscal instruments should not be used as an instrument to increase project viability. The reasons for discouraging tax free bonds are as under:

(a) The resources of the country are limited so the available liquidity in the market. The issuance of tax free bonds by different governmental agencies tend to crowd out the private sector's requirement for long term funds. It also affects the development of a vibrant corporate bond market where interest rates are determined by demand and supply. Tax free bonds thus tend to distort the actual market determined rates of interest and lead to competing demands for issue of such bonds by other entities as

well. It violates the principle of horizontal equity among various entities seeking funds for financing their projects.

(b) There is also a revenue loss of roughly Rs. 24 crores annually for every Rs.1000 crores of bond issue (This is based on the assumption of an average tax rate of 30% on a bond with a pre-tax interest rate of 8%).

In the light of the above, the given recommendation is not acceptable, hence no action required to be taken at the level of Department of Revenue."

13. The Committee desired to know from the Ministry of Finance (Deptt. of Revenue) the reasons/circumstances under which some other infrastructure sectors like railways, ports, housing and highway development were permitted to raise funds through tax free bonds.

14. The Ministry of Finance in their written reply stated *inter alia* that the recommendation of the Committee pertaining to issue of tax free bonds is under reconsideration of the Ministry and further course of action would be decided at appropriate level. They assured that the decision in this regard would be communicated to the Committee.

15. The Committee find that the Department of Revenue have reiterated their earlier stated position instead of being logical and progressive and without re-examining the issue. The Department has stuck to their previous stand that the fiscal investments should not be used as an instrument to increase project viability and is repetitive in giving reasons for discouraging tax free bonds as a matter of policy. The Committee would like to seek special attention of the Government for Power sector, a significant infrastructure area. The Committee are of the view that setting priorities to nurture the key infrastructure sector like power is the prime responsibility of the Government and still feel that by boosting power generation, transmission and distribution to ensure uninterrupted power supply in the country, there will be a significant spurt in the overall industrial and economic output leading to increased revenue collection. Government Schemes like 'power for all', schemes with social contents like RGGVY can be taken

to their logical objectives only when power sector is given a comprehensive backing. But the Committee find it unfortunate that the Department of Revenue, in fact, is not giving attention and weightage due to the power sector and is generalizing the issue by taking a stand that the issuance of tax free bonds by different governmental agencies tend to crowd out the private sector's requirement for long-term funds. The Committee are also not convinced by the argument that issuance of tax free bonds by PFC and REC for power sector will affect the development of a vibrant corporate bond market where interest rates are determined by demand and supply. On the contrary, the Committee feel that boosting power sector will benefit all other sectors in the country including public and private sectors ultimately resulting into a stronger and more vibrant corporate bond market. The Committee also take note of the fact that the Ministry of Finance have allowed other infrastructure sectors like railways, ports, housing and highway development to raise funds through tax free bonds, during 2011-12. The Committee are, therefore, not able to comprehend as to why the power sector was deprived of availing the opportunity of collecting funds through tax free bonds. In view of the foregoing and in view of the assurance to reconsider the recommendation, the Committee reiterate that the Ministry of Finance (Department of Revenue) should liberalise their decision in favour of power sector as well and allow PFC and REC to issue tax free bonds to raise funds. This would be in consonance with the decision of the Group of Ministers also.

C. Exemption for interest income to the investments in power sector

(Recommendation Sl. No. 11, Para No. 2.11)

16. In view of very large fund requirement in infrastructure sector like power sector, the Committee had observed that it would be prudent on the part of the Government to channelize the huge unutilized money available in the market to enrich and strengthen our infrastructure sector, especially the power sector. To serve the purpose, the Committee had suggested that ample money available with both non-resident and resident Indians could be utilized by exempting the interest on their deposits from being taxed.

Following the suggested pattern, the Committee viewed that there would be considerable amount available with the Government to bridge the funding gap in power sector in coming years. The Committee were of the opinion that the loss of revenue to the Government by way of exempting the interest from being taxed would be compensated in later years by utilizing the deposited money for improving the power sector which would act as a catalyst for rapid economic development spinning off huge revenues to the Government. Moreover, there would be surplus funds available that way with the Banks and other Financial Institutions which would not allow the interest rate to increase, because demand and requirement of funds by the other sectors both in Public and Private domain is not as large as in infrastructure sector. The Committee had, therefore, recommended that a suitable methodology be worked out for providing proper opportunity to both Resident and Non-Resident Indians for investment in power sector through tax free fixed deposits and other modes of investments.

17. The Ministry of Finance (Department of Revenue) in their written reply have stated:

"The Recommendation of the Committee is not acceptable due the following reasons:

(i) The interest payable on moneys borrowed by an Industrial Undertaking in India, in foreign currency from sources outside India under a loan agreement approved by the Central Government before 1st June, 2001, is exempt from taxation as per section 10 (15) (iv)(f) of the I.T. Act, 1961.

(ii) Further section 10(15)(iv)(fa) of the Income-tax Act, 1961 already provides exemption for interest income earned by a non-resident or a person who is not an ordinarily resident on foreign currency deposits in Schedule Banks under specified conditions.

(iii) There is no specific data available regarding loss of revenue to the exchequer due to this exemption. The rationale for withdrawal of this exemption was that there was no need to continue with a withholding tax exemption when India entered in to DTAAs with all major economies of the world. The DTAAs generally provide

for taxation of interest income at a fixed rate. The income earned by a foreign lender is taxable in the hands of the lender in the foreign country and lender gets credit for any tax withheld on such income by the borrower in India. Thus in effect the exemption of withholding tax in India shifts the amount of tax payment on interest income from India to a foreign country and leads to loss of revenue to India. It was also considered economically unjustifiable to subsidies the borrowings of private companies as this encourages borrowing from abroad leading to India's indebtedness. Further the current policy of the Government is to discourage incentives in a moderate tax regime.

2. In the light of the above, the given recommendation is not acceptable, hence no action required to be taken at the level of Department of Revenue."

18. The Committee find that the Ministry of Finance (Department of Revenue) have extended reasons to defend their viewpoint of not exempting the tax on interest income of the NRIs on their deposits/investments in India. The Committee had in fact recommended for proper opportunity in favour of both Resident and Non-Resident Indians for investment in power sector through tax free fixed deposits and other modes of investments. The Committee feel that while banking on the Double Taxation Avoidance Agreements (DTAAs) with major economies of the world and discouraging borrowings from abroad, the Department of Revenue is silent on the investment opportunities for Resident Indians. The Committee believe that there is a huge potential of investment by the Resident Indians, which is otherwise lying unutilized and uninvested. Given an opportunity with added attraction of tax exemption on interest income, ample money can be diverted to nurture the power sector which will ultimately benefit the economy as a whole. The Committee are not convinced with the logic extended by the Department of Revenue to consider it economically unjustifiable to subsidise the borrowings of private companies. Rather it is primarily the investors who will be prompted and benefited by the suggested move to mobilize uninvested money towards power sector by giving tax exemptions leading to the

development of power sector as a whole. In view of the foregoing, the Committee reiterate in giving moderate tax concessions to attract much needed funds for infrastructure sector, especially the power sector instead of sticking to collect a few bucks and discourage the possible investments. The Committee, therefore, reiterate that the fund requirement of infrastructure sector like power sector being very large and investments by private sector being profit driven, it is the Government which is expected to create favourable opportunities of investments in this sector. The Committee hope that the Department of Revenue would reconsider their stand for the sake of the development of power sector resulting into the growth of Indian economy. The Committee would await the revised response of the Ministry of Finance (Department of Revenue).

D. Status of Power Sector as Infrastructure Sector

(Recommendation Sl. No. 13, Para No. 2.13)

19. The Committee in their Ninth Report had observed that instead of becoming a facilitator for resource mobilization, the Ministry of Finance had rather shown rigid approach and adamant attitude with regard to the issue of resource mobilization for power sector. Also no reasons had been adduced by the Ministry to the repeated queries of the Committee to treat power sector as infrastructure sector. The Committee had, therefore, recommended the Ministry to amend its tax proposals and fiscal measures to go hand in hand with the need of the nation, expectations of the people as far as the availability of power is concerned to ensure the all-round development of the country.

20. The Ministry of Finance (Deptt. of Economic Affairs), in their action taken reply stated as under:

> "Currently, there is no definitional clarity on what constitutes infrastructure. Various organization dealing with the subject, such as the Reserve Bank of India (RBI), Insurance Regulatory Development Authority (IRDA) etc. have different 'notions' of what constitutes infrastructure. Department of Economic Affairs has been entrusted with the responsibility of defining what constitutes infrastructure. DEA has accordingly initiated a draft note on a harmonized definition of infrastructure for the Committee of Secretaries (CoS) on infrastructure

which includes within its definition, Electricity Transmission, Distribution and Generation as infrastructure sub-sectors. This is likely to be considered by CoS shortly."

21. The Committee note that the Ministry of Finance (Deptt. of Economic Affairs) has initiated a draft note on a harmonized definition of infrastructure for the Committee of Secretaries (CoS) on infrastructure which includes within its definition, Electricity Transmission, Distribution and Generation as infrastructure sub-sectors and the draft note is likely to be considered by CoS shortly. The Committee would like to be apprised of the progress made in this regard.

E. Creation of National Electricity Fund

(Recommendation Sl. No. 15, Para No. 2.15)

22. Regarding creation of the National Electricity Fund (NEF), the Committee had expressed disappointment on reduction of the original target of Rs. 2,02,500 crore for disbursement with separate component of interest subsidy of Rs. 82,266 crore on it to the level of loan disbursement target Rs. 50,000 crore with interest subsidy of Rs.18,438 crore spread over a period of 14 years. The Committee were also surprised to note that no specific plan outlay had been made during the 11th Plan for the purpose and plan allocation of required interest subsidy to mobilize funds for NEF was yet to be made. Moreover, the revised proposal of the Expenditure Finance Committee (EFC) included *inter alia* the provision that the interest subsidy scheme would initially be made applicable to distribution works only and eligibility would be restricted only to non R-APDRP projects and schemes. Against this backdrop, the Committee had observed that the very objective and the scope of the scheme were being diluted even before the creation of the NEF and had recommended that the modalities of the scheme and detailed plan of its implementation be worked out and got finalized at the earliest so that the funding of transmission and Distribution sector which constitute about 60 per cent of the funding gap might not suffer.

23. In their Action Taken Reply, the Ministry of Power have stated that the recommendations of the Committee have been noted for implementation. They have informed that the EFC meeting was held on

18th October, 2010 and based on its recommendations, Cabinet Note would be submitted for approval, at the earliest.

24. In an updated reply the Ministry of Power have informed that they are submitting a Memorandum for setting up of the NEF. To a further query towards the latest position, the Ministry *inter alia* informed as under:—

> "After following the procedure and detailed discussions, it was felt that interest subsidy aggregating Rs. 8466 crore, would be adequate for a total loan disbursement amounting to Rs. 25,000 crore for distribution schemes during the years 2011-12 and 2012-13, spread over 14 years.
>
> A draft CCEA (Cabinet Committee on Economic Affairs) note is under finalization for circulation based on the above decision. FM's approval has since been obtained on the same.

25. The Committee are dissatisfied with the casual and incomplete and rather routine reply given by the Ministry to such an important proposal regarding creation of the National Electricity Fund to provide funds to the States and power utilities for improving transmission and distribution network. The Committee had raised specific issues relating to non-allocation of plan outlays and dilution of objective and scope of the scheme and had expected the Ministry to come out with the modalities of the scheme and detailed plan of its implementation. That this was not done is nothing but regrettable. According to the Ministry, the EFC meeting was held in October, 2010 only and the Cabinet note was supposed to be submitted soon after that for approval. In the updated status of the recommendations of the final report of the Sub-Committee on financial issues of power sector, the Ministry of Power have further informed that they are submitting a Memorandum for consideration of CCEA for setting up of the NEF. Since the matter has been delayed inordinately, the Committee would like the Government to expedite the process of setting up of the NEF. They would await conclusive action in the matter expeditiously.

CHAPTER II

OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

(Recommendation Sl. No. 1, Para No. 2.1)

Energy plays a critical and catalytic role in the sustainable socio-economic development of the country. There has been a sizeable growth in the generation capacity from 1750 MW in 1950 to 1,47,965 MW by the end of 2008-09. However, with the growth in demand of Power, the country still faced an energy shortage and peaking shortage of 11% and 12% respectively during 2008-09. To meet the existing shortage and growing requirements of Power, capacity addition of 90,000-1,00,000 MW would be required every five years. For this magnitude of capacity addition massive funds are required alongwith requisite funds for efficient transmission and distribution. Keeping the importance of the sector, the Committee examined various facets of the 'Funding of Power Projects' and took evidence of the representatives of the Ministry of Power, various wings of the Ministry of Finance and Reserve Bank of India. The main issues emerged out of Committee's examination are listed as under:—

(i) The National Electricity Policy (2005) *inter alia* provides:—

> To meet the objective of rapid economic growth and "power for all" including household electrification, it is estimated that an investment of the order of Rs. 9,00,000 crorers at 2002-03 price level would be required to finance generation, transmission, sub-transmission, distribution and rural electrification projects. Power being most crucial infrastructure, public sector investments, both at the Central Government and State Governments, will have to be stepped up. Considering the magnitude of the expansion of the sector required, a sizeable part of the investments will also need to be brought in from the private sector.

Further, the capital is scarce. Private sector will have multiple options for investments. Return on investment will, therefore, need to be provided in a manner that the sector is able to attract adequate investments at par with, if not in preference to, investment opportunities in other sectors. This would obviously be based on a clear understanding and evaluation of opportunities and risks. An appropriate balance will have to be maintained between the interests of consumers and the need for investments.

(ii) As against the targets of 41,110 MW, capacity generation during 10th Five Year Plan (2002-07) was only 21,180 MW (52%).

(iii) As against the targets for capacity addition of 78,700 MW for the 11th Five Year Plan (2007-12), the achievements are likely to be 62,000 MW.

(iv) For the power projects relating to capacity addition/generation/ transmission/distribution and other schemes, the budget requirements for 11th Plan are Rs. 10,59,515 crores. The State, Central and Private sector having share of Rs. 5,31,245 crores, Rs.2,91,984 crores and Rs. 2,36,286 crores respectively. For 12th Plan funds requirements are estimated about Rs. 11,00,000 crores for estimated capacity generation of 1,00,000 MW.

(v) For 11th Plan, as against the required funds, the funds availability is of Rs. 6,37,873 crores leaving funding gap of Rs. 4,21,642 crores.

(vi) Out of Rs. 4,21,642 crore, the gap for generation projects is Rs. 1,60,557 crores and for distribution, the gap is of Rs. 2,02,083 crores. Apart from spreading the network to all areas, T&D sector aims at cutting down T&D losses from 40% (in 2001) to 10% by 2017.

(vii) Since gestation period of power projects is 4-5 years, some of the investments made in 11th Plan would give benefit in 12th Plan.

(viii) Apart from adequate return on investment, power sector needs fiscal incentives to attract huge investments.

(ix) PFC and REC, PSUs under the administrative control of the Ministry of Power play a substantial role in funding of power projects.

The above issues have been examined by the Committee in detail. The findings/recommendations of the Committee are detailed in succeeding paragraphs.

(Recommendation Sl. No. 3, Para No. 2.3)

The Committee take note of the fact that target of capacity addition within the 11th Plan period is 78,700 MW. The estimated budget required for capacity addition, transmission, distribution and other schemes/projects is Rs. 10,59,515 crore. As against this, the availability of fund is of Rs. 6,37,873 crore leaving a funded gap of Rs. 4,21,642 crore. The breakup of the requirement of the fund in Central, State and Private sectors are Rs. 2,91,984 Crore, Rs. 5,31,245 crore and Rs. 2,36,286 crore respectively. Out of this, the requirement of fund for Generation in all the three sectors are Rs. 5,91,734 crore in which the share of private sector is Rs. 2,36,286 crore, Rs. 2,14,655 crore in the Central sector and Rs.1,40,793 crore in the State sector. Bulk of the funds required are under transmission, sub-transmission and distribution, RGGVY, APDRP, etc. No doubt the fund requirements are mammoth but the methodology adopted to arrive at the estimation regarding fund requirement requires reconsideration. The Committee are not very sure whether the Government is in any away directly responsible for mobilizing the resources expected from Private sector but it is expected of the Government to introduce conductive fiscal policies to attract adequate investments in power sector not only from public sector but from private sector as well. Schemes like RGGVY, APDRP which are Centrally sponsored schemes need priority in making budgetary provisions. The only grey area regarding paucity of fund is sub-transmission and distribution which comes within the domain of the State Government but requires attention from all quarters for fund management being directly connected with capacity addition programmes making power available to all

and its resultant benefit to end users *i.e.* common man. Therefore, the Committee are of the opinion that a realistic approach should be taken while coming to a conclusion regarding requirements of fund.

Reply of the Government

To estimate the fund requirement for 11th Plan, a Sub-Group on Financial Issue under the Chairmanship of the then Chairman PFC was constituted while preparing the report of Working Group on Power for 11th Plan. The sub-group on Financial issue also had experts from Planning Commission, IDFC, IDBI Limited, National Institute of Public Finance & Policy, IIT, Kanpur, ICICI Bank, CRISIL, LIC of India, GIC of India, Reliance Energy Centre, Tata Power Company Limited, CESC, Torrent Power Generation Limited, NTPC Ltd., NHPC, NJPC, Power Grid Corp. of India Ltd. and BHEL. The estimate for requirement of fund for 11th Plan power projects is based on report of above sub-group on financial issue which is part of report of working group on power for 11th Plan. Further the sub-committee on Financial Issue, headed by Deputy Chairman Planning Commission has revised the figure of funding requirement for 11th Plan power projects, based on input from Working Group Report and revised capacity addition target for 11th Plan. A realistic approach is being taken.

[Ministry of Power O.M. No.7/22/2009 – PF Desk, Dated 4.1.2011]

(Recommendation Sl. No. 4, Para No. 2.4)

The committee find that the progress of Capacity Addition Programme has been far from satisfactory. The Ministry of Power are hopeful of achieving 62,000 MW capacity against the target of 78,000 MW during the 11th Plan. The reasons responsible for slow pace in the target achievement are the delay in supply of equipment by major supplier of power equipment *viz.* BHEL and the more time taken by them in the commissioning of projects. Reportedly the workers working in private sector are more efficient and quick. Private sectors are utilizing the services of Chinese professionals and due to the immigration policy of the Government, the stay and working of Chinese engineers in India has become a bit difficult. This has impacted the pace of capacity addition resulting in less achievement of the target. While

not commenting on the immigration policy of the country, the Committee are not convicted about the reason as in the opinion of the Committee, there is no dearth of the skilled manpower in the country. As far as BHEL is concerned, it should be made obligatory upon them to fulfil the commitment within the stipulated time failing which the penal provisions should be enforced on the defaulting organization. On the issue of taking services of other joint collaborations, the Ministry of Power inform that apart from BHEL, other few joint ventures comprising of Siemens, L&T, Mitsubishi, JSW, Alstom and Bharat Forge are coming up in India. The Committee are of the opinion that with a number of new power projects on the avail in coming years together with renovation and modernization of old setups, there would be growing need to meet the escalating demands for manufacturing power equipments like generators and turbines, etc. and also to provide specialized services. In view of this, the Committee recommend the Government to explore the possibility and feasibility of establishing another organization of the size and facilities of BHEL having participation of power sector with Indian Industry Associations like FICCI, CII and ASSOCHAM etc. and if necessary even participation of MNCs in the field. The growing power sector has ample opportunities for our upcoming engineers, technicians and skilled manpower from it is and similar technical Institutions in the country. The Committee further recommend that keeping in view the huge reservoir of our skilled talent, a perspective plan in the form of vision document incorporating all aspects of power sector particularly with reference to training of manpower be prepared at the right earnest. The vision document should be flexible, practicable and useful to all the stakeholders in the power sector.

Reply of the Government

With enhancement of the manufacturing capacity of BHEL and other Joint ventures mentioned above, it is expected that there should not be shortage for main plants and equipments during 12th Plan onwards. Also many companies are importing BTG from foreign countries.

In view of large thermal capacity addition programme envisaged mostly through supercritical units, efforts have been made to increase the

manufacturing capacity for supercritical units. BHEL is augmenting its manufacturing capacity for large power equipments and is stated to have at present achieved a capacity of 10,000 MW/year which is planned to be raised to 13,500 MW/year by March-2012. Apart from BHEL, several Joint Ventures for manufacture of supercritical boilers and turbine generators for thermal power plants have been set up/being set up in India and the manufacturing capacity envisaged by the JVs is given below:

Planned Manufacturing capacity per annum

Venture	Boilers	Turbine-generators	Remarks
L&T-MHI	4000 MW	4000 MW	Manufacturing facilities constructed and production commenced
Alstom -Bharat Forge	-	5000 MW	Probable date of completion of factory construction: Mid 2012
Toshiba- JSW	-	3000 MW	Construction of factory started. Probable date of completion - August 2011.
Gammon-Ansaldo	4000 MW	-	Probable date of completion of facilities December, 2012 (2000 MW) and December 2014 (additional 2000 MW)
Thermax-Babcock & Wilcox	3000 MW		Probable date of completion of manufacturing facilities by end 2011.

Thus apart from BHEL's augmented manufacturing capacity of 13500 MW/year, total manufacturing capacity of about 11000 MW/year for steam generator and 12000 MW/year for turbine generator is envisaged through these Joint Ventures. In addition to the above Joint Ventures, it is

understood that BGR-Hitachi is also setting up Joint Ventures in the country for manufacturing of supercritical boiler and turbine generators. With such augmentation of manufacturing facilities in the offing, the requirements of future thermal projects could be met from indigenous sources.

Manpower requirement for the 11th Five Year Plan.

The 11th Plan envisages addition of nearly 78,000 MW generation capacity, 1,00,000 circuit kilometers of transmission lines and extension and augmentation of the requisite Sub Transmission and distribution network (including that under RGGVY and APDRP). This massive programme for building additional capacity and infrastructure is likely to lead to the requirement of around 10 lakh additional personnel for power sector during 11th Plan.

The category-wise break-up is as under:

Category	Construction	Operation & Maintenance	To accelerate construction	Total
Engineers	20,000	40,000	6,500	66,500
Supervisors	33,000	75,000	12,000	1,20,000
Skilled Workers	67,000	60,000	23,000	1,50,000
Semi-skilled	73,000	65,000	22,000	1,60,000
Unskilled	1,48,000	75,000	49,000	2,72,000
Non-technical	84,000	1,20,000	27,500	2,31,500
Total	4,25,000	4,35,000	1,40,000	10,00,000

Manpower Requirement during the 12th Five Year Plan

The proposed capacity addition during the 12th Plan is about 1,00,000 MW. This capacity addition and associated T&D network is likely to lead to the additional requirement of around 6.6 lakh manpower. The

category-wise break-up of the **Additional Requirement of Manpower during the 12th Plan** is as follows:

Category	Construction	Operation & maintenance	Total
Engineers	3,000	56,000	59,000
Supervisors	4,000	1,05,000	1,09,000
Skilled Workers	8,000	85,000	93,000
Semi-skilled workers	9,000	91,000	1,00,000
Unskilled workers	15,000	1,05,000	1,20,000
Non-tech	10,000	1,70,000	1,80,000
Total	49,000	6,12,000	6,61,000

Steps taken to ensure availability of skilled manpower

Given the number of graduates passing out of the existing schools, colleges and other institutions each year, it is expected that there will be no shortage of manpower of required qualification in any category, technical or non-technical in the country.

The quality of engineers and supervisors graduating from the technical institutions is also adequate. However, they will require induction and in-service training to be able to meet the challenges of working in today's technologically highly sophisticated power industry.

The requirement of induction and in-service training is met by training institutes in the Central, State and Private Sectors including CEA recognized institutes, which are providing induction training, refresher and advanced training, simulator based training, training in T&D and grid management, training for capacity building of franchisees, and training in energy efficiency and energy conservation.

The training efforts are complemented by the academic and research institutes like IIMs, IITs, ASCI, ESCI, IIPA, MDI and the likes.

In respect of ITI trained skilled workers, the following issues have been identified:

(i) There are shortages in certain power related trades and in some geographical locations.

(ii) Shortcomings in the skill set of ITI trained skilled workers for utilization of their services in the power sector

(iii) Upgradation of skills of the in-service skilled workforce by training.

To address these issues, the following actions have been taken:

I. "Adopt an ITI" scheme— The Ministry of Power and the CEA have taken started **"Adopt an ITI"** initiative since July 2007. Under this initiative, the State Government ITIs are being adopted by the Central Power Sector Undertakings (CPSUs) and Private Project developers under Public Private Partnership (PPP) scheme of the Directorate General of Employment and Training, Ministry of Labour and Employment to invest in augmentation and up-gradation of the training assets of ITIs around their project areas, especially in respect of trades that are relevant to the power industry. CPSUs have adopted 61 ITIs & 8 new ITIs by NTPC being established. The private developers have also adopted 12 ITIs.

The Master Skill development *i.e.* Training of trainers is being undertaken to improve the quality of trainers in ITIs by following methodology:

- Experienced highly skilled employees / supervisors of Power Sector Companies/ PSUs will train the instructors.
- Instructors are being sponsored for training in various Institutes run by State Governments/other training institutes. The cost of the training is being borne by the adopting PSUs.

- Visits of the instructors are being organized to nearby power stations of the adopting CPSUs so that the instructors observe the actual process of jobs being done.

II. The issue of manpower requirement and their skill development was emphasized in the Chief Ministers' conference (2007) and Power Ministers' conference held in June 2009 and November 2009.

In the Power Ministers' conference, Minister of Power called upon the states to ask project developers in their states to adopt ITIs in their project areas. State Governments were requested to facilitate adoption of ITIs by their State Power Utilities. It was also resolved in the conference that States would take measures to improve the skills of Franchisees in their states.

III. Distance Learning Programme

Distance learning programme on power distribution has been started through IGNOU, one programme for engineers and one programme for technicians. Both the programmes are of 6 months duration delivered through multi-media, print material, virtual classes and contact classes delivered at local study centres across the country.

IV. Implementation of National Training Policy for Power Sector

The National Training Policy (NTP) for power sector has been formulated which highlights the need for planning for training as an integrated Human Resource Development (HRD) activity with a commitment to imparting training for all in the power sector at entry level as well as in-service.

The Ministry of Power and the CEA have been impressing upon the Power Companies in the central, state and private sectors for implementation of National Training Policy for power sector. The MoP and the CEA have also been monitoring the status of implementation of NTP.

[Ministry of Power O.M. No.7/22/2009 – PF Desk, Dated 4.1.2011]

(Recommendation Sl. No. 6, Para No. 2.6)

The Committee also note that the Interim Report of the Sub-Committee of the Group of Ministers (GoM) *inter alia* recommended that PFC and REC may be allowed to raise External Commercial Borrowing (ECB) of USD one billion each per year under the 'Automatic Route'. The Committee have been appraised by the Departmental of Financial Services that they are not in favour of PFC and REC adopting automatic route for ECB as allowing ECB on an automatic route has a number of implications in term of the foreign fund flowing coming into the country, in terms of the reserve management and in terms of the exchange rate management. The Committee are not convinced with this view as the nature of implications adduced to deny PFC and REC automatic ECB routes does not appear to be plausible. The Committee are inclined to the infer that the Group of Ministers might have carefully considered all implications before recommending automatic ECB route. As the purpose of ECB is specific and focused, hence the objections like exchange rate management and reserve management do not hold much ground. The Committee, therefore, recommend that either the Department of Financial Services should be categorical in their objections as to how this system will be inimical to our interest in what concrete manner they are willing to help the power sector to mobilize the resources or they should agree to the recommendation of Group of Ministers on the automatic ECB route to PFC and REC with necessary safeguards wherever required.

Reply of the Government

The recommendation was examined by the Ministry of Finance, Department of Financial Services in consultation with Reserve Bank of India. Comments of RBI are as follows:

(i) The recent liberalization in the ECB policy allows Infrastructure Finance Companies (IFCs) like Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) to access the automatic route up to 50% of their owned funds for the ECB requirements.

(ii) ECB requirements of PFC and REC beyond 50% of their owned funds will be considered under the approval route.

(iii) Under the approval route, Reserve Bank has permitted corporate to avail of ECB up to USD 2 billion for Ultra Mega Power Project (UMPP's).

(iv) Any requirement by PFC and REC as per extant guidelines on ECB will be considered on its merits.

(v) The extant policy on ECB permits a take-out financing arrangement through ECB under the approval route for refinancing of Rupee loans availed of from the domestic banks by eligible borrowers in the sea port and airport, roads including bridges and power sectors for the development of new projects subject to certain conditions.

(vi) The policy permits credit enhancement by eligible non-resident entitles, namely, multilateral/regional financial institutions and Government owned development financial institutions, in respect of domestic debt raised through issue of capital market instruments, such as debentures and bonds, by Indian companies engaged exclusively in the development of infrastructure and by the Infrastructure Finance Companies (IFCs), classified as such by the Reserve Bank.

In view of the above liberalization in ECB Policy, PFC & REC would be able to access ECB under automatic route upto Rs. 6630 crore and 5540 crore respectively. The recommendation of the Committee has been implemented by Ministry of Finance/Department of Financial Services.

[Ministry of Power O.M. No.7/22/2009 – PF Desk, Dated 4.1.2011]

(Recommendation Sl. No. 7, Para No. 2.7)

The Committee find that the interim recommendation of the Sub-Committee of GoM also contain proposals regarding enhancing exposure limits of banks for lending to power sector companies as also to PFC and REC. The Committee have been given to understand that the existing bank's exposure limits for individual infrastructure company is 20 per cent, plus 5 per cent of bank capital funds. On the basis of information compiled by

the Reserve Bank of India in respect of 10 major banks, the Department of Financial Services has informed that the public sector banks exposure to single borrower is in the range of 10.6 to 10.8 per cent only. Similarly, the maximum group borrower is in the range of 10.6 to 10.8 per cent only. Similarly, the maximum group borrower limit is 55 per cent by the RBI's analysis of funding by 10 major banks indicated that the bank's exposure to group borrowers ranges from 21.2 to 41.3 per cent which is again exposure to group borrowers ranges from 21.2 to 41.3 per cent which is again below the maximum limit. Thus, according to Department of Financial Services there is still available for further expansion of banks' credit to the power sector. The Department of Financial Services has also indicated that the existing individual and group exposure norms of RBI are liberal as per international standards and any further increase in these limits may lead to asset liability mismanagement. However, the Committee have been informed that the RBI has issued a notification on 12th February, 2010 wherein the bank's exposure for infrastructure finance companies has been enhanced by 5 per cent, as such banks can lend upto 20 per cent of their capital funds to Infrastructure Finance Companies which are applicable to the PFC and REC also. Moreover, the Committee find from the replies of the Department of Financial Services that the RBI will consider the request of any willing bank for exposure to PFC upto 25 per cent of their capital funds and similar will be the case for REC too. In view of the forgoing and in view of the fact that the banking sector is also growing rapidly in the country, the Committee feel that the PFC and REC should take advantage of the opportunities being extended by the Reserve Bank of India for meeting their demands for funds for power sector and approach RBI with extensive roadmap covering their specific requirement. The Committee recommend that both the Ministry of Power and the Department of Financial Services should work in tandem and in mutual coordination by forming joint group to ensure that bank credits to power sector have a smooth flow within the existing norms.

Reply of the Government

The Department of Financial Services had constituted a Group under the Chairmanship of Secretary. Financial Services, to examine the issue of

Sectoral/group cap for financing of Power project. Secretary, Power; Chairman, PFC and Chairman, REC are also its members. The recommendations of the Committee have been noted for compliance by Ministry of Finance/Department of Financial Services.

[Ministry of Power O.M. No.7/22/2009 – PF Desk, Dated 4.1.2011]

(Recommendation Sl. No. 8, Para No. 2.8)

The Committee are aware of the fact that both PFC and REC have to play pivotal role in meeting the mammoth fund requirement for power projects in coming years. During the evidence, the Secretary (Power) had stated that for generation projects for the 11th Plan, financial closure has been done. It has been reported that for generation projects where financial closure has been done. It has been reported that for generation projects where financial closure has been reported, REC will provide funds to the extent of Rs. 40,000 crore during the 11th/12th Plan periods and PFC will provide funds to the extent of Rs. 1,00,000 crore during the 11th/12th Plan. For National Electricity Fund (NEF) also, funds to tune of Rs. 2,02,500 crore is sought to be mobilized by PFC and REC. However, while examining the details supplied by the Ministry of Power, the Committee find that PFC has disbursed Rs. 1,13,119 crore cumulative financial assistance till 31st March, 2009 as against sanction of Rs. 2,32,551 crore, which forms 48.64 per cent of the sanctioned amount. The disbursement was as poor as 23.32 per cent in 2007-08 while it was 36.91 per cent in 2008-09 in respect to the sanctioned financial assistance in the respective years. The Committee further notice that in 2008-09 disbursement in respect to private sector was only 7.85 per cent and that to Central Sector, it was 17.26 per cent of sanctioned financial assistance by PFC. In grants also, the cumulative disbursement is Rs. 22,277,86 crore making out 54.67 per cent of sanctions. In case of REC also as against total loan sanctioned of Rs. 2,21,098 crore upto March, 2009, the loan released was Rs. 92,400.65 crore only. The Committee are not satisfied with the reply given by REC and PFC towards reasons for decline in sanction and widening of sanction-disbursement gap and feel that the position of disbursement as well as sanction can improve substantially by proper planning and management, otherwise the whole exercise of managing

funds to realize a massive physical target of 78,700 MW during the 11th Plan period get strayed and the purpose of funding gets defeated. The Committee, therefore, strongly recommended that keeping in view the past performances both in cumulative as well as yearly sanction and disbursement position, the PFC and REC should take all preemptive measures to ensure that loans are granted so such units in which there are less likelihood of any bottlenecks in between after the work on the project is started. This will not only help in minimizing the gap between the sanction and disbursement but will also save the precious fund from getting locked in and thus becoming a bad debt of the company.

Reply of the Government

In order to reduce the time between sanction and disbursement the following measures are adopted:

- Minimum level of preparedness for sanction of project to include availability of major clearances *viz.* environment clearance, fuel linkage and commencement of land acquisition for the project.
- Wherever PFC is the lead, facilitating sanction by other FIs/Banks through promptness in issue of Information Memorandum and providing syndication services.
- Standardized procedure for appointment of legal counsel and Lenders' engineer in order to facilitate loan documentation and commencement of disbursement.

[Ministry of Power O.M. No.7/22/2009 – PF Desk, Dated 4.1.2011]

(Recommendation Sl. No. 9, Para No. 2.9)

The Committee do understand that the expenditure in power projects is required to be incurred in a phased manner depending upon the progress of the activities involved and the scheduled milestones. Nevertheless, the factors like delay in award of contracts by the projects authorities, delay in supply of the equipment, stoppage of the work in between due to some contractual issues, etc. reported to affect the expenditure pattern indicate that

there is an urgent need to develop and strengthen monitoring mechanism to mitigate these root administrative problems. The Committee would await specific response of the Ministry.

Reply of the Government

The Monitoring Mechanism for projects under construction is already in place in this Ministry. These *inter alia* include the following:

(i) Monitoring by Central Electricity Authority (CEA):

The Central Electricity Authority (CEA) is performing the duties of monitoring of the power projects in pursuance of 73 (f) of Electricity Act, 2003. Central Electricity Authority has a nodal officer nominated for each ongoing project who continuously monitors the progress at site through frequent site visits and interaction with the developers. The respective nodal officer is responsible for submitting a report on the progress of each of the ongoing power project on a monthly basis highlighting the critical areas where corrective actions are required. CEA holds quarterly review meeting with the developers and other stakeholders and highlights the critical issues to Ministry of Power & Project Authorities and suggests the remedial actions.

Chairperson, CEA reviews monthly progress of the ongoing projects.

(ii) Power Project Monitoring Panel (PPMP):

A Power Project Monitoring Panel (PPMP) has been set up to independently follow up and monitor the progress of the critical projects.

(iii) Review meetings by Ministry:

Meetings with the concerned officers of CEA, equipment manufacturers, State Utilities/CPSUs/Project developers, are

being held by Ministry regularly. Also, periodical review meetings are held with other Ministries like Coal, MOE&F, Railways, Planning Commission etc.

In addition, the following Committee have also been constituted by Ministry of Power to review the progress of works & suggest remedial measures for bottlenecks or constraints.

(a) Task Force on Hydro Project Development:

A Task Force on Hydro Project Development, has been constituted to look into all issues relating to development of hydropower including issues of rehabilitation and resettlement of project affected persons. The Task Force is headed by the Minister of Power.

(b) Inter-Ministerial Group on Development of Hydro Power in North-East:

An Inter-Ministerial Group (IMG) has been constituted (*vide* Ministry of Water Resources O.M. dated 7th August, 2009) to evolve a suitable framework to guide and accelerate the development of Hydropower in the North-East.

(c) Advisory Group:

An Advisory Group has been set up under the chairmanship of the Minister of Power to advise for expeditious completion of ongoing power generation projects. So far, the Advisory Group has held seven meetings.

(d) Special Monitoring Group:

A Special Monitoring Group (SMG) under the chairmanship of Secretary (Power) has been constituted to discuss & sort out various issues through video conferencing for J&K and North Eastern Region.

(e) Committee of Power Sector :

In order to implement various decisions taken at the highest level of the Government, a committee under the chairmanship of

Secretary (Power) has been constituted to ensure implementation of various programmes including capacity addition.

(f) Contractual related issues:

A task force has been constituted by MoP under the Chairperson, CEA and members from various CPSUs, IPPs, State Govts. etc. to develop a Model Contract document for hydro projects to help in minimizing disputes between employers and contractors.

This document has been prepared and finalized in consultation with various stakeholders and after getting vetted from legal expert. The Model Contract document *inter alia* include selection of Joint venture, Risk allocation and sharing mechanism, Compensation Events & Grant of compensation, Variation in quantities/extra items, price adjustment, Dispute resolution etc.

(g) Augmenting the capacity of power plant equipments:

In order to overcome any supply constraints, BHEL is augmenting its manufacturing capacity for large power equipments. Further BHEL was asked to take following actions:

- Advance placement of orders for long delivery and critical items in international market.
- Development of skilled manpower in the area of high pressure welding, skilled fitters etc.
- Augmentation of their erection and commissioning infra-structure.

BHEL have also entered into collaboration with M/s. Alstom and Siemens for manufacturing of supercritical boiler and turbine-generators.

Apart from BHEL, several Joint Ventures for manufacture of supercritical boilers and turbine-generators for thermal power plants have

been set up/being set up in India and the manufacturing capacity envisaged by the JVs is given below:

Planned Manufacturing Capacity Per Annum

Venture	Boilers	Turbine-generators	Remarks
L&T-MHI	4000 MW	4000 MW	Manufacturing facilities constructed and production commenced.
Alstom-Bharat Forge	–	5000 MW	Probable date of completion of factory construction: Mid 2012.
Toshiba-JSW	–	3000 MW	Construction of factory started. Probable date of completion: August 2011.
Gammon-Ansaldo	4000 MW	–	Probable date of completion of facilities December, 2012 (2000 MW) and December 2014 (additional 2000 MW).
Thermax-Babcock & Wilcox	3000 MW	–	Probable date of completion of manufacturing facilities by end 2011.

In addition to the above Joint Ventures, it is understood that BGR-Hitachi is also setting up Joint Ventures in the country for manufacturing of supercritical boiler and turbine-generators. With such augmentation of manufacturing facilities in the offing, the requirements of future thermal projects could be met from indigenous sources.

PFC is also monitoring the progress of the both private sector projects as well as State/Central projects. Regarding the State/Central sector projects constituting about 80% of PFC loan portfolio, the monitoring is being

undertaken by the **Project Monitoring Unit** established by PFC last year through quarterly progress monitoring formats, tele-conferencing etc. involving review of the progress in respect of the major milestones. The outcome of the progress monitoring including the progress status, delays if any, impact on implementation etc. is posted on the intranet site for reference/necessary action by the concerned. The exception reports are also prepared from time to time for the information of the top management.

For the Private sector projects the monitoring is done through the Lenders' Engineer (LE), Lenders Financial Advisors (LFA) etc. appointed for such projects. These LEs and LFAs are the independent agencies with the required professional skills and act on behalf of various lenders/consortium members as the case may be and provide them with the periodic reports/ information about the physical and financial progress status of the projects based on the periodic site visits, interaction at borrowers Hqrs., inspection/ review of the relevant documents as per the requirements.

[Ministry of Power O.M. No.7/22/2009 – PF Desk, Dated 4.1.2011]

(Recommendation Sl. No. 13, Para No. 2.13)

The Committee are anguished to note the response of the Ministry of Finance towards the power sector of the country. Instead of becoming a facilitator for resource mobilization, it has been consciously attempting to take the garb of various provisions financial rules, imaginary situation, diversionary tactics and even misinterpretation of the possible and logical outcome of various fiscal measures to deflect the issue and divert the attention. This attitude is amply reflected in their response regarding interest rate in the debt market and size of the debt market in the country. Any half hearted approach to mop up part of the required resources will only add to the gravity of the problem. In order to protect the development of a vibrant corporate bond market, where interest rates are determined by demand and supply, the denial of the opportunity to raise money from market as well as from general public on concessional terms will not only affect the proper development of the core infrastructure like power but will certainly have adverse impact on market driven rate of interest also. The statement of the

Ministry about the limited availability of funds is based on what conclusion remain unclear. Based on this fact or assumption of the Ministry, market rate of interest should have sky rocketed and IPOs of various companies, public as well as private, might have not received any response from the public. Therefore, to state that 'if more entities are allowed, the supply to the existing entities is bond to be impacted' is highly imaginary and not all convincing. Similarly, no reasons have been adduced by the Ministry of Finance to the repeated queries of the Committee to treat power sector as infrastructure sector. The Committee express their unhappiness about this attitude and are unable to comprehend as to who will benefit by this approach to the Ministry of Finance. The infrastructure deficit of such a vital nature will certainly have far reaching consequences affecting the pace of development of all the spheres of our economy and employment opportunities. If the contention of the Ministry are taken to *bonafide*, even then the financial requirement of the power sector cannot be lost sight of. Therefore, it is imperative that instead of having conventional approach, rigid response and foreclosed mind, new, innovative, sector specific, growth oriented and realistic measures will have to be explored to meet the aspirations of the people and also to empower the nation to be amongst the developed comity of the nations. The Committee, therefore, strongly recommend that it is high time the Ministry of Finance should come out of its slumber, shed its inhibitions and fixed notions and amend its tax proposal and fiscal measures to go hand in hand with the need of the nation, expectations of the people as far as the availability of power is concerned to ensure the all-round development of the country.

Reply of the Government

Currently, there is no definitional clarity on what constitutes infrastructure. Various organization dealing with the subject, such as the Reserve Bank of India (RBI), Insurance Regulatory Development Authority (IRDA) etc. have different 'notions' of what constitutes infrastructure. Department Economic Affairs has been entrusted with the responsibility of defining what constitutes infrastructure. DEA has accordingly initiated a draft note on a harmonized definition of infrastructure for the Committee of Secretaries (CoS) on infrastructure which includes within its definition,

Electricity Transmission, Distribution and Generation as infrastructure sub-sectors. This is likely to be considered by CoS shortly.

[Ministry of Finance (Deptt. of Economic Affairs)
OM No. 9/12/2010-INF, Dated 30.06.2011]

Comments of the Committee

(Please *see* Paragraph 21 of Chapter-I of the Report)

(Recommendation Sl. No. 14, Para No. 2.14)

The Committee are aware that the power sector is a regulated sector. The Electricity Regulatory Commissions look at various issues relating to power companies like generation, transmission and distribution as also the company's annual revenue requirements. Moreover, the regulatory bodies are empowered with regulating the tariff and protect the interest of the consumers in many other ways. The Committee find no practical evidence to show that the companies in the power sector which have availed tax concessions and other benefits have passed on the benefits to the consumers in terms of tariff, etc. The Committee are of the firm view that whatever concessions and support are being envisaged in funding and empowering the power companies, should reasonably percolate to the end users *i.e.* consumers. The Committee, therefore, while supporting the prospective concessions to power companies, recommend the Ministry to work out together with the concerned entities a suitable way to benefit the consumers correspondingly.

Reply of the Government

Electricity Act, 2003

- The Appropriate Commission have been empowered under Section 61 of the Electricity Act, 2003 specify the terms and conditions for the determination of tariff, and in doing so, shall be guided *inter alia* by the following, namely:—

    (a) the principles and methodologies specified by the Central Commission for determination of the tariff applicable to generating companies and transmission licensees;

(b) the generation, transmission, distribution and supply of electricity are conducted on commercial principles;

(c) the factors which would encourage competition, efficiency, economical use of the resources, good performance and optimum investments;

(d) safeguarding of consumers' interest and at the same time, recovery of the cost of electricity in a reasonable manner;

(g) that the tariff progressively reflects the cost of supply of electricity and also reduces cross-subsidies in the manner specified by the Appropriate Commission.

Tariff Policy

- The objectives of this tariff policy *inter alia* are to ensure availability of electricity to consumers at reasonable and competitive rates.

- *The tax benefits are passed on to the consumers at the time of determination of tariff by the Appropriate Commission.*

National Electricity Policy — Clause 5.8.4

- Capital is scarce. Private sector will have multiple options for investments. Return on investment will, therefore, need to be provided in a manner that the sector is able to attract adequate investments at par with, if not in preference to, investment opportunities in other sectors. This would obviously be based on a clear understanding and evaluation of opportunities and risks. **An appropriate balance will have to be maintained between the interests of consumers and the need for investments.**

- The tariffs of the utilities regulated by CERC are governed in terms of the Regulations on Terms and Conditions of Tariff issued by the Commission for 2009-14. As per these Regulations the Return on Equity (which forms part of tariff) in respect of utility paying the Minimum Alternate Tax (as a result of benefits of tax holiday

under Section 80IA of the Income Tax Act, 1961) is less than that of a utility paying normal corporate tax. Through these Regulations, the Commission has moved from the earlier post-tax regime to pre-tax regime. The tax burden for the beneficiaries is now restricted to return on equity component only. The Regulations, therefore, enable the utilities to retain the benefits of tax holiday under Section 80IA of Income Tax Act as this benefit is available to the investors for development of infrastructure facilities. This is to promote investment in this capital intensive industry, which in the long run would benefit consumer through adequacy of supply.

As regards the adoption of tariff through competitive bidding, the competitive framework/guideline itself is meant to ensure that the bidders account for all benefits accrued to them in their quotes, in the absence of which such bidders are likely to be competed out by lower quotes of other bidders.

[Ministry of Power O.M. No. 7/22/2009 – PF Desk, Dated 4.1.2011]

CHAPTER III

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

(Recommendation Sl. No. 5, Para No. 2.5)

The Committee note that the Sub-Committee of Group of Ministers (GoM) headed by the Deputy Chairman, Planning Commission had submitted the interim recommendations pertaining to bank credits to power sector to the Finance Minister in February, 2009. The Committee also find that the response of the Ministry of Finance on some of the interim recommendations was pending for long and it was only when the Committee took up the subject of 'Funding of Power Projects' for detailed examination and pursued the issue with the departmental of Financial Services, the response of the Ministry of Finance was expedited and their comments on the interim recommendations of the Sub-Committee were forwarded to the Ministry of Power and to the committee as well in March, 2010. The Committee take serious note about the delayed response of the Departmental of Financial Services. There may be reasons for through examination of the recommendations and that may take a little time. But the delay of more than a year and that too on the recommendations of the Group of Ministers on such a vital issue cannot be justified by any yardsticks. It was an avoidable delay and should not have taken place leading to the non-finalisation of sources of funds for power sector.

Reply of the Government

The interim recommendations of the Sub-Committee of Group of Ministers was received in Ministry of Finance, Department of Financial Services on 26.2.2009. Since it involved regulatory issues the copy of the interim recommendations of the Sub-Committee was sent by the Department of Financial Services to RBI on 16.3.2009 for seeking their comments.

A meeting was held at level of Finance Secretary and RBI on 30.5.2009 and comments of RBI were received on 3 interim recommendations of the Sub-Committee in August, 2009. Immediately, the comments of the Ministry if Finance on 3 interim recommendations were sent to Ministry of Power on September 1, 2009. Remaining two interim recommendations relating to exposure issues remained under examination in RBI and it took time in submission of reply. It is mentioned that delay in submission of reply by the Department of Financial Services on the interim recommendations of the Sub-Committee was unintentional as it involved regulatory issues and required through examination by RBI.

[Ministry of Power O.M. No. 7/22/2009 – PF Desk, Dated 4.1.2011]

(Recommendation Sl. No. 12, Para No. 2.12)

The Committee note with appreciation that a new section 80CCF has been inserted in the Income Tax Act through the Finance Bill, 2010 to provide for a deduction of Rs. 20,000/- for investment in infrastructure bonds to be notified by the Central Government during the financial year 2010-11, which would be over and above the existing tax exemption limit of Rs. 1 lakh under the existing provisions of the Act. The Committee endorse the views expressed by the Department of Revenue that there is a need to create further opportunities for attracting more investments in the infrastructure sector and welcome the decision of the Ministry of Finance to incentivize infrastructure specific investments by the general public in long-term infrastructure bond to be notified. The Committee have been given to understand that such individual bonds will be notified by the Central Government on an application made to Central Board of Direct Taxes (ITA-Division) and on the recommendation of the Infrastructure Division of the Department of Economic Affairs. The Committee, therefore, recommend that for the sake of utilizing the invested money for the sole benefit to power sector, a certain sub limit, preferably in the range of Rs. 15,000/- to Rs. 20,000/- be provided under Section 80CCF of the Income Tax Act exclusively for the power sector alone, even by increasing the overall limit of Rs. 20,000/- if required.

Reply of the Government

Central Board of Direct Taxes has notified *vide* Notification No. 48/2010 [F.No.149/84/2010-SO(TPL)], dated 9.7.2010 for issuance of infrastructure bonds under section 80CCF of Income Tax Act 1961.

Details are enclosed in **Annexure-I.**

The above bonds are not specific to power sector but applicable to infrastructure in general.

Since PFC Ltd. is classified as Infrastructure Finance Company by RBI, PFC can issue Infrastructure bonds.

Further action on the above recommendation is required to be taken by Ministry of Finance.

[Ministry of Power O.M. No. 7/22/2009 – PF Desk, Dated 4.1.2011]

Reply of the Government

The issue of increasing the limit of savings under tax exemption category was considered while framing the budget proposals. In order to give relief to individual taxpayers, the Finance Act, 2010 has considerably widened the tax slabs and the maximum marginal rate will now be applicable to income beyond Rs. 8 lakhs instead of the earlier Rs. 5 lakhs. In addition, to encourage savings and for funding infrastructure development the Finance Act, 2010 has also introduced a tax deduction of Rs. 20,000/- under section 80CCF, over and above the existing limit of Rs. 1 lakh (under section 80C of Income Tax Act) in respect of tax deduction on savings will be available on investment in long-term infrastructure bonds during the current financial year 2010-11.

Moreover, given the average rate of savings by households, any increase in the saving limit of rupees one lakh allowed under section 80CCF will essentially benefit taxpayers in the higher income slabs only. The existing provisions of section 80C and 80CCF are essentially designed on the basis of the 'Exempt Exempt-Exempt' (EEE) method of taxation of savings. This method promotes gross savings by not penalising dis-savings. As a result,

these provisions do not encourage savings in any manner. They merely encourage diversion of savings into specified financial instruments. This problem will be further aggravated if the limits are increased. Further, any enhancement of the present savings limits will lead to substantial loss of revenue. Therefore, in view of these reasons and the hike in tax slabs and investment limit, there is no case for enhancing the limit for savings under tax exemption categories.

Regarding the proposal for granting 'sole benefit' to power sector, it may be reiterated that the proceeds from the infrastructure bonds issued u/s 80CCF are to be utilized towards 'infrastructure lending' as defined by the RBI Guidelines, which includes lending for generation or generation and distribution of power, and transmission or distribution of power by laying a network of new transmission or distribution lines. Moreover, granting such special incentives to a particular sector may lead to similar demands from other sector too, which may not be desirable. Therefore, a direct budgeting approach is preferable to tax incentive mode of subsidy.

In the light of the above, the given recommendation is not acceptable, hence no action required to be taken at the level of Department of Revenue.

[Ministry of Finance (Deptt. of Revenue) OM No.149/55/2010-SO (TPL), Dated 9.11.2010]

CHAPTER IV

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

(Recommendation Sl. No. 2, Para No. 2.2)

The Committee are dismayed to note that there has been mismatch between the target set and achieved regarding the capacity addition during the 9th and 10th Plan period. Similarly, the budgetary estimates and the actual expenditure during the corresponding period are also poles apart as only 19015 MW with an expenditure of Rs. 1,10,338 crore against the target of 40,245 MW with an estimate of Rs. 1,24,526 crore was achieved during the 9th Plan. Similarly, Rs. 1,81,518 was spent on 21,180 MW generation against the estimate of Rs. 2,70,276 crore for the target of 41,110 MW in the 10th Plan. First, there is no logical co-relation between the targets of the two plan periods and the estimated expenditure appropriated to achieve the targets as the difference in target of 9th and 10th Plan is less than 1000 MW whereas, the difference in expenditure is of more than Rs. 1.45 lakh crore. For the 11th Plan an ambitious targets of Rs. 78,700 MW was set with an approximate of more than Rs.10 lakh crores. The Committee have not gone into the micro level of the expenditure, yet they find that the planning regarding capacity addition *vis-à-vis* proposed finding provisions have been grossly unrealistic. Past performances should be the benchmark for setting any target of any future planning as the factors responsible for less achievement of the target can be taken care of while formulating the next plan. This cardinal principle has been overlooked while setting the target for 11th Plan. The elementary work of managing finances has not been diligently dealt with while setting the target. Less than two years remain in the completion of the 11th Plan and there is a yawning deficit of more than Rs. 4 lakh crore to achieve the target. The management of finances appears

to be an insurmountable obstacle in taking forward power projects, as the Government is yet to expedite creation of National Electricity Fund which would bridge the gap between requirement of funds and its availability. As the now the situation is so intricate that even if the resources are arranged, it would be impossible to achieve the physical targets of Plan as there is considerable gestation period in completing the power projects. In the mid-term appraisal, the target has been revised (reduced) to 62,000 MW from 78,700 MW and here also the Government has only high level; of expectations and not sure with regard to it accomplishment. The major head starving for fund is the Distribution and the need is to the tune of Rs. 2,02,083 crore, Rs. 1,60,557 crore is required for the generation. Transmission also requires and amount of Rs. 49,245 crore. Thus, it amply demonstrates that transmission and distribution are the areas which require immediate and positive of all the stakeholders. The objective of bringing reduction in T&D losses from the present level of 9% to international levels by 2012 can be achieved only when required funds are available top this vital area. The Committee, therefore, strongly recommend that necessary spade work, taking into account the past experiences, should be ensured before embarking on a new initiatives for capacity addition and other projects in transmission/ distribution and social sector schemes like Rajeev Gandhi Grameen Vidyutikaran Yojana (RGGVY). Inter-se-priority among the various heads/ stages of the capacity addition resulting in the benefit to the end-users should also be decided keeping in view the stakes from all the concerned *vis-à-vis* their obligation in the achievement of the target. Thereafter, a well thought out realistic implementable strategy be drawn ensuring the management of the finances and other base work essential for setting up of power projects and its essential arms like transmission and distributing network.

Reply of the Government

As per the mid term appraisal of the XI Plan the capacity addition target of 62,374 MW for 11th Plan has been fixed by Planning Commission considering the preparedness of the projects for likely commissioning during 11th Plan. While fixing up the target for 11th Plan, main reason for slippages

of projects during previous plans were analyzed in details and taken care while selecting the projects for 11th Plan. Besides a careful selection of projects feasible during 11th Plan, a well thought out Strategy has been evolved towards implementation of these projects as per their schedule. The coming up of a project in time is dependant on a number of factors. Major Issues identified for timely Implementation of project during 11th Plan and beyond were as follows:

- Manufacturing Capability of Main Plant and Balance of Plant Equipment to be commensurate with capacity addition.
- Adequate Construction and Erection Agencies
- Adequate Construction Machinery
- Availability of Adequate Fuel and Key materials
- Adequate Transportation facilities for Equipment and Fuel
- Manpower development including training facilities
- Slow process of decision making and cumbersome payment procedure adopted by Utilities.

It may be mentioned that as against the above target, a capacity of 29361 MW has been commissioned till November 20, 2010 in the XIth Plan. As far as funding gap of about Rs. 4 lakh crore is concerned, the Sub-Committee has submitted the Report and likely to be adopted by GoM on 29.10.2010.

[Ministry of Power O.M. No.7/22/2009 – PF Desk, Dated 4.1.2011]

Comments of the Committee

(Please *see* Paragraphs 9&10 of Chapter-I of the Report)

(Recommendation Sl. No. 10, Para No. 2.10)

The Committee note that the Ministry of Power had submitted 24 Direct Tax proposals and 17 Indirect Tax proposal to the Ministry of Finance

(Departmental of Revenue) for amendment in the Income Tax Act to encourage mobilizing requisite funds for power sector. With the initiative taken by the Committee, a quick response from the Department of Revenue could be obtained and the Committee welcome the decision taken by the Department of Revenue to exempt transmission of electricity from service tax. At the same time, the committee are not convinced with the comments of the Department of Revenue on the issue of tax free bonds that employing fiscal instruments, 'especially tax concessions for mobilizing resources for project financing can be distortive and might instigate extending the argument to project financing in general'. Notwithstanding the reported adverse impact of the tax concessions as assessed by the Ministry of Finance, the Committee are of the considered opinion that in any developing economy, the Government has to set priorities to nurture the key infrastructure sectors including the power sector as the development of power sector would lead to increase in overall economic activities. The Committee feel that by boosting power generation, transmission and distribution to ensure uninterrupted power supply in the country, the overall individual and economic output will grow emphatically leading to increased revenue collection. The Committee also feel that interest free bonds would attract investment from small saving sector, which has huge potential and is otherwise lying un-invested, eg. from senior citizens and salaried employees of both public and private sector. Through such incentives, huge resources can be mobilized as the people have confidence in Government owned public sector institutions. Besides, raising of funds from issue of tax free bonds will ultimately be in favour of the project by reducing the cost of capital. In the light of the forgoing and in view of the huge investment required in the power sector, the committee recommend that the Ministry of Finance should reconsider their decision and allow PFC and REC to issue tax free bonds to raise funds, as a special case.

Reply of the Government

The recommendation of the Committee is not acceptable. In this regard a considered policy decision has been taken involving Department of

Revenue, Department of Economic Affairs and Economic Advisor to Finance Minister. The considered opinion of the Ministry of finance has been that the fiscal instruments should not be used as an instrument to increase project viability. The reasons for discouraging tax free bonds are as under:

(a) The resources of the country are limited so the available liquidity in the market. The issuance of tax free bonds by different governmental agencies tend to crowd out the private sector's requirement for long term funds. It also affects the development of a vibrant corporate bond market where interest rates are determined by demand and supply. Tax free bonds thus tend to distort the actual market determined rates of interest and lead to competing demands for issue of such bonds by other entities as well. It violates the principle of horizontal equity among various entities seeking funds for financing their projects.

(b) There is also a revenue loss of roughly Rs. 24 crores annually for every Rs. 1000 crores of bond issue (This is based on the assumption of an average tax rate of 30% on a bond with a pre-tax interest rate of *%).

2. In the light of the above, the given recommendation is not acceptable, hence no action required to be taken at the level of Department of Revenue.

[Ministry of Finance (Deptt. of Revenue) OM No. 149/55/2010-SO (TPL), Dated 9.11.2010]

Comments of the Committee

(Please *see* Paragraph 15 of Chapter-I of the Report)

(Recommendation Sl. No. 11, Para No. 2.11)

The Committee are of the view that the requirement of infrastructure sector being very large, it is the Government which is expected to invest

in this sector, whereas comparative investment by private sector is minimal and is profit driven. It would, therefore, be prudent on the part of the Government to channelize the huge unutilized money available in the market to enrich and strengthen our infrastructure sector, especially the power sector. The Committee understand that there is ample money available with the Non-Resident Indians and feel that given an opportunity to deposit their money in power sector either as fixed deposits or as shareholders by exempting the interest from being taxed, there would be a considerable amount available with the Government to bridge the funding gap in power sector in coming years. The loss of revenue to the Government by way of exempting the interest from being taxed would be compensated in later years by utilizing the deposited money for improving the power sector which will act as a catalyst for rapid economic development spinning of huge revenues to the Government. Moreover to the Committee view that if the infrastructure financing is allowed by the Government on the suggested pattern, there would be surplus funds available with the Banks and other Financial Institutions which would not allowed the interest rate to increase, because demand and requirement of funds by the other sectors both in Public and Private domain is not as large as in infrastructure sector. The Committee also feel that giving a tax subsidy to individuals towards investment in infrastructure sector *viz.* the power sector would be balance by availability of abundant fund for power sector and other infrastructure projects leading to increase economic activities and increase in demand and increasing the capacity of low net worth individuals to pay taxes. Also, the existing window of viability of gap funding through Grants and Budgetary Support may result into delays in financial closure of such projects and even Budgetary Support may also result in an inflationary trend. The Committee, therefore, recommend that a suitable methodology be worked out for providing proper opportunity to both Resident and Non-Resident Indians for investment in power sector through tax free fixed deposits and other mode of investments.

Reply of the Government

The Recommendation of the committee is not acceptable due the following reasons:—

(i) The interest payable on moneys borrowed by an Industrial Undertaking in India, in foreign currency from sources outside India under a loan agreement approved by the Central Government before 1st June, 2001, is exempt from taxation as per section 10 (15) (iv)(f) of the I.T. Act, 1961.

(ii) Further section 10(15)(iv)(fa) of the Income-tax Act, 1961 already provides exemption for interest income earned by a non-resident or a person who is not an ordinarily resident on foreign currency deposits in Schedule Banks under specified conditions.

(iii) There is no specific data available regarding loss of revenue to the exchequer due to this exemption. The rationale for withdrawal of this exemption was that there was no need to continue with a withholding tax exemption when India entered in to DTAAs with all major economies of the world. The DTAAs generally provide for taxation of interest income at a fixed rate. The income earned by a foreign lender is taxable in the hands of the lender in the foreign country and lender gets credit for any tax withheld on such income by the borrower in India. Thus in effect the exemption of withholding tax in India shifts the amount of tax payment on interest income from India to a foreign country and leads to loss of revenue to India. It was also considered economically unjustifiable to subsidies the borrowings of private companies as this encourages borrowing from abroad leading to India's indebtedness. Further the current policy of the Government is to discourage incentives in a moderate tax regime.

2. In the light of the above, the given recommendation is not acceptable, hence no action required to be taken at the level of Department of Revenue.

[Ministry of Finance (Deptt. of Revenue) OM No. 149/55/2010-SO (TPL), Dated 9.11.2010]

Comments of the Committee

(Please *see* Paragraph 18 of Chapter-I of the Report)

(Recommendation Sl. No. 15, Para No. 2.15)

The Committee note that creation of the National Electricity Fund (NEF) was announced by the Finance Minister in his Budget speech of 2008-09 to provide funds to the States and power utilities for improving transmission and distribution network so as to minimize the transmission losses. According to the Ministry of Power, the objective of the scheme is to offer an interest subsidy linked to substantive transmission and distribution reforms at the State level. The Committee have been informed that for the disbursement target of Rs. 50,000 crore during the 11th Plan period, an interest subsidy of Rs. 18,438 crore has been envisaged spreading over a period of 14 years. The Committee are dismayed to note the reduction in the original target of Rs. 2,02,500 crore for disbursement with a separate component of interest subsidiary of Rs. 82,266 crore on it. This will certainly have an adverse impact on the achievement of the target. The Committee also note that no specific plan outlay has been made during the 11th Plan for this purpose and plan allocation of required interest subsidy to mobilize funds for National Electricity Funds is yet to be made. It has been brought to the notice of the Committee that the proposals of the Expenditure Finance Committee (EFC) has since been revised before submitting the same to the Government for approval to include the change that the interest subsidy scheme would be extended to loans from banking sector and other financial institutions also apart from those taken from PFC and REC and the interest subsidy scheme initially to be made applicable to distribution work only. It has also been added that only non R-APDRP projects and schemes would

be eligible under the interest subsidy scheme. The scrutiny reveals that the size of the subsidy element consequently got reduced to Rs. 227.64 crore for the Annual Plan of 2010-11. Against this backdrop, the Committee are concerned that the very objective and the scope of the scheme is being diluted even before the creation of the NEF. Since the scheme is target oriented, the Committee recommend that the modalities of the scheme and detailed plan of its implementation may be worked out and got finalized at the earliest so that the funding of Transmission and Distribution sector which constitute about 60 per cent of the funding gap may not suffer.

Reply of the Government

Recommendations of the Committee noted for implementation. The EFC meeting has been held on 18-10-2010. Based on its recommendations, Cabinet Note will be submitted for approval, at the earliest.

[Ministry of Power O.M. No.7/22/2009 – PF Desk, Dated 4.1.2011]

Updated Reply of the Government

A Committee was set up on 29.04.2008 under Member (Power), Planning Commission to consider various aspects of establishing the NEF. The Committee estimated funding gap under State T&D about Rs. 3 lakh crore and debt requirement for last 3 years of the XIth Plan at about Rs. 2.02 lakh crore.

The Concept Note as prepared by the Committee, recommended mobilization of resources to meet the funding gap by issue of tax free bonds, increasing LIC exposure limit, and lending from Asian Development Bank (ADB)/World Bank. The Note envisaged to provide loans from Power Finance Corporation Ltd. (PFC) and Rural Electrification Corporation Ltd. (REC) to the States for improving T&D infrastructure. The Note assesses the interest subsidy requirement of 82266 crore over 15 years with 3 years moratorium in repayment of principal.

An EFC memo was circulated on 9.9.2009 based on the concept note. A meeting was taken by Secretary (Planning Commission) on 25th January,

2010 to resolve certain issues flagged by the appraising agencies. It was decided in the meeting that interest subsidy should be available only for distribution schemes and that interest subsidy should be extended to loans from other FIs in addition to PFC/REC and the scheme should be extended to non-APDRP projects and all rural areas (Non-RGGVY) to avoid any duplication.

After following the procedure and detailed discussions, it was felt that interest subsidy aggregating Rs. 8466 crore, would be adequate for a total loan disbursement amounting to Rs. 25,000 crore for distribution schemes during the years 2011-12 and 2012-13, spread over 14 years.

A draft CCEA note is under finalization for circulation based on the above decision. FM's approval has since been obtained on the same.

[Ministry of Power O.M. No.7/22/2009 – PF Desk, Dated 31.5.2011]

Comments of the Committee

(Please *see* Paragraph 25 of Chapter-I of the Report)

CHAPTER V

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

-NIL-

NEW DELHI;
29 *August*, 2011
7 *Bhadrapada*, 1933 *(Saka)*

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on Energy.

ANNEXURE I

(Chapter III, Reply to the Recommendation Sl. No. 12)

Section 80CCF of the Income-tax Act, 1961 — Deduction — In respect of subscription to long-term infrastructure bonds — Notified long-term infrastructure bond

Definition

In exercise of the powers conferred by section 80CCF of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby specifies bonds, subject to the following conditions, as long-term infrastructure bonds for the purposes of the said section namely:—

Name of the bond

The name of the bond shall be "Long-Term Infrastructure Bond".

Issuer of the bond

The bond shall be issued by:—

(i) Industrial Finance Corporation of India;

(ii) Life Insurance Corporation of India;

(iii) Infrastructure Development Finance Company Limited;

(iv) a Non-Banking Finance Company classified as an Infrastructure Finance Company by the Reserve Bank of India;

Who can Invest

An Individual or HUF can invest in these new infrastructure Bonds upto Rs. 20000/- in a Financial year.

Limit on issuance

(i) The bond will be issued during financial year 2010-11;

(ii) the volume of issuance during the financial year shall be restricted to twenty-five per cent of the incremental infrastructure investments made by the issuer during the financial year 2009-10;

(iii) 'Investment' for the purposes of this limit include loans, bonds, other forms of debt, quasi-equity, preference equity and equity.

Tenure of the bond.

(i) a minimum period of ten years;

(ii) the minimum lock-in period for an investor shall be five years;

(iii) after the lock in, the investor may exit either through the secondary market or through a buyback facility, specified by the issuer in the issue document at the time of issue;

(iv) the bond shall also be allowed as pledge or lien or hypothecation for obtaining loans from Scheduled Commercial Banks, after the said lock-in period;

(v) permanent Account Number (PAN) to be furnished — It shall be mandatory for the subscribers to furnish there PAN to the issuer;

(vi) yield of the bond — The yield of the bond shall not exceed the yield on Government securities of corresponding residual maturity, as reported by the Fixed Income Money Market and Derivatives Association (FIMMDA) of India, as on the last working day of the month immediately preceding the month of the issue of the bond;

(vii) end-use of proceeds and reporting or monitoring mechanism;

(viii) the proceeds shall be utilizes towards 'infrastructure lending' as defined by the Reserve Bank of India in the Guidelines : issued by it;

(ix) the end-use shall be duly reported in the Annual Reports and other reports submitted by the issuer to the Regulatory Authority concerned, and specifically certified by the Statutory Auditor of the issuer;

(x) the issuer shall also file these alongwith term sheets to the Infrastructure Division, Department of Economic Affairs, Ministry of Finance within three months from the end of financial year.

APPENDIX I

MINUTES OF THE ELEVENTH SITTING OF THE STANDING COMMITTEE ON ENERGY (2010-11) HELD ON 19TH MAY, 2011 IN ROOM NO. 'G-074' PARLIAMENT LIBRARY BUILDING, NEW DELHI

The Committee sat from 1100 hrs. to 1200 hrs.

PRESENT

Shri Motilal Vora — *In the Chair*

MEMBERS

Lok Sabha

2. Shri Ram Sundar Das
3. Shri Chandrakant Bhaurao Khaire
4. Shri Ravinder Kumar Pandey
5. Shri Nityananda Pradhan
6. Shri M.B. Rajesh
7. Shri Radha Mohan Singh
8. Shri Vijay Inder Singla
9. Shri E.G. Sugavanam

Rajya Sabha

10. Shri V.P. Singh Badnore
11. Smt. Shobhana Bhartia
12. Shri Jesudasu Seelam
13. Shri Veer Pal Singh Yadav

SECRETARIAT

1. Shri Brahm Dutt — *Joint Secretary*
2. Smt. Abha Singh Yaduvanshi — *Director*
3. Shri N.K. Pandey — *Additional Director*
4. Shri Rajesh Ranjan Kumar — *Deputy Secretary*

2. In the absence of the Chairman, the Committee chose Shri Motilal Vora, a Member of the Committee, to act as Chairman for the sitting in accordance with Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. At the outset, the Chairman welcomed the Members of the Committee and briefly apprised them of the Agenda for the sitting. The Committee then took up for consideration the draft Reports on:

(i) Action Taken on the recommendations contained in the 9th Report on "Funding of Power Projects".

(ii) Action Taken on the recommendations contained in the 11th Report on "Renewable Energy for Rural Applications".

4. The Committee discussed the draft Reports on both the subjects and the Action Taken Replies of the concerned Ministries in detail. On the subject "Funding of Power Projects", the Committee were not satisfied with the replies furnished by the Ministry of Finance (Department of Revenue) particularly on the issues of allowing tax free bonds for power sector and tax exemption for Interest income on the investments in power sector. The Committee decided to call the representatives of the Department of Revenue and the Ministry of Power for seeking clarifications on actions taken by the Government on the recommendations of the Committee.

5. * * * * *

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The Committee then adjourned.

APPENDIX II

MINUTES OF THE TWELFTH SITTING OF THE STANDING COMMITTEE ON ENERGY (2010-11) HELD ON 3RD JUNE, 2011 IN COMMITTEE ROOM 'C' PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Committee sat from 1100 hrs. to 1300 hrs.

PRESENT

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Shri P.C. Chacko
3. Shri Ram Sundar Das
4. Shri Paban Singh Ghatowar
5. Shri Sanjay Nirupam
6. Shri Jagdambika Pal
7. Shri Ravindra Kumar Pandey
8. Shri Nityananda Pradhan
9. Shri M.B. Rajesh
10. Shri Ganesh Singh
11. Shri E.G. Sugavanam

Rajya Sabha

12. Shri Govindrao Adik
13. Shri V.P. Singh Badnore
14. Shrimati Shobhana Bhartia
15. Shri Bhagat Singh Koshyari
16. Shri Jesudasu Seelam
17. Shri Mohammad Shafi
18. Shri Motilal Vora (Presided the meeting in absence of the Chairman)
19. Shri Veer Pal Singh Yadav

SECRETARIAT

1. Shri Brahm Dutt — *Joint Secretary*
2. Smt. Abha Singh Yaduvanshi — *Director*
3. Shri N.K. Pandey — *Additional Director*
4. Shri Rajesh Ranjan Kumar — *Deputy Secretary*

List of Witnesses

MINISTRY OF POWER

Sl.No.	Name	Designation
1	2	3
1.	Shri P. Uma Shankar	Secretary (Power)
2.	Shri G.B. Pradhan	Spl. Secretary
3.	Shri Ashok Lavasa	Addl. Secretary
4.	Shri Sudhir Kumar	Joint Secretary
5.	Dr. M. Ravi Kanth	Joint Secretary
6.	Shri Devender Singh	Joint Secretary
7.	Shri I.C.P. Keshari	Joint Secretary
8.	Shri Rakesh Jain	Joint Secretary & FA
CENTRAL ELECTRICITY AUTHORITY		
1.	Shri Gurdial Singh	Chairperson, CEA
2.	Dr. Jaipal Singh	Member, CEA
3.	Shri A.S. Bakshi	Member, CEA
PSUs, AUTONOMOUS BODIES, STATUTORY BODIES, ETC.		
1.	Shri Arup Roy Choudhury	CMD, NTPC
2.	Shri A.B.L. Srivastava	CMD, NHPC
3.	Shri S.K. Chaturvedi	CMD, Powergrid

1	2	3
4.	Shri H.D. Khunteta	CMD, REC
5.	Shri R. Nagarajan	Director(Fin.), PFC
6.	Shri R.P. Singh	CMD, SJVNL
7.	Shri R.S.T. Sai	CMD, THDC
8.	Shri I.P. Barooah	CMD, NEEPCO
9.	Shri Devender Singh	Chairman, DVC
10.	Shri A.B. Agrawal	Chairman, BBMB

MINISTRY OF FINANCE

Sl.No.	Name	Designation
1.	Shri Sunil Mitra	Secretary (Finance/Revenue)
2.	Shri M.C. Josh	Member & Spl. Secretary, CBDT
3.	Shri Ashutosh Dikshit	JS, CBDT
4.	Shri Sunil Gupta	JS, CBDT
5.	Shri Vivek Johri	JS, CBEC
6.	Ms. Ravneet Kaur	JS, DFS
7.	Shri Rajesh Khullar	JS, DEA

2. At the outset, the Chairman welcomed the members of the Committee and the representatives of the Ministry of Power and the representatives of the Ministry of Finance to the sitting of the Committee and apprised them of the provisions of Directions 55(1) and 58 of the Directions by the Speaker. The Chairman briefly explained that the 9th Report of the Committee on "Funding of Power Projects" pertaining to both the Ministries was presented to the Parliament on 10th August, 2010. The Committee, after receiving the Action Taken Replies from the Government, scrutinized them and found the same unsatisfactory, particularly on the issues relating to allowing tax free bonds for power sector and on exemption for interest income to the investments in power sector.

3. Thereafter, the representatives of the Ministry of Power and the Ministry of Finance apprised the Committee of the updates of the action taken by them on the recommendations of the Committee in their aforementioned Report. The Revenue Secretary, in particular, regretted for their previous replies and assured the Committee to reconsider the concerned recommendations of the Committee and intimate fresh action taken in due course.

4. The Committee sought clarifications on various other issues including final action on the proposals of the Group of Ministers on financial issues of power sector and also on creation of the National Electricity fund by the Ministry of Power. The Committee suggested both the Ministries to underline the importance of the issue and draw concrete action plan to ensure availability of resources for the power sector.

5. A verbatim record of the proceedings of the sitting of the Committee has been kept.

The Committee then adjourned.

APPENDIX III

MINUTES OF THE FIFTEENTH SITTING OF THE STANDING COMMITTEE ON ENERGY (2010-11) HELD ON 24TH AUGUST, 2011 IN COMMITTEE ROOM 'C' PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Committee sat from 1500 hrs. to 1700 hrs.

PRESENT

Shri V.P. Singh Badnore — *In the Chair*

MEMBERS

Lok Sabha

2. Shri Adhir Ranjan Chowdhury
3. Shri Syed Shahanawaz Hussain
4. Shri Shripad Yesso Naik
5. Shri Sanjay Nirupam
6. Shri Ravindra Kumar Pandey
7. Shri Ganesh Singh
8. Shri Vijay Inder Singla

Rajya Sabha

9. Shri Govindrao Adik
10. Shri Shyamal Chakraborty
11. Shri Bhagat Singh Koshyari
12. Shri Motilal Vora

SECRETARIAT

1. Shri Brahm Dutt — *Joint Secretary*
2. Smt. Abha Singh Yaduvanshi — *Director*
3. Shri N.K. Pandey — *Additional Director*
4. Shri Rajesh Ranjan Kumar — *Deputy Secretary*

2. In the absence of the Chairman, the Committee chose Shri V.P. Singh Badnore, MP and a Member of the Committee, to act as Chairman for the sitting in accordance with Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. At the outset, the Chairman welcomed the Members of the Committee and briefly apprised them of the Agenda for the sitting.

4. The Committee then took up for consideration the draft Report on Action Taken by the Government on the recommendations contained in Ninth Report on "Funding of Power Projects".

5. The Committee, adopted the draft Action Taken Report on the recommendations contained in the 9th Report without any amendment. The Committee also authorized the Chairman to finalize the Report and present the same to both the Houses of Parliament.

6. * * * * *

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The Committee then adjourned.

APPENDIX IV

(*Vide* Introduction of Report)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/RECOMMENDATIONS CONTAINED IN THE NINTH REPORT (15TH LOK SABHA) OF THE STANDING COMMITTEE ON ENERGY

(i)	Total number of Recommendations:	15
(ii)	Observations/Recommendations which have been accepted by the Government:	
	Sl. Nos. 1, 3, 4, 6, 7, 8, 9, 13 and 14	
	Total:	09
	Percentage	60%
(iii)	Observations/Recommendations which the Committee do not desire to pursue in view of the Government's replies:	
	Sl. Nos. 5 and 12	
	Total:	02
	Percentage	13.33%
(iv)	Observations/Recommendations in respect of which the replies of the Government have not been accepted by the Committee and which require reiteration:	
	Sl. Nos. 2, 10, 11 and 15	
	Total:	04
	Percentage	26.67%
(v)	Observations/Recommendations in respect of which final replies of the Government are still awaited:	
	Total:	Nil
	Percentage	0%

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The Souvenir items with logo of Parliament are also available at Sales Counter, Reception, Parliament House, New Delhi. The Souvenir items with Parliament Museum logo are available for sale at Souvenir Shop (Tel. No. 23035323), Parliament Museum, Parliament Library Building, New Delhi. List of these items are available on the website mentioned above."