9

STANDING COMMITTEE ON ENERGY (2009-2010)

FIFTEENTH LOK SABHA

MINISTRY OF POWER

FUNDING OF POWER PROJECTS

NINTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

August, 2010/*Sravana*, 1932 (*Saka*)

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(2009-2010)

(FIFTEENTH LOK SABHA)

MINISTRY OF POWER

FUNDING OF POWER PROJECTS

Presented to Lok Sabha on 10.8.2010
Laid in Rajya Sabha on 10.8.2010

LOK SABHA SECRETARIAT
NEW DELHI

August, 2010/*Sravana,* 1932 *(Saka)*

C.O.E. No. 197

Price : Rs. 100.00

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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 Jainco Art India, New Delhi-110 005.

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COMPOSITION OF THE STANDING COMMITTEE ON ENERGY (2009-10)

Shri Mulayam Singh Yadav — *Chairman*

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

*Retired from Rajya Sabha *w.e.f.* 4.7.2010.
**Nominated *w.e.f.* 26.2.2010.

INTRODUCTION

I, the Chairman, Standing Committee on Energy having been authorized by the Committee to present the Report on their behalf, present this Ninth Report on 'Funding of Power Projects' pertaining to the Ministry of Power.

2. The Committee took evidence of the representatives of the Ministry of Power, various wings of the Ministry of Finance *viz.* Department of Economic Affairs, Department of Financial Services, Department of Revenue and also the representatives of the Reserve Bank of India on 30th December, 2009, 8th January, 15th March, and 8th July, 2010. The Committee wish to express their thanks to the representatives of the Ministries for appearing before the Committee for evidence and furnishing the information desired by the Committee in connection with examination of the subject.

3. The Report was considered and adopted by the Committee at their sitting held on 20th July, 2010.

4. The Committee place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

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

NEW DELHI;
August 9, 2010
Sravana 18, 1932 *(Saka)*

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on Energy.

REPORT

PART I

NARRATION ANALYSIS

I. Introductory

Electricity is an essential requirement for all facets of our life and is one of the key drivers for rapid economic growth of the nation. It is a concurrent subject mentioned in the Seventh Schedule of the Constitution of India. The Ministry of Power is mainly responsible for evolving general policy in the power sector and issues relating to energy policy and coordination thereof. The Ministry deals with all matters relating to hydro-electric power (except small/mini/micro hydel projects of and below 25 MW capacity) and thermal power and transmission & distribution system network as well. The Government of India plays a lead role in the development of power sector in the country.

1.2 The all India installed power generation capacity as on 31st January, 2010 was 1,56,783.98 MW comprising of 1,00,351.48 MW thermal; 36,885.40 MW hydro; 4,120 MW nuclear and 15,427.10 MW renewable energy. The Central Sector share in generation has gradually increased from 12 per cent in 1979 to 32 per cent as on 31st January, 2010. On the other hand, the share of the State Sector has declined from 82.5 per cent to 50 per cent while the share of Private Sector has gone up from 5.2 per cent to 18 per cent during the same period.

1.3 According to the Ministry of Power, 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, the country still faced an energy shortage and peaking shortage of 11 per cent and 12 per cent respectively during 2008-09. This is stated to be primarily because of increase in demand for power has always outstripped growth in supply and the demand shall continue to grow in tune with the projected growth of economy. 56 per cent of the rural households still did not have access to electricity as per the 2001 Census. Moreover, by world standards, India's current level of energy consumption is very low. The country's per capita consumption although increased by 40 times to over 600 KWh/year from 15 KWh/year in 1950s, however, it is still much below the average world consumption of about 2,700 KWh/year.

1.4 The National Electricity Policy (NEP) stipulates power for all and annual per capita consumption of electricity to rise to 1000 units by 2012. This entails provision of adequate reliable power, at affordable cost with access to all citizens.

1.5 To fulfil the objectives of the NEP, a capacity addition of 78,700 MW has been targeted for the 11th Plan. The breakup of the capacity addition target is given as under:

(in MW)

Source	Central	State	Private	Total	Share (%)
Hydro	8654	3482	3491	15627	19.9
Thermal	24840	23301	11552	59693	75.8
Nuclear	3380	—	—	3380	4.3
Total	36874	26783	15043	78700	100
Share (%)	46.9	34	19.1	100	

II. Performance in 9th and 10th Plan period

1.6 The investment outlay for power sector in 9th Plan was Rs. 1,24,526 crore against total outlay of Rs. 8,59,200 crore which forms 14.49 per cent of total plan outlay, whereas expenditure in power sector outlay was Rs. 1,10,328 crore (*i.e.* 88.59 per cent of the power sector outlay). During the 10th Plan period, the investment outlay was Rs. 2,70,276 crore against the total plan outlay of Rs. 14,84,131 crore, which forms 18.2 per cent of total plan outlay. The expenditure outlay during the same period was Rs. 1,81,518 crore (*i.e.* 67 per cent of the power sector outlay).

1.7 The capacity addition, according to the Ministry of Power, during 9th and 10th Plans had been equivalent to 47 and 52 per cent respectively against the targeted additions, as shown in the table below:

(MW)

	IX Plan		X Plan		
	Capacity Addition Targeted	Actual Capacity added	Original Capacity Addition Targeted	Revised Capacity Addition Targeted	Actual Capacity Added
Thermal	29,555	13,597	25,417	20,387	12,114
Hydro	9,820	4,538	14,393	8,854	7,886
Nuclear	880	880	1,300	1,400	1,180
Total	40,245	19,015	41,110	30,641	21,180
(%)		(47%)			(52%)

III. Capacity Addition Plan and Financial Projections for the XI Plan

1.8 The planned capacity addition, excluding captive power plants (CPPs), for supply to utilities as per the approved XI Plan Document is 78,700 MW (capacity upgraded to 79,019 MW). However, CEA has anticipated a possible capacity addition of 74,963 MW (as on 02.10.2009) as per the following details:

(As on 02.10.2009)
(All figures are in MW)

Category	State	Central	Private	Total Capacity
Projects Commissioned	8,103	4,740	4,621	17,464
Projects under Construction	13,640	20,012	11,691	45,343
Capacity likely to slip	5,140	11,072	-	16,212
Planned Capacity Addition (As per Planning Commission, XI Plan Document)	**26,883**	**35,824**	**16,312**	**79,019**
Additional Projects under construction	742	1,000	10,414	12,156
Less: Capacity likely to slip	5,140	11,072	-	16,212
Feasible Capacity Addition in XI Plan	**22,485**	**25,752**	**26,726**	**74,963**
Decentralized Distribution Generation (Deemed to be part of Renewable Energy Sources)	-	2,500	-	2,500
New & Renewable Energy Sources	4,500	-	9,000	13,500
Captive Power Plants (9,000 MW under Construction)	-	-	12,000	12,000
Total Generation	**26,985**	**28,252**	**47,726**	**102,963**

Source: CEA Data (as on 02.10.2009)

IV. Funding Requirement for Power Sector for the XI Plan

1.9 The funding requirement for the capacity expansion envisaged in the XI Plan as described above plus investment in transmission

and distribution is estimated to be about Rs. 10,59,515 crore as per the details given below:—

(Rs. in crore)

Particulars	State	Centre	Private	Total
Projects under Construction (including Projects Commissioned and under best efforts)	65,841	128,563	71,876	266,280
Advance action for XII Plan	52,452	76,092	71,410	199,954
Total Generation	**118,293**	**204,655**	**143,286**	**466,234**
Decentralized Distribution Generation	—	10,000	—	10,000
New & Renewable Energy Sources	22,500	—	45,000	67,500
Captive Power Plants	—	—	48,000	48,000
Integrated Generation	**140,793**	**214,655**	**236,286**	**591,734**
Renovation & Modernization (R&M)	15,875			15,875
Renovation & Modernization (R&M)	**15,875**			**15,875**
Transmission	65,000	75,000	-	140,000
Total Transmission	**65,000**	**75,000**	-	**140,000**
Sub-Transmission & Distribution	197,000	-	-	197,000
RGGVY	51,000	-	-	51,000
APDRP	51,577	-	-	51,577
Others	10,000	-	-	10,000
Total Distribution & Rural Electrification	**309,577**	-	-	**309,577**
Human Resource Development (HRD)	-	462	-	462
Research & Development	-	1,214	-	1214
Demand Side Management (DSM)	-	653	-	653
Total Others	-	**2329**	-	**2,329**
Grand Total	**531,245**	**291,984**	**236,286**	**10,59,515**

Source: Report of the Working Group on Power for the XI Plan-January, 2007 & CEA.

V. Sources of Funds for the XI Plan

1.10 The estimates availability of funds for 11th Five Year Plan to the State, Centre and private sectors for Generation, Transmission, Distribution etc., as furnished by the Ministry of Power is shown below:

(Rs. in crore)

Summary-Fund Availability-Total

Funding Arrangement	State	Centre	Private	Total
Generation	97,208	202,408	131,562	431,178
Transmission	41,151	49,604	-	90,755
Distribution	107,494	-	-	107,494
R&M	6,118	-	-	6,118
Others	-	2,329	-	2,329
Total	251,970	254,341	131,562	637,873

Summary-Fund Availability-Debt

Funding Arrangement	State	Centre	Private	Total
Generation	97,208	148,924	60,676	306,808
Transmission	41,151	40,166	-	81,317
Distribution	30,017	-	-	30,017
R&M	6,118	-	-	6,118
Others	-	-	-	-
Total	174,493	189,090	60,676	424,259

Summary-Fund Availability-Equity

Funding Arrangement	State	Centre	Private	Total
Generation	-	53,484	70,886	124,370
Transmission	-	9,438	-	9,438
Distribution	77,477	-	-	77,477
R&M	-	-	-	-
Others	-	2,329	-	2,329
Total	77,477	65,251	70,886	213,614

Source: Report of the Working Group on Power for the XI Plan-January, 2007.

VI. Summary of Funding Gap for the XI Plan

1.11 The summary of funding gap, as provided by the Ministry of Power on the basis of allocation of resources to State, Centre & Private sector for Generation, Transmission, Distribution etc. is given below:

(Rs. in crore)

Gap-Total

Funding Arrangement	State	Centre	Private	Total
Generation	43,585	12,247	104,724	160,557
Transmission	23,849	25,396	-	49,245
Distribution	202,083	-	-	202,083
R&M	9,757	-	-	9,757
Others	-	-	-	-
Total	279,275	37,643	104,724	421,642

Gap-Debt

Funding Arrangement	State	Centre	Private	Total
Generation	1,347	1,335	104,724	107,406 (40%)
Transmission	4,349	12,334	-	16,683 (6%)
Distribution	139,983	-	-	139,983 (52%)
R&M	4,995	-	-	4,995 (2%)
Others	-	-	-	- (0%)
Total	150,675 (56%)	13,669 (5%)	104,724 (39%)	269,067 (100%)

Gap-Equity

Funding Arrangement	State	Centre	Private	Total
Generation	42,238	10,913	(0)	53,151
Transmission	19,500	13,062	-	32,562
Distribution	62,100	-	-	62,100
R&M	4,763	-	-	4,763
Others	-	-	-	-
Total	128,600 (84%)	23,975 (16%)	(0) (0%)	152,575 (100%)

1.12 The Committee discussed in detail the issue of funding of power projects with the representatives of the Ministry of Power in their sitting held on 30th December, 2009 and desired to know the problems being faced by the Ministry in achieving the physical target of 78,000 MW during the 11th Five Year Plan and efforts being made by them in overcoming the problems. The Power Secretary, deposed before the Committee as under:

"We will achieve 62,000 MW against 78,000 MW. The work for 43,000 MW is already in progress and we will achieve more than 20,000 MW. At present work for 43,000 MW is going on. The private parties and State Governments have delayed the work. Tenders have been ordered for complete mission of target of 78,000 MW in the 11th Plan and work in this regard is under construction. We will achieve not less than 62,000 MW against 78,000 MW. But in these two years we will achieve 20,000 MW. We are hopeful that we are ready to achieve 62,000 MW against 78,000 MW. We are going to achieve it.

There are certain delays. We will achieve 10,000 MW till March, during the current years, 2009-10. They are all under construction. We will achieve this 5,000 MW every year. Since September, there was dispute regarding Chinese workers. We are going to achieve 62,000 MW against 78,000 MW. About 2,500 to 3,000 Chinese were working in defferent private sectors. In Government sector, in BHEL, all workers are Indians are working. They had a group of 3,500 to 4,000 persons, who had been working. We were going to commission 2,000 MW, in September, October. Meanwhile, our Government have departed them and we suffered a loss. By now we would have crossed more than 10,000 MW. Had they continued working we could have achieved 9,000 MW by the end of December. We are making efforts for that. We are hopeful that in the year 2009-10. We are touching 7,000 MW and we will do more than 1,200 MW by the end of 11th Plan, in March 2012. By the end December, 2009 we would have achieved 9,000 MW in 2009-10. By now we would have done 9,000 MW. We will try to do 10,000 MW, if not 14,000 MW."

1.13 The Secretary further elaborated:

"The Ministry of Power is confident of achieving 62,000 MW capacity. The reason is that capacity addition by the private sector is 100 per cent and it is as per time and schedule. Why the Government is confident of achieving 62,000 MW capacity is because more than 20,000 MW is being executed by the private

sector. We have done 20,000 MW, and the another 20,000 MW will be done by the private sector. It will come to 40,000 MW. The State sector is also performing extremely well. Their performance is just below 100 per cent. Therefore, we are very confident of the contribution of the State sector. Only the companies under the Central sector, like NTPC and NHPC, are going a bit slow, but are recovering now. Unfortunately, due to BHEL problems, we could not get appropriate things. There are also certain cases in the Supreme Court and High Courts."

1.14 In regard to comparison of projects implemented by the Chinese firms *vis-a-vis* Indian firms like BHEL, the Power Secretary stated:

"BHEL takes 44-48 months to commission a 500 MW power station. The cost is a bit high but the Chinese companies do it in 36 to 38 months. 46 to 48 months are too much against 36 months. If I being an investor, they complete it in less time with lower cost. The period of five years is completed in three and a half or quarter to four years by them. It benefits as also. Most of the private sector, as I have said right now that 30,000 MW work has been awarded to the Chinese companies therefore, we have been facing many problems. The problem that we have is all about timing, quickness and cheaper cost. Therefore, the private sector is approaching them more."

1.15 The Committee queried about formation of joint ventures in collaboration with foreign or Indian companies for manufacture of power equipment, the Secretary submitted before the Committee as under:

"We have included five projects in 'mega power policy'. Under mega power policy, more than a 1,000 MW is termed as mega power, sir, five projects are super critical. The total target will be slightly more than or almost coming to 8,000 MW. We have made it compulsory in the policy that the company doing our work would itself make the production base. Right now we have received proposals from five Joint Ventures. The one being the BHEL-Siemens group, the second one is the group of L&T with Mitsubishi, JSW with Alstom and Bharat Forge is also there. We are expecting that in the next two years to three years, all these five companies will come up in India. Already BHEL and L&T have started the work L&T is working nicely. In my State, Andhra Pradesh there is a Krishna Pattanam Project of L&T, it has reduced the cost by Rs. 600 crore approximately for 1,000 MW. The mission of 1,000 MW, it has out beaten the cost by Rs. 600 crore against BHEL. If these five groups come forward

for competition then there would be no problem in India. Hydro, Thermal and Solar power is also included in it. If we have to achieve the target of 1,000 MW in five years then every year we have to produce not less than 20 machines. BHEL is running in difficulty right now at any point of time in any year they are not able to do more than 8,000 MW. Therefore, we are suffering a great loss. We have put a target of 78,700 MW our domestic production is below eight thousand. That is why we are facing this problem."

1.16 The Planning Commission had fixed targets of capacity addition of 78,700 MW for 11th Plan and 1,00,000 MW for 12th Plan. The Committee enquired about the post Budget assessment of the Ministry of Power in regard to requirements *vis-a-vis* availability of funds for the power sector for 11th and 12th Five Year Plans. The Ministry informed in writing that for 11th Plan funds requirements for projects relating to capacity addition/generation, transmission, distribution and other schemes have been placed at Rs. 10,59,515 crore. As against this, availability of fund (debt and equity) has been estimated to be Rs. 6,37,873 crore, thus, leaving a funding gap of Rs. 4,21,642 crore. According to the Ministry of Power, 12th Plan preparation is yet to commence and no estimates for fund requirement are available for 12th Five Year Plan. The Power Secretary summarized the fund requirement before the Committee during evidence held on 8th January, 2010 as under:

"It is a fact that Rs. 10 lakh crore would meet the full demand of the 11th Plan and partial demand of the 12th Plan ...... For generation we have almost achieved 90 per cent efficiency. But there is a gap of Rs. 3 lakh crore to Rs. 4 lakh crore which is required to complete the transmission and distribution. We have been able to achieve the generation part, but the transmission and evacuation part is greatly required for which financial support is required. As on today, we are in need of this amount of Rs. 4 lakh crore to meet our evacuation, transmission and power distribution network. To have any project in India, we keep a time frame of 45 to 50 months. If we do not place order today, in 2011 or 2012 the project will go into the 12th Plan. For 50 per cent of the 12th Plan projects we require money. There is a need for support of the Government of India to see that all funds are made available for the 12th Plan."

1.17 On being asked about the Government policy for investment in Power Sector, the Ministry of Power has stated in a note:

"Private Sector Investment including Foreign Investment has been permitted in Generation, transmission and distribution for increasing investment in Power sector.

National Electricity Policy notified by the Central Government in compliance with section 3 of Electricity Act, 2003 envisages a number of measures to finance the power sector programmes. These, *inter-alia*, include private sector participation, raising internal resources so as to at least meet the equity requirement of investments by public sector, providing return on investment in a manner to attract adequate investments, making efforts to improve the efficiency of operations, foster competition to bring significant benefits to consumers and reduction in transmission and distribution losses."

VII. Funding of Power Projects by Banks

1.18 The Committee pointed that as per Economic Survey 2008-09, bank credit to power sector was Rs. 12,659 crore and Rs. 21,909 crore in 2006-07 and 2007-08 respectively. On being enquired about the reasons for very low response of banks in providing finances to power sector, the Ministry of Finance (Department of Financial Services) in a note replied as under:

"The response of banks in providing finance to power sector is quite encouraging. As per data furnished by Indian Banks Association (IBA), bank credit to the power sector have increased from Rs. 73,158 crores in March 2007 to Rs. 1,24,447 crores in March, 2009. In fact, between March, 2008 to 2009, bank credit to power sector showed a growth of 31.0 per cent, which is much higher than the overall bank credit growth. Available data for all scheduled commercial banks for last three years is given below:

(Rs. in crore)

	March, 07	March, 08	March, 09
Infrastructure	143375	205175	269972
Of which			
Power	73158	95067	124447
Telecom	19446	38043	50326
Roads and Ports	24984	34530	47060
Other Infrastructure	25787	37479	48139
Gross Bank Credit	1848187	2247289	2648501
Infra funding as % Gross Bank Credit	7.76	9.13	10.19"

1.19 The Committee also wanted to know whether the Ministry has done any in-depth analysis to analyze the realistic quantum of funds that has been provided by the nationalized/private banks in power sector projects during the 11th Plan period. The Department of Financial Services in a note stated:

"The review of Banks/FIs credit to infrastructure including power sector is undertaken on a quarterly basis at the level of Finance Minister. However no separate analysis, specific to power sector, for the entire plan period has been done in this Ministry."

1.20 The Committee desired to know about the role of the Ministry in arranging funds from International Bodies like, World Bank, International Monetory Fund, Asian Development Fund, etc. for power sector. The Ministry of Power in a note stated:

"The Indian power sector receives concessional credit (loans as-well-as grants through Official Development Assistance or, ODA) through a number of multi-lateral and bi-lateral funding agencies. Whereas the World Bank and the Asian Development Bank (ADB) are the multi-lateral donors, bilateral assistance is received primarily from Japan (through the Japanese International Cooperation Agency-JICA) and Germany (through KfW).

Assistance for Central Sector (CPSUs) is given "directly" by the external donors backed by a Sovereign Guarantee by GoI. For such loans, GoI charges a Guarantee Fee of 1.2% of the loan amount, though it considers a reduction in tile fee on a case-to-case basis. For example, loans to REC were given on a Guarantee Fee of 0.6% of the loan amount. In case of reduction in the Guarantee Fee, it is expected from the CPSUs that the benefit shall be fully passed on to the utilities/consumers.

Assistance for State Sector projects is "Routed-through-Budget", *i.e.*, GoI borrows on behalf of the State utilities. In case of General category States, the GoI has a "Back-to-Back" agreement with States. However, in case of Special Category States, the external assistance is passed on as 90% grant and 10% loan. The interest on the loan portion is in accordance with the standard Central lending to the States. State sector projects need to clear the "Debt Sustainability" requirement of the Finance Ministry before loan negotiations are held.

The role of Ministry of Power in externally aided power projects starts from the stage of examining the project proposals. It

prioritizes various power projects, examines the loan documents, participates in loan negotiations and monitors construction of projects till commissioning. An exclusive Projects Monitoring Cell is functional in Ministry of Power for these activities."

1.21 On being enquired about the quantum of funds made available through International Agencies during the 11th Plan and utilizations thereof, the Ministry furnished the following information:

(Rs. in crore)

Year	Budgetary Estimates (BE)	Revised Estimates (RE)	Actual Utilization
2009-10	4816.24	4290.11	3476.28 (till 30.11.09)
2008-09	3944.41	2723.33	3551.64
2007-08	2830.68	2473.38	2830.80
Total	11591.33	9486.82	9656.56

1.22 Public Sector Undertakings under the administrative control of the Ministry of Power *viz.* Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) provide loans/funds for power sector projects. Their role is detailed in succeeding paragraphs.

VIII. Role of Power Finance Corporation (PFC) in funding of Power Projects

1.23 Power Finance Corporation (PFC), incorporated in July, 1986, is a prime finance institution exclusively focused on the Indian power sector. The Committee desired to know about details of loans, grants, working loans and other financial assistance provided by PFC cumulative so far as on 31st March, 2009 as also year-wise and sector-wise details during the last three years. The Ministry of Power in a written reply informed as under:

"PFC issued sanctions for Rs. 57,030 crore of loans and grants during the financial year 2008-09. An amount of Rs. 21,054 crore of loans and grants was disbursed during the same period to State, Central, Private and Joint Sector entities, compared to Rs. 16,211 crore disbursed during the last year. With this, cumulative sanction of Rs. 2,32,551 crore and disbursement of Rs. 1,13,119 crore of loans and grants have been made by the Company as on 31st March, 2009."

Financial Assistance (Product-wise)—Cumulative upto March, 2009

(Rs. in crore)

Category	Sanctions	Disbursement
Term Loans	203,184	87,302
Short Term & Working Capital Loans	20,058	19,748
Leasing	1,180	566
R-APDRP	1,947	325
Others**	6,183	5,179
Total	232,551	113,119

**Others include Transitional Loans, Debt Refinancing, Bridge Loan, Grant for Studies, Associated Infrastructure, Decentralized Management, DRUM USAID Grant, Loan to Equipment Manufacturers, Buyers Line of Credit, Loan for Assets Acquisition, Bill Discounting etc.

Financial Assistance (Sector-wise*)—Cumulative upto March, 2009

(Rs. in crore)

Category	No. of Loans	Sanction	Disbursement
State Sector	3548	1,68,239	91,741
Central Sector	48	35,035	11,450
Private Sector	121	21,671	6,073
Joint Sector	5	7,531	3,809
Total	3722	2,32,476	1,13,073

*Excludes grants

Grants—Cumulative upto March, 2009

(Rs. in crore)

Category	No.	Sanction	Disbursement
Grant for Studies	111	52.65	42.71
DDM	15	5.92	2.80
DRUM	3	16.87	0.78
Total	129	75.44	46.29

Financial Assistance (Sector-wise*)—Year-wise

(Rs. in crore)

Category	2008-09		2007-08	
	Sanction	Disbursement	Sanction	Disbursement
State Sector	29,658	14,695	52,746	13,477
Private Sector	7,892	620	5,231	862
Central Sector	18,127	3,129	11,516	1,869
Joint Sector	1,350	2,607		
Total	57,028	21,052	69,493	16,207

*Excludes grant

Financial Assistance (Product-wise)—Year-wise

(Rs. in crore)

Category	2008-09		2007-08		2006-07	
	Sanction	Disbursement	Sanction	Disbursement	Sanction	Disbursement
Term Loans	50,614	16,380	66,074	13,765	28,739	11,689
Short Term & Working Capital Loans	2,997	2,877	2,506	2,316	2,391	2,366
Leasing	-	0	613	-	-	-
R-APDRP	1,947	325	-	-	-	-
Others** (including grant)	1,472	1,473	305	130	15	0
Total	57,030	21,054	69,498	16,211	31,146	14,055

**Others include Transitional Loans, Debt Refinancing, Bridge Loan, Grant for Studies, Associated Infrastructure, Decentralized Management, DRUM USAID Grant, Loan to Equipment Manufacturers, Buyers Line of Credit, Loan for Assets Acquisition, Bill Discounting etc.

1.24 The Committee pointed out that the loan sanctioned by PFC decreased from Rs. 69,498 crore in 2007-08 to Rs. 57,030 crore in 2008-09. Asked about the reasons of less quantum of loans sanctioned in 2008-09 as compared to that in 2007-08 when requirements of power sector are increasing, the Ministry in a note stated:

"In FY 2007-08, PFC has sanctioned projects of Rs. 69,498 crore as against the MOU Excellent Target of Rs. 27,720 crore. Sanction increased from Rs. 31,146 crore to Rs. 69,498 crore registering an increase of 123% over the previous year.

The primary reason for lower sanctions in 2008-09 *vis-a-vis* 2007-08, was due to lower sanctions to State Sector Utilities (Sanctions of Rs. 29658.46 crores in 2008-09 *versus* Rs. 52745.84 crores in 2007-08).

To help facilitate early financial closure and placement of orders for certain projects targeted for implementation in the XI Plan, sanctions for these were expedited in 2007-08. Many of the projects sanctioned in 2008-09 are those targeted for implementation in the XII Plan. Balance projects of the XII Plan were still in preliminary stages of development and not ready for sanctioning."

1.25 Regarding position of sanction/disbursement of loans during 2009-10, the Ministry informed as under:

"PFC has signed a Memorandum of Understanding with Ministry of Power. For FY 2009-10, the Excellent Targets for sanctions are as follows:

Sanctions under R-APDRP	Rs. 1,900 crore
Sanction under Non-R-APDRP	Rs. 58,100 crore

The Excellent targets set for FY 2009-10 under MoU will be achieved by PFC. However, RBI's cap, *w.r.t.* extent of financing, may also have an impact on the above."

1.26 As against cumulative sanctioned loan by PFC upto March 2009 of Rs. 2,32,475 crores, the disbursements were only Rs. 1, 13,073 crores. On being pointed out by the Committee that low release of funds may hamper the early completion of power projects, the Ministry in a written reply stated:

"There has been no delay in release of funds by PFC. The reasons for sanction much higher than disbursements are as under:

For a typical power project, the expenditure is required to be incurred in a phased manner depending upon the progress of the activities involved and how the various milestones are scheduled. For example, in case of a typical large thermal power project (which is the most capital intensive project) say of 500-600 MW capacity, the expenditure is incurred over a span of about four years as indicated below:—

Sl.No.	Year	Estimated expenditure (in %age terms)
1.	First Year	1-15%
2.	Second Year	30-35%
3.	Third Year	40-45%
4.	Fourth Year	10-15%

It is further to mention that though the phasing of the expenditure and hence funds requirements for the project shall be broadly as per the above pattern, the various factors/issues emerging from time to time *viz.* delay in award of contracts by the project authorities, delay in supply of the equipment, stoppage of the work in between due to some contractual issues etc. may affect the expenditure pattern.

The sanction disbursement gap is also due to the fact that Independent Power Producers (IPPs) approaches PFC for financial assistance much earlier than other financial institutions and it takes lot of time for the project to get financial closure from other financial institutions.

Further, at time of sanction, certain conditions/milestones are stipulated. Funds are released in line with the borrowers ability to fulfil these. This ensures that the project ties up loose ends, if any. This also helps to protect the interest of the Corporation by reducing the possibility of bad debts and ensuring that the projects are completed. This helps the power sector as due to a higher credit rating, PFC is able to raise funds at a lower cost, which is passed on to the developer."

1.27 Asked as to how much share of PFC is anticipated in the proposed level of investment of Rs. 9,00,000 crore in near future, the Ministry informed that PFC has already sanctioned about Rs. 45,000 crore for projects with likely benefits during 12th Plan period. Expected share of PFC out of the proposed investment of Rs. 9,00,000 crore in next 4-5 years could be about 15-20%.

1.28 The Committee pointed out that PFC is reported to be expanding its borrower portfolio to cover new sectors like oil and gas companies, Railways, Port Trusts, etc. and queried whether the move will affect the funding of power projects. The Ministry of Power in a note stated:

"PFC is expanding its borrower portfolio to fund new sectors like oil and gas companies, Railways, Port Trusts, etc., which facilitate the power projects/sector.

At this stage the requirement of funds for such new sectors is very low as compared to the fund requirement of power sector. The high Capital Adequacy and Net Worth of PFC will allow PFC to fund and expand operations in these new areas. Therefore, the above expansion will not affect the funding of power projects by PFC."

IX. Role of Rural Electrification Corporation (REC) in Funding of Power Projects

1.29 Rural Electrification Corporation Ltd. (REC) is engaged in Financing Projects in the Power Sector mainly for Generation, Transmission and Distribution. It also provides loans to Power utilities for meeting their working capital requirements etc. REC is also the nodal agency for the Government of India's prestigious Rajiv Gandhi Gramin Vidyutikaran Yojna, wherein 90% of the project cost is funded by the Government by way of subsidy to the States and channelled through REC and the balance 10% is released by REC as Loan.

1.30 REC sanctions Loans to State Electricity Boards, Power utilities, State Governments and Private developers on its own or in consortium with other Financial Institutions (Fls). In line with recent initiative of the Government of India to encourage private players to set up Ultra Mega Power Projects (UMPPs), REC, in consortium with other financial institutions has also financed projects developed by Private Companies.

Performance highlights and financial status of REC for FY 2008-09 and FY 2007-08, as informed by the Ministry of Power are given below:—

(Rs. in crores)

Particulars	2008-09		2007-08	
1	2		3	
Loans Sanctioned:				
Transmission & Distribution	16937.60		16810.10	
Generation	21708.30			27274.90
Others	2100.00	40745.90	2685.00	46770.00
Disbursements (including subsidy under RGGVY):				
Transmission & Distribution	12387.26		10413.60	
Generation	7850.60		4308.10	
Others	2040.00	22277.86	1582.00	16303.70
Recoveries		9796.97		9042.00
Gross Loan Assets		50652.81		38614.83

1	2	3
Gross Non Performing Assets (NPA) & % of Gross Loan Assets	68.89 0.14%	316.18 0.82%
Net Non Performing Assets & % of Net Loan Assets	20.88 0.04%	234.44 0.61%
Gross Income (Consolidated)	4936.55	3541.25
Profit before Tax (Consolidated)	1922.36	1315.12
Net Profit after Tax (Consolidated)	1273.53	861.93
Return on Net worth (%)	20.11	16.11
Earning Per Share	16.05	12.28

Cumulative sanction of loans by REC upto 31st March, 2009 : Rs. 2,21,098.72 crore

Cumulative disbursement upto 31st March, 2009 : Rs. 92,400.65 crore

1.31 When asked about the reasons for decline in loan sanctioned in 2008-09 as compared to 2007-08, the Ministry in a note informed as under:—

> "REC took up financing of Generation projects in a big way in the first year of the 11th plan, so as to facilitate in meeting the targets of capacity addition of the country for the 11th Plan. Having sanctioned most of the available applications in the year 2007-08, further applications in the year 2008-09 arose in a routine way and hence the sanctions declined marginally."

1.32 According to the Ministry of Power, As on 31st March, 2009, the ratio of Loans/Funds provided by REC to Public, (State & Central), Joint and Private sector projects stands as under:

(Rs. in crores)

Sector	Loan Outstanding Amount	& %
Public sector	46868.60	92.53
Joint sector	758.30	1.50
Private sector	3025.90	5.97
Total	50652.80	100

1.33 Regarding the types of schemes/projects which are funded by REC, the Ministry informed that REC funds all types of Power projects schemes for Generation, Transmission and Distribution sectors as well as for working Capital, etc. needs of the power sector in India. In Generation, it funds Thermal, Hydro, Wind Power, Solar Power, Bio-Mass Power Projects, etc. and other R&M Projects. For Transmission and Distribution sector, REC funds all types of projects such as Village electrification, Evacuation of Power from new Generating Stations and system improvement, HVDS, Intensive electrification, Pumpset energisation, Bulk loan for purchase of equipment materials, Accelerated Power Development and Reforms Programme (APDRP) etc.

1.34 The Committee desired to know the projected role of REC in the coming years. The Ministry in a note informed as under:—

> "REC would continue to be a pivotal financing organisation in the Power sector in the country. Power sector was estimated to require funds in excess of Rs 10,00,000 crore for the XIth Plan for investment in Transmission, Distribution and Generation sectors. For the Xllth Plan, which will come into effect from fiscal 2012, it is estimated that funds in excess of Rs. 11,00,0001 crores will be required for the Power Sector. As a consequence of Government of India's (GOIs) focus on increased funding for the Power sector, REC's Loan sanctions and Loan disbursements have grown at a CAGR of 25.71% and 23.23% respectively, between Fiscal 2005 and Fiscal 2009. REC is funding requirements of Generation, Transmission and Distribution in both rural and urban areas in the country. With expertise available, it has also floated its subsidiaries for Power Distribution and Transmission.
>
> With ample opportunities available for financing in the Power sector, REC shall continue to play leading role in meeting the financing needs of the Power sector. It shall also continue to work as a nodal agency for RGGVY programme. It shall also provide financing for Part-B of Accelerated Power Development and Reforms Programme of Government of India."

1.35 Asked whether REC has plans to fund projects other than power sector on the pattern of PFC, the Ministry of Power in a written reply stated:—

> "Apart from funding of Power projects, REC's object clause also provides for the following:

To finance and to provide assistance for those activities having a forward and/or backward linkage with power projects (including but not limited to) such as development of coal and other mining activities for use as fuel in power projects, development of other fuel supply arrangements for the power sector and to meet other enabling infrastructure facilities that may be required for the speedy and effective development of Power sector.

It may be seen that these activities are linked to power sector development since non-availability of proper infrastructures and coal and other linkages are often a big hindrance in smooth coming up of power projects.

REC is yet to take up the above activities though certain preliminary steps have been taken in the above direction."

1.36 On being asked as to what would be share of PFC and REC in allocation of funds in generation sector (Rs. 1,60,559 crore) for which financial closure has been reported, the Ministry of Power informed as under:—

"There is a funding gap of Rs. 160,559 crore in Generation sector for the XI Plan Period. Of this, Rs. 107,406 crore is to be funded through debt. PFC and REC funds the debt portion of the fund requirement and typically have a market share of about 20% and 15% respectively.

However, for generation projects where financial closure has been reported, REC shall provide funds to the extent of Rs. 40,000 crore during the 11th/12th Plan periods, and PFC funds to the extent Rs. 1,00,000 crore during the 11th/12th Plan."

X. Sub-Committee of the Group of Ministers on Power Sector Issues

1.37 The Prime Minister, in his concluding address at the Conference of the Chief Ministers held on 28.05.2007, had announced the constitution of a 'Group of Ministers' on power sector issues.

1.38 The Chairman of the Group of Ministers constituted the Sub-Committee of the Group of Ministers to look at financial issues. The Sub-committee was constituted *vide* Ministry of Power's Notification No. 6/3/2007-Fin. Dated 31.08.2007 with the approval of Minister of Power. The constitution of the Sub-Committee was ratified by 'Standing Group of Power Ministers' in their meeting held on 24.09.2007.

1.39 The Meetings of the Sub-Committee were held on 17.10.2007, 07.01.2008 and 28.03.2008 in the Office of Deputy Chairman, Planning Commission, New Delhi.

The term of the Sub-Committee is up to 30.08.2010.

1.40 The Sub-Committee of Group of Ministers (GoM) appointed in August, 2007 for examining the financial issues to make appropriate recommendations on various issues to ensure timely availability of funds for achieving the target of attaining capacity addition about 80,000 MW in 11th Plan and initiating action on 12th Plan Projects has given an Interim Report. Important recommendations of the Sub-Committee are as under:—

(i) PFC and REC be allowed to raise external commercial borrowings of USD 1 billion each per year under the 'Automatic Route'.

(ii) Exposure Limits of banks for lending to power sector companies be enhanced by 5% in case of single borrower.

(iii) Exposure Limits of banks for lending to PFC and REC funding be enhanced to the level of single borrower limit.

(iv) Certain percentage, say 50% of total funding by banks to PFC and REC be considered as power sector exposure within industry exposure norms.

(v) 20% risk weight be assigned to loans extended by PFC and REC which are guaranteed by State Government.

1.41 In regard to recommendations of the Sub-Committee, the Ministry of Power, in a written note informed that the Secretary, is permanent Invitee in the "Sub-Committee of the Group of Ministers on Power Sector issues" constituted under the Chairmanship of Deputy Chairman, Planning Commission. The Ministry of Power is, therefore, in agreement with the five recommendations made in the Interim Report of the Sub-Committee. The Interim Report was submitted to the Finance Minister by the Dy. Chairman, Planning Commission and the Chairman of the Sub-Committee on 19.2.2009.

1.42 Since the recommendations are related to the banking sector, the Committee sought the comments of the Ministry of Finance (Deptt. of Financial Services). Point-wise response of the Department of Financial Services is as under:

	Recommendations	Response
(i)	PFC and REC be allowed to raise external commercial borrowings of USD 1 billion each per year under the 'Automatic Route'.	REC & PFC are Non-Banking Financial Companies (NBFCs) owned substantially by the Government of India. Extent policy on External Commercial Borrowings (ECB) does not encourage borrowing by financial intermediaries as it has implications for financial stability. However, since REC and PFC finance power projects and special window is available to them under the 'Approval Route'. They may avail ECB under 'Approval Route'. Incidentally PFC and REC were permitted to avail of ECB of USD 300 million and USD 700 million respectively under 'Approval Route' in 2008.
(ii)	Exposure Limits of banks for lending to power sector companies be enhanced by 5% in case of single borrower.	Comments/approval of Ministry of Finance is awaited.
(iii)	Exposure Limits of banks for lending to PFC and REC funding be enhanced to the level of single borrower limit.	Comments/approval of Ministry of Finance is awaited.
(iv)	Certain percentage, say 50% of total funding by banks to PFC and REC be considered as power sector exposure within industry exposure norms.	Comments/approval of Ministry of Finance is awaited.
(v)	20% risk weight be assigned to loans extended by PFC and REC which are guaranteed by State Government.	The RBI had agreed with the recommendations that, loans extended by PFC & REC to State Power Utilities which are guaranteed by State Governments, and have not remained in default be assigned a risk weight 20%. However, if the loans guaranteed by the State Government have remained in default for a period of more than 90 days, a risk weight of 100% is to be assigned.

1.43 Meanwhile, the Committee pursued the matter with the Ministry of Finance (Department of Financial Services). In their reply, the Department of Financial Services submitted the following comments on the rest of the three interim recommendations of the Sub-Committee of GoM:

"**Recommendation No. (ii):** Exposure Limits of banks for lending to power sector companies be enhanced by 5% in case of single borrower.

Comments of DFS:

RBI has indicated that the existing individual and group exposure norms of RBI are liberal as per international standards. They are liberal both regards the base *i.e.* they were determined as a percentage of total capital funds which includes both Tier-1 and Tier-2 capital as well as on exposure limits. As per the existing norms the banks' exposure limits for individual infrastructure company is 20% plus 5% of bank capital funds.

RBI has further informed that as on 31.3.2009, banks' credit to power sector projects was Rs. 1,24,447 crore which accounts for 4.5% of the total bank credit and 11.8% of their industrial credit. Further, the credit to power sector accounts for 46.09% of their credit to all infrastructure sectors which is pegged at Rs. 2,69,972 crores as on 31st March, 2009. This credit of Rs. 1,24,447 crore has grown from Rs. 95,067 crore in 2008 and Rs. 73,158 crore in 2007. Thus power sector is the largest recipient of bank credit and also the largest recipient of credit among infrastructure sectors. The bankwise analysis made by RBI in the case of 10 major banks indicates that credit to power sector figures among the top 3 sectors being financed by the banks. The sectoral limit of banks for funding power sector is generally higher than that of other sectors.

On the basis of information compiled by RBI in respect of 10 major banks, it is seen that the public sector banks' exposure to single borrower is in the range of 10.6% to 16.8% only which is much lower than the permissible limit of 25% for a single borrower. Similarly, the maximum group borrower limit is 55% but the analysis of funding by 10 major banks indicates that the banks' exposure to group borrowers ranges from 21.2% to 41.3% which is again below the maximum limit. Thus there is still headroom available for further expansion of banks' credit to the power sector. So far, no request has been received by RBI from

any bank to increase the single and group borrower's limits. A Working Group formed by IBA to examine this issue felt that there was no need to increase these limits. Any further increase in these limits could entail substantial risks in the form of:

(i) Concentration risk which could adversely impact of the net worth of the bank and systemic fallouts.

(ii) Mismatch risk arising out of Asset Liability Mismatch.

(iii) Additional risks in view of the long term nature.

Thus, it's difficult for banks and financial institutions to assume bulk of the project risk and capital costs indefinitely without a commensurate development of the corporate debt market.

Recommendation No. (iii): Exposure Limits of banks for lending to PFC and REC funding be enhanced to the level of single borrower limit.

Comments of DFS:

RBI has issued a notification on 12.2.2010 wherein the banks' exposure for infrastructure finance companies has been enhanced by 5%. As such banks can lend upto 20% of their capital funds to Infrastructure Finance Companies. Since PFC and REC both are eligible to be categorized as Infrastructure Finance Companies, they will be benefitted to that extent. Further RBI had earlier issued a letter to PFC dated 12.5.2005 advising that in case any bank approaches RBI, they will be willing to consider their request for exposure to PFC upto 25% of their capital funds. If a similar request is received by RBI with regard to REC, the same would also be considered on the same pattern. However, it may be mentioned that REC was required to submit a roadmap to RBI for adoption of exposure norms which is yet to be submitted by REC.

Recommendation No. (iv): Certain percentage, say 50% of total funding by banks to PFC and REC be considered as power sector exposure within industry exposure norms.

Comments of DFS:

RBI categorically mentioned that this recommendation cannot be accepted as it will amount to concealment of actual exposure.

Further, such a practice is not followed in any bank/financial institution in any country. It does not appear to be in accordance with the principles of transparency and good corporate governance."

1.44 On being asked about the other recommendations of the Sub-Committee, the Ministry of Power in a written reply stated:

"Sub-Committee is yet to finalize its report. After formation of the new Government, Ministry of Power reviewed and requested the Government on 15.6.2009 for the continuation of the said Group of Ministers. A decision on this is still awaited. However, in the meantime, the draft has been reviewed and up-dated on a couple of times. After an informal discussion by the Ministry of Power and Planning Commission on 17.9.2009, the Planning Commission suggested to cover the following inputs in the draft report, which is to be placed before the Sub-Committee for finalization.

The Planning Commission suggested to cover the following inputs in draft report which is to be placed before the Sub-Committee for finalization:

- Expenditure incurred so far on transmission and distribution apart from Generation.
- 'State Utilities' requirement transmission and distribution for the remaining period of XI Plan.
- Initiation of action plan on XII Plan Power Projects.

Obtaining information from the various State Utilities so these organizations has been time consuming exercise. Therefore, a Group of Officers under the Chairmanship of JS & FA (Power) was constituted on 21.12.2009 to finalize the draft report to be considered by the Sub-Committee of Group of Ministers.

The term of the Sub-Committee of Group of Ministers has been extended upto 30.08.2010. The draft Report of the Sub-Committee is under finalization in consultation with Planning Commission.

The Ministry of Finance (Department of Financial Services) constituted a Committee on 21.01.2010 with Joint Secretary (Deptt. of Financial Services) as Convenor; and CMD, PFC,

JS (Distribution), Ministry of Power; JS & FA (Power) and Executive Director, RBI as members to look into these recommendations. Two meetings of this Committee were held on 23-02-2010 and 04-03-2010 respectively."

1.45 Explaining the action by the Ministry of Finance on the recommendations of the Sub-Committee of the Group of Ministers, the representative of the Department of Financial Services deposed before the Committee during their evidence held on 8th January, 2010 as follows:

" .... ECBs are allowed to all the NBFCs-this includes PFC and REC. Last year PFC was allowed to raise ECB to the extent of 300 Million Dollars and REC was permitted to raise ECB to the extent of 700 Million Dollars. So far as allowing them to do it on an automatic route, we had taken up this matter with the RBI and the RBI came back to us indicating that allowing ECB on an automatic route has large number of implications in terms of the foreign fund flows coming into the country, in terms of the reserve management, in terms of the exchange rate management and, therefore, it may not be advisable for us to go into the automatic route. So, what they have indicated is that as long as the PFC and REC have a clear road map they can draw up a yearly plan and approach for clearance. Keeping in view the ECB flows which are coming into the country they would be given requisite permissions. There would be no restrictions or we would not act as an impediment but it is required for the overall management of reserves and exchange rate of the country ...."

1.46 The Executive Director, Reserve Bank of India also submitted before the Committee during the evidence:

" .... As far as the exposure norms for the infrastructure is concerned, already there are liberal norms; 15 per cent + additional 5 per cent + another 5 per cent which the management of the banks has for a single borrower. When it comes to the group borrowers the limit is 40 per cent + up to 15 per cent. There is a big issue today for the banking system. There are short of long term funds. If banks start lending only to infrastructure they will have serous asset liability mis-management. As part of the financial stability we cannot exceed this limit beyond this as on date because they have a constraint of resources themselves ....."

XI. Incentives to the investors

1.47 According to the Ministry of Power, following incentives are presently available for the investors for investing in the power sector projects:

(i) Section 80A Benefit: deduction of an amount equal to hundred per cent of the profits and gains derived from generation or generation and distribution of power, transmission or distribution by laying a network of new transmission or distribution line and substantial renovation and modernization of the existing network of transmission or distribution lines for ten consecutive assessment years.

(ii) 100% FDI permitted in all segments of power sector.

(iii) Deduction on creation of special reserve under Section 36 (1)(viii) of 20% for Section 4A companies.

(iv) Long term capital gain tax is nil if the holding period of the asset exceeds one year in case of equity share.

(v) Section 80C : subscription to certain equity shares or debentures of any public financial institution upto Rs. one lakh.

(vi) Section 10(34): Exemption on receipt of dividend declared by domestic company.

1.48 On being asked about the additional proposals for fiscal incentives/policy interventions that have been submitted by the Ministry of Power to Ministry of Finance in relation to funding of power projects, the Ministry of Power informed as under:

"Hon'ble Minister of Power had written to Hon'ble Prime Minister on 23.12.2008 proposing the following measures to provide the much needed impetus to investment to the power sector:

(a) Increase in exposure limit of banks.

(b) Removal of exposure limit of LIC for on-lending to power sector and also power sector financiers like PFC, REC etc.

(c) Tax-free bonds to power sector financiers like PFC, REC etc.

(d) Relaxation in external commercial borrowings norms.

(e) Extension of direct financing facility by RBI to PFC and REC.

(f) Implementation of the re-finance facility provided to banks by RBI on-lending to NBFCs like PFC, REC etc.

Secretary (Power) followed up with the Finance Secretary through a letter on 28.5.2009, emphasising, among others, higher exposure norms for funding to Ultra Mega Power Projects."

1.49 The Ministry of Power also informed that they have submitted 24 Direct Tax proposals and 17 Indirect Tax proposals to the Ministry of Finance (Department of Revenue) for amendment to Income Tax Act on 15.12.2009 as part of the annual budgetary exercise. The details of the proposals and the comments of the Department of Revenue thereon have been shown at **Annexure I.**

1.50 Regarding the Government's proposal of providing a deduction of Rs. 20,000/- for investment in infrastructure bonds for individual taxpayers for the financial year 2010-11 under Section 80-CCF of the Income Tax Act, the Committee desired to know about special provision to power sector. The Ministry of Finance (Department of Revenue) in a written reply stated:

"In view of the recessionary trend in national as well as global economy and in tune with the policy thrust of promoting investments in infrastructure sector, there is a need to create further opportunities for attracting more investments in the infrastructure sector. It has therefore been decided to incentivize infrastructure-specific investments by the general public to long term infrastructure bonds to be notified. Such 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 as is the case with tax free bonds. Department of Economic Affairs will evolve suitable criteria for recommending such bonds."

1.51 On being asked as to which of the tax exemptions/fiscal incentives sought by the Ministry of Power are presently available to other infrastructure sectors like roads, highways, etc., the Ministry of Finance (Department of Revenue) in a note informed:

"Central Board of Direct Taxes (CBDT): Infrastructure sectors like roads, highways, etc. have been classified as 'infrastructure facility' under section 80-IA(4)(i) of the Income Tax Act, 1961. Power sector has been provided similar tax deductions under section 80-IA(4)(iv) and (v) subject to sunset dates for commencement of operations.

Central Board of Excise and Customs (CBEC): Government has given various duty exemptions to different sectors based on the overall policy objectives and after due consideration of the needs of these sectors. As such it may not be feasible to make an inter-sectoral comparison of the fiscal incentives. However, currently the incentives given to power sector compare favourably with those given to other infrastructure sectors. The important ones are:

- Full exemption from customs and excise duties (also CVD in case of imports) has been given on goods required for setting up Mega Power Projects and Ultra Mega Power Projects whether awarded on international competitive bidding or tariff based competitive bidding or even such mega projects which supply power on that basis.
- A concessional basic customs duty of 2.5% has been provided to projects for substantial expansion of existing mega power projects.
- A concessional basic customs duty of 5% has also been provided on other power projects not eligible under mega power category. Also concessional basic customs duty of 5% has been provided on transmission, sub-transmission or distribution projects.
- Similarly, capital goods required for setting up of Nuclear Power Projects of specified capacity are also fully exempt from customs duty.
- Also in Budget 2010-11, credit of excise duty paid on inputs used in manufacture of exempted goods when supplied to mega power projects has been allowed.

  In contrast to this, in the case of the road construction sector only specified machinery items are exempt from customs duty. The customs and excise duty exemptions to mega power projects are thus much more extensive compared to other infrastructure sectors like road construction."

1.52 The Committee pointed out that without special concessions for investment in power sector, it would be difficult to fill in the gap between the requirement and availability of fund for the 11th Plan period and also for arranging Rs. 11,00,000 crore for power sector during the 12th Five Year Plan and asked for the comments from the

Ministry of Finance (Department of Revenue). The Department of Revenue in a written reply stated:

"The power sector is indeed a priority area for the Government. The Government has given various concessions so that the cost of acquisition of capital goods for power project is kept low to encourage investments for augmentation of generation capacity. It is pertinent to mention here that the domestic industry manufacturing power generation equipment has been consistently requesting for withdrawal of the exemptions and concessions to mega power projects so as to provide level playing field to domestic manufacturers."

1.53 Elaborating the fiscal measures available for the power sector, the Secretary, Department of Revenue submitted before the Committee:

"The Ministry of Finance considers power sector as priority area. The economic growth of the country is driven by power. Though the power sector is a regulated sector therefore its returns of investment is fixed one. Efficiency is the main issue to avail of its advantage be it in generation or distribution or transmission. Better efficiency would ultimately yield better returns on investment. The power sector is required to get funds at a reasonable rate of interest. If funds are not made available at a reasonable rate of interest the project would not remain viable the rate of interest is driven by expectations of inflation and the same is driven by fiscal deficit. If the fiscal deficit is not controlled then the availability of funds at a reasonable rate of interest would be difficult. The Finance Minister while presenting the Budget has emphasized greatly on fiscal consolidation. We have to contain the fiscal deficit; we have to raise funds through taxation, so that the Government may defray its expenditure. It is the policy of the Ministry of Finance to maintain a moderate tax rate and widen the tax base. It means various exemptions and deductions being provided to a particular sector are required to be minimized, so that a moderate tax regime may continue in the country. While providing concessions in the direct taxes power sector in particular should be accorded the status of infrastructure facility 100 per cent profit linked deductions. It is the conscious decision of the Ministry of Finance to move away from profit-linked deductions because direct tax code which has been announced to be introduced by the Finance Minister in the Budget does not provide for profit linked deductions has been provided to the power sector. Initially, it was provided till 2003 then it was extended till 2006 and again it was extended till 2010

and 2011. It means any power company which starts its commercial operation upto 2011 will be entitled to get the benefit of profit-linked deductions of its own choice for the period of next ten years out of fifteen years. To extend these dates has not been our decision as we are not extending profit linked deductions as principle or policy. The profit linked deductions have caused major aberrations stands merely at 22 per cent. However, the nominal tax rate is 34 per cent. The concessions provided to the power companies as profit linked deductions led us to the revenue loss of Rs. 7,700 crore during the year 2009-10. It is not a small amount of money. I would like to submit to the Hon'ble Committee. However, provisions have been made in the budget of this year in this regard another Rs. 20,000 that we have been able to add to the exemption limit for personal savings, as has been told by my colleague. The same policy has been adopted in the matter of indirect taxes that moderate tax rate regime be maintained and tax base be wide and minimum exemptions should be provided. The benefit of Cenvat credit mechanism is not available to the power sector as electricity is not charged to excise duty. In the Budget of this year it has been announced that efforts will be made for the introduction of goods and services tax so as to implement this mechanism by April, 2011. One of its dimensions is that the tax will not be imposed only on the manufactured goods but on the supply of goods and services. The GST regime would also have the advantage that the credit facility, which is not being provided presently, would be put in place across the supply chain."

1.54 The Committee repeatedly tried to know about the criteria for according the "Infrastructure status" to any sector and the reason for not including power sector in the list of infrastructure beneficiaries. The Ministry of Finance did not come out with any reason. Instead the Ministry submitted a list of beneficiaries under Section 80-IA (4) of Income Tax Act including road, water supply project, airport, etc. which are clarified as 'infrastructure facility'. The Ministry informed that tax incentives have also been provided to sectors identified as priority sectors including power sector.

1.55 On being asked by the Committee whether the Department of Revenue are not concerned with the huge fund requirements of power sector, the Secretary, Department of Revenue deposed as under:

"Generally there is an impression that the Government is not incentivizing the power business. Let me just submit for record that the incentives to the power business come not from tax

concessions; they come from the fact that it is a regulated sector. Since it is regulated, the regulator in this case is the Electricity Regulatory Commissions; they look at Power Company, be it in generation, transmission and distribution, as to what is each company's annual revenue requirement. They factor in operating norms which take into account efficient operations. They allow corresponding revenue requirements and they also allow a return on equity which is fixed. So, power business is inherently profitable. That is because it is a regulated sector. This has to firstly be kept in view.

Secondly, I would like to submit that there is no empirical evidence to show that the companies in the power sector which have availed profit-linked deductions have reduced or passed on the benefit of this in tariff to consumers. I think, this is an important point because we should know this. I have submitted to you that we have lost 7,000 crore in revenue last year through this as one of the incentives. There is no benefit on this."

1.56 The Revenue Secretary further added:

"We are giving concessions to mega power projects. That is a part of the policy. That is being done.

As far as non-conventional sector is concerned, Mr. Chairman, Sir, you have raised this point, and I would like to say that on the renewable sector, even in this year's Budget, there have been grants of project import status in itself, that has been a major concession which has been granted to this sector with the expectation that there will be more alternative generation.

There was a question raised as to why the profit-linked deductions are inefficient.

It has been our experience that these are prone to misuse as the companies generally want to overstate their profits or to transfer their profits to other non-taxable entities. These are our policy matters. The Finance Minister has taken a conscious decision. The Direct Tax Code, which is likely to be introduced, does not provide for profit linked deductions. How it will be extended?"

1.57 The Committee were curious to know whether interest rates in the country are actually market driven or RBI plays some role in determination of interest rate in the debt market. The Ministry of Finance (Department of Revenue) in a written reply stated that it is

understood that RBI does not fix interest rates in the debt market and they only help the Central and State Governments to tap the debt market for Government borrowings.

1.58 The Committee further enquired whether the policy of the Government that fiscal instruments should not be used as an instrument to increase project viability is applicable to essential infrastructure sectors like power, the Department of Revenue categorically stated that it is a policy decision applicable in general. The Department of Revenue elaborated the reasons as under:

> "The competing demand for issue of such bonds by other entities is not the only reason to discourage the issuance of tax free bonds. The other important factors are:
>
> (i) There will be a revenue loss of roughly Rs. 24 crore 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%).
>
> (ii) It will affect the development of a vibrant corporate bond market where interest rates are determined by demand and supply and thus distort the actual market determined rates of interest.
>
> (iii) It will violate the principle of horizontal equity among various entities seeking funds for financing their projects.
>
> It is felt therefore that this policy is a rational one and not lopsided ..."

1.59 To a query, the Department of Revenue further stated that the availability of funds being limited, if more entities are allowed, the supply to the existing entities is bound to be impacted.

1.60 Explaining the reasons for depriving the primary entity *i.e.* power sector the sought fiscal incentives, the Department of Revenue in a written reply stated:

> "Sector specific tax incentives result in distortions, imposes greater compliance burden on the tax payer and on the administration, result in loss of revenue, create special interest groups and add to the complexity of the tax laws. The Parliamentary Standing Committee on Finance has recommended a comprehensive review of the tax incentives so that they are limited and confined to exceptional cases. Accordingly, all exemptions under the Income

Tax Act, 1961 have been reviewed. It is the view of the Ministry of Finance that it is a better policy to promote sectors through direct and transparent budget allocations rather than through opaque tax incentives."

1.61 In reply to a question, the Secretary of Power stated:

"On behalf of the Ministry, I thank the Committee as the suggestions given in the earlier two meetings have been presented to the various Ministries and to the Government. In the budget the service tax imposed on the transmission has been waived off. We would achieve higher target if proposal of this Ministry are considered favourably."

XII. National Electricity Fund (NEF)

1.62 Creation of National Electricity Fund (NEF) was announced by the Finance Minister *vide* Para 81 of the Budget speech for the year 2008-09. NEF is aimed at providing funds to the States and power utilities for improving Transmission and Distribution (T&D) reform and schemes. It is a Central Scheme and sponsored by the Ministry of Power. In pursuance of the announcement, Planning Commission set up a Committee on 29th April, 2008 under the Chairmanship of the Member (Power), Planning Commission. The Terms of Reference (ToR) of the Committee as informed by the Ministry of Power are as follows:

(a) Assess the requirement of funds for investment in Transmission and Distribution Sector.

(b) Propose a structure to mobilise funds needed and arrangements for making it available to State Governments.

(c) Suggest other modalities under which the funds would be disbursed to various States and power utilities.

(d) Any other related matter.

1.63 Elaborating the need for creation of NEF for making available funds for T&D, The Ministry of Power in a note stated:

''The requirement of funds for the power sector for the 11th Plan has been estimated at Rs. 10,59,115 crore, which includes Rs. 5,91,734 crore for the generation segment and Rs. 4,49,577 crore for the T&D segment. Out of the T&D segment, the requirement of funds for the State Sector is Rs. 2,72,000 crore. Considering that

two years of 11th Plan are already over, the State sector requirement of funds has been scaled down to Rs. 2,02,500 crore.

Mobilization of Rs. 2,02,500 crore is a mammoth exercise. Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) would not be able to mobilize such huge amounts without facilitation from the Government of India. Therefore, the following measures to make the fund availability for T&D segment have been recommended:

(a) Tax Free Bonds

(b) Increase in Exposure limit of LIC from 10% to 25% for PFC and REC

(c) Funds available from ADB and World Bank

These measures would enable additional resources as depicted below:

Sl.No.	Mode of funding	Amount that could be raised (Rs. in crore)
1.	Tax free bonds	90,000
2.	LIC Exposure limit from 10% to 25% (PFC 1500+REC 3500)	5,000
3.	ADB and World Bank may be approached for funding the NEF scheme with suitable modifications in their terms and conditions to suit Indian Power Sector	1,07,500
4.	Any other feasible source of funding	
	Total	2,02,500

The objective of the scheme would be to offer an interest subsidy linked to substantive transmission and distribution reforms at the State level. The interest subsidy required over a period of three financial years (2009-10 to 2011-12) during the 11th Five Year Plan period for an expected disbursement of Rs. 2,02,500 crore would be Rs. 82,266 crore. **(Annexure-II)**.

No specific plan outlay has been made during the 11th Plan for this purpose. Therefore, plan allocation of Rs. 82,266 crore required as interest subsidy to mobilize funds for National Electricity Fund is to be made."

1.64 Based on the Concept Note submitted by the Committee headed by the Member (Power), Planning Commission on 19th May, 2009, a plan scheme to provide interest subsidy over 15 years period at an estimated aggregate outlay of Rs. 82,266 crore for loans from NEF for which funds to the extent of Rs. 2,02,500 crore was stated to be mobilized by PFC and REC with support from Government was prepared.

1.65 Explaining it further, the Ministry of Power stated:

"It is envisaged that Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) would be the nodal agencies to mobilize funds required for National Electricity Fund. The Government of India, Ministry of Power would provide interest subsidy to the extent of Rs. 82,266 crore through Government Budgetary support to PFC and REC. Thus there would be no financial obligation under this subsidy scheme of these two CPSUs. However, the two CPSUs would require to adhere to the various terms and conditions which the Government would finalize for the purpose of providing interest subsidy.

A Steering Committee under the chairmanship of Secretary (Power) and comprising of representatives of the Planning Commission and the Ministry of Finance would sanction the proposals under the NEF scheme. The said Steering Committee will also monitor the progress of utilization of funds and compliance of conditionalities.

The timeline for the scheme is upto the end of 11th Plan period namely 31st March, 2012. However, actual payment of subsidy will be over a period of 15 years for the disbursements made in the remaining three years of the 11th Five Year Plan, namely 2009-2010 to 2011-12."

1.66 The Expenditure Finance Committee (EFC) Memorandum was circulated on 9th September, 2009 among the various appraising agencies, namely, Department of Economic Affairs, Department of Financial Services, Department of Economic Expenditure, Planning Commission and Central Electricity Authority for comments.

1.67 The EFC Memo seeks approval of the Government for following:

(I) Non-GBS measures: Measures including Tax Bonds, increase in exposure limit of LIC for PFC and REC and acquiring funds from Asian Development Bank and World Bank to be approved by the Government to enable PFC & REC to mobilize fund to the extent of Rs. 2,02,500 crore for National Electricity Fund to meet debt requirement of 90% of the State Sector funds requirements for T&D segment. This does not involve any funding from Gross Budgetary Support.

(II) GBS Measure:

(a) Budgetary support of Rs. 82,266 crore spread over 15 years under 3 scenario as interest subsidy, as in **Annexure**-II.

(b) Approval for criteria for financial assistance from National Electricity Fund.

(c) The implementation mechanism through a Steering Committee.

1.68 Asked about the latest status in the matter, the Ministry of Power in a note stated:

"Based on the comments received from scrutinizing agencies, Secretary, Planning Commission held a meeting on 25.01.2010 with Secretary (Power) and officers from Department of Economic Affairs, Department of Financial Services and Department of Expenditure. It was decided to circulate a revised proposal. The key changes are (a) the interest subsidy scheme would be extended to loans from banking sector and other financial institutions also rather than restricting the subsidy only to loans taken from PFC & REC; and (b) since most State entities avail loans from World Bank/Asian Development Bank and other financial institutions for transmission works, the interest subsidy scheme initially should be made applicable only for distribution works. Only non-Restricted Accelerated Power Development Reforms Programme (non-R-APDRP) projects and schemes would be eligible under the interest subsidy scheme.

The revised EFC Memo is under preparation."

1.69 When asked by the Committee as to how long it would take to establish NEF, the Secretary, Ministry of Power informed the Committee:

"Initially our proposal was rejected. Again we are going to the Planning Commission with the revised note. They have told us that they would move in very soon. By next 10-15 days, we would be moving our proposal gain. Our earlier proposal was rejected. Instead of about Rs. 80,000 crore interest subsidy, now they want us to put a proposal for a much lesser amount. The Government wants to put it from the regular budget provision. May be within 15 days time, we would resubmit our proposal to the Finance Ministry."

1.70 In an updated note, the Ministry of Power have informed that Revised EFC Memo with a total interest subsidy of Rs. 18,438 crore spread over 14 years on loan disbursement of Rs. 50,000 crore during 11th Plan was circulated on 5th April, 2010 among the various appraising agencies including Planning Commission for their comments. A provision of Rs. 227.64 crore has been kept in BE 2010-11 for this scheme. Comments are still awaited for convening the meeting of the EFC.

PART II

OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE

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 crores 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. 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.

(v) Out of Rs. 4,21,642 crores, 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.

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

(vii) Apart from adequate return on investment, Power Sector needs fiscal incentives to attract huge investments.

(viii) 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. 1, Para No. 2.1)

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 apportioned 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 target of 78,700 MW was set with an approximate expenditure 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-a-vis* proposed funding 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 of 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 its accomplishment. The major head starving for fund is the Distribution and the need is to the tune of Rs. 202,083 crore. Rs. 1,60,557 crore is required for generation. Transmission also requires an amount of Rs. 49,245 crore. Thus, it amply demonstrates that transmission and distribution are the areas which require immediate and positive attention of all the stakeholders. The objective of bringing reduction in T&D losses

from the present level of 29% to international levels by 2012 can be achieved only when required funds are available to 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 initiative 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-a-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 distribution network.

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

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 funding 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 way directly responsible for mobilizing the resources expected from Private sector but it is expected of the Government to introduce conducive 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.

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

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 78,700 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 imigration 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 convinced 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 informed 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 anvil in coming years together with renovation ad 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 ITIs 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.

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

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 Department 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 Department of Financial services. There may be reasons for thorough 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.

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

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 Borrowings (ECB) of USD one billion each per year under the 'Automatic Route'. The Committee have been apprised by the Department 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 terms 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 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 and in what concrete manner they are willing to help the power sector to mobilize the resources or they should agree to the recommendation of the Group of Ministers on automatic ECB route to PFC and REC with necessary safeguards wherever required.

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

2.7. The Committee find that the interim recommendations 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 banks' 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 limit is 55 per cent but the RBI's analysis of funding by 10 major banks indicates that the banks' 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 scope 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 RBI has issued a notification on 12th February, 2010 wherein the banks' 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 foregoing 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 requirements. 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.

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

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 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 the 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 gets strayed and the purpose of funding gets defeated. The Committee, therefore, strongly recommend 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 to 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.

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

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 project 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.

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

2.10 The Committee note that the Ministry of Power had submitted 24 Direct Tax proposals and 17 Indirect Tax proposals to the Ministry of Finance (Department 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 industrial and economic output will grow emphatically leading to increased revenue collection. The Committee also feel that interest free bonds would attract investment from small savings sector, which has huge potential and is otherwise lying un-invested, e.g. 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 foregoing 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.

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

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 off huge revenues to the Government. Moreover, 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 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 also feel that giving a tax subsidy to individuals towards investment in infrastructure sector *viz.* the power sector would be balanced by availability of abundant fund for power sector and other infrastructure projects

leading to increased 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.

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

2.12 The Committee note with appreciation that a new Section 80-CCF 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 bonds 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 80-CCF of the Income Tax Act exclusively for the power sector alone, even by increasing the overall limit of Rs. 20,000 if required.

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

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 attempted to take the garb of various provisions of financial rules, imaginary situations, 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 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 remains 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 not have received any response from the public. Therefore, to state that 'if more entities are allowed, the supply to the existing entities is bound to be impacted' is highly imaginary and not at 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 of 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 be *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 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.

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

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.

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

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 subsidy 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 Fund 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 works 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.

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

NEW DELHI;
August 9, 2010
Sravana 18, 1932 *(Saka)*

MULAYAM SINGH YADAV,
Chairman,
Standing Committee on Energy.

ANNEXURE I

(*Vide* Para 1.49 of the Report)

COMMENTS OF DEPARTMENT OF REVENUE ON THE TAX PROPOSALS OF THE MINISTRY OF POWER

DIRECT TAX PROPOSALS (AMENDMENT TO INCOME TAX ACT)

Sl.No.	Section	Proposal/Suggestion	Comments
1	2	3	4
1.	Section 10(15)(iv)(h)	PFC and REC may be permitted to issue tax free bond to raise funds. The Power Bonds/ Vidyut Vikas Patra could be structured as a tax fee transferable instrument with a lock in period of at least 5 years and maturity of 15-20 years to mobilize small savings for a longer tenor.	Tax free bonds tend to distort the actual market determined rates of interest and lead to competing demands for issue of such bonds by other entities. Employing fiscal instruments, especially tax concessions for mobilising resources for project financing can be distortive and might instigate extending the argument to project financing in general.
2.	Section 10(15)(iv)(c)&(f)	Interest payable on any money borrowed for setting up of power and ESCO projects and funding of equipments from sources outside India under any loan agreement for the	The exemption on interest payable on moneys borrowed abroad were removed for debt incurred after 30.5.2001 because :

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		purpose of advancing loans for projects/equipments in India may be made tax free.	(i) Interest income is taxable in respective countries and credit for taxes paid in India would be available in the resident countries. Thus the exemption only enriches the foreign exchequer at the cost of our revenue.
3.	Insertion of sub-section 10(15)(iv)(j)	Interest payable by Indian Finance Companies on any monies borrowed for funding power projects/equipments from sources outside India under any loan agreement including ECB income may be made tax free.	(ii) Such concessions should be provided through the mechanism of Double Taxation Avoidance Agreements (DTAAs) on a reciprocal basis. The deletion was also recommended by the Committee on Tax Policy and Tax Administration for the Tenth Plan (Shome Committee). The rationale for removal continues to be valid. There is no case to revive the same. Further, in a moderate tax regime there is need to phase out exemptions as they cause distortions in the economy. Such concessions should be provided through the mechanism of Double Taxation Avoidance Agreements (DTAAs) on reciprocal basis.
4.	Section 10(23G)	The Section—which provided exemption to income on account of interest earned by infrastructure capital financing company like PFC/REC on long term finance to	The Income Tax Act has evolved over the years to one which prescribes a moderate rate of taxation and tries to keep discretionary exemptions and deductions to a minimum so that all incomes irrespective of their source suffer the same effective tax rate. The Task Force on Direct Taxes of Fiscal Responsibility and Budget Management Act, 2003 (Kelkar Committee) had also recommended

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		an enterprise engaged in developing an infrastructure facility such as power etc.—was omitted *w.e.f.* 1.4.2007 and may be restored.	doing away with such exemptions. The request if accepted, would go against this philosophy and would also lead to competing demands from other sectors.
5.	Insertion of new proviso under Section 10	Income received from sale of CERs issued under the Kyoto Protocol or projects registered with the UNFCCC and ESCO issued by the BEE for the projects registered with BEE may be exempted from income tax under section 10 of the Act. Revenue subsidy/ grants may be exempted from tax.	Under a liberal and moderate tax policy, existing exemptions are being considered for withdrawal and therefore to grant new exemptions is neither feasible nor justified.
6.	Section 10(23FB)	In order to encourage power sector development, the income earned by venture capital funds in power sector	

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		projects and ESCO projects and ESCO projects may be made tax free.	
7.	14A/Rule 8D	Expenses relatable to exempt income: The section provides for compulsory deduction of proportionate expenses attributable to tax free income, even though there are no actual expenses incurred for earning such tax free income. In order to mitigate the financial difficulties of various State Electricity Boards (SEBs) MOP/RBI/MOF/State Govt. had securitized all the outstanding sundry debtors' upto 2001 of Central Power PSUs into tax free SLR	Section 14A Provides that no expenses incurred in relation to income, not includible in total income, shall be allowed as expenses. But any income which is even though not part of the total income, some expenses is incurred to earn that income for example, funds have been borrowed for investment in shares but the dividend income has not been received on such shares or has been received but is less than the amount of interest paid on borrowed funds etc., there may be similar instances also. Therefore, during the assessment proceedings Assessing Officers disallow the expenses proportionate to the exempt income earned according to the method given in Rule 8D. Thus, the suggestion that no disallowance of expenses be done under section 14A r.w. Rule 8D is not justified.

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		bonds/Long Term Loans. The Income Tax Department has started disallowing certain expenses arbitrarily for earning tax free income from 2001 onwards. The said action resulted into unwanted disputes. As these conversions were done by the Govt. compulsorily, no disallowance of expenses, for the purpose of income tax, may be made u/s 14A/Rule 8D.	
8.	32 Higher Depreciation for energy saving equipments	Appendix-I to the Income Tax Rules allow 80% depreciation on energy saving equipments. The depreciation may be increased to 100% on energy saving equipments.	Accelerated depreciation @80% is allowed on energy saving equipments. The rates of depreciation have been rationalised in 2005 on the basis of the report of the Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003. The relevant economic and fiscal parameters have been taken into account to rationalise the rates in 2005.

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			Considering the above, the present regime of depreciation is quite liberal and there is no justification for making it further liberal.
9.	32(1)(iia)	Additional depreciation is allowed for computation of tax for setting-up of new industrial units for manufacturing goods in India. However, the Revenue Department is interpreting that Generation of power is not akin to manufacturing of goods. Apparently this is not the intention of the legislator and needs to be clarified.	This relates to interpretation of the existing provision of the Income-tax Act. The matter will be examined by the Central Board of Direct Taxes to decide whether any clarification is required.
10.	35(2AB)	A weighed deduction of 150 percent on expenditure incurred on scientific research in an approved in-house research and development facility is available to	The Finance (No. 2) Act, 2009 amended the provisions relating to allowance of expenditure on in-house research. After the amendment, deduction of 150% is allowed for expenditure incurred for approved in-house research to all manufacturing companies except a small restrictive list. The Finance Bill, 2010 proposes to further increase the deduction from 150% to 200% for the

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		manufacture of specified articles. The existing list should be extended to include specified articles in he energy efficiency sector. BEE and the Ministry of Power will certify such articles for claiming the benefit of the weighted deduction.	expenditure incurred for approved in-house research after 1st April, 2010.
11.	36(1)(viii)	Deduction u/s 36(1)(viii) may be increased from 20% to 40% of the profits derived from the business of providing long-term finance, as was earlier available. Further, a time-limit of five years may be provided in section 36(1)(vii) of Income Tax Act for maintaining the special reserve with relevant changes in Section 41(4A).	The Income-tax Act today prescribes a moderate tax regime which for the most part does not distinguish between income from different sectors. This section already allows a deduction of upto 20% of profits from eligible business if a reserve is created. The provision is quite liberal and is in the nature of subsidy (tax expenditure). Increase in this subsidy by enlarging the scope of eligible business is not feasible.

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		After the expiry of this period, the special reserve created under this section can be transferred to general reserve for utilization by the company.	
12.	36(1)(viia)	Deduction of Bad and Doubtful debts of Power Finance companies and power sector companies as that of banking companies may be extended.	In general no provision is allowed as a deduction for computing taxable income under the Income-tax Act. Deduction on account of provision for bad and doubtful debt is specifically allowed to banks after taking into consideration their primary activity of the business of lending, including lending to the rural sector, weaker sections of the society, education loans and making advances to promote and fulfil other socio-economic objectives set out in Government policies. Power financing companies and power sector companies are financing corporates and have no obligation to directly fund the rural sector or weaker sections. Therefore, there is no justification for treating power financing companies on par *vis-a-vis* the scheduled banks.
13.	43B	May be amended to include payment of electricity dues	Under section 43B, statutory dues like tax, duty, cess or fee, payments for employee benefits, payment of interest to public

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		for entitlement for deduction of expenses only on actual payment basis.	financial institution, etc. are allowed only on actual payment. Since private participation is allowed in power sector, inclusion of electricity dues in section 43B will signal competitive demand for similar provisions for other private sectors. Moreover, the existing list of payments covered u/s 43B is quite long, inclusion of more items in it will further complicate its administration.
14.	54EC	Earlier, only REC was authorized to finance power projects in rural area. Now, PFC and IIFCL, along with REC are authorised to finance such power projects. Hence, PFC bonds should also be included in the definition of long-term specified asset and notified for the purpose of section 54EC, provide level playing field and help faster development of priority power sector. Further, the	The broad policy direction of tax reforms has been to minimize sectoral exemptions and deductions. A cap of Rs. 50 lakhs was provided to minimise revenue loss and also to ensure horizontal equity so that capital gains above Rs. 50 lakh do get subject to tax.

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		ceiling of investment up to Rs. 50 lakh per investor should be enhanced.	
15.	80-IA (4)(i) 80-IA(4)(iv) Chapter VI-A 35AD	**80-IA(4)(i)** 'Infrastructure facility' status for **power sector** and also for Energy Efficiency Projects/ ESCO, coal washeries, coal mining and independent re-gasification plant for LNG. **80-IA(4)(iv)** Benefit under this section available upto 2011 may further be extended upto 2017 to give benefit to ultra mega power projects and transmission projects planned for the XI and XII Five Year Plan periods.	(i) Section 80-IA(4) allows a profit-linked deduction of 100% of profits for 10 consecutive assessment years out of any 15 years from the commencement of operations. Profit-linked incentives are inherently inefficient. They provide a higher amount of benefit to those with relatively higher profits even though the need for incentive reduces with increase in profits. There is an in-built incentive for artificially inflating the profits of the exempt entity and shifting of profits to the exempt entity. Since profit is the basis for exemption, there is no incentive for investment and upgradation during the period of tax holiday. These incentives also lead to significant revenue loss and encourage rent-seeking behaviour. (ii) Profit-linked tax deductions have also led to the phenomenon of zero-tax entities. For example, the current effective tax rate in the case of companies is 22% as against the marginal rate of 33.99%. Further, the revenue foregone during the year 2009-10 on account of deductions given to the power sector under the provisions of section 80-IA is estimated at Rs. 7,698 crores.

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		Chapter VI-A A new sub-section should be inserted for tax exemption for profits and gains from performance contracting by Energy Service Companies (ESCOs) for implementing energy efficiency measures for 5 consecutive years [similar to 80JJA]. **35AD** Any expenses incurred for constructing and operating transmission system under SAARC Grid and outside India may be allowed as was done in the case of laying and operating a cross country natural gas or crude petroleum oil pipeline network for distribution etc.	(iii) Similar benefits can be achieved with demand side support mechanisms for the poor, regulatory clarity, and better concession structures. Tax benefits, specially profit-linked deductions, should, therefore, be wound down as regulation is phased in, concession structures are improved and demand side mechanisms are put in place. (iv) As a matter of policy, it has, therefore, been decided not to extend the scope, area of operation or the sunset date of any profit-linked incentive. (v) As regards, extending the sunset date of benefits u/s 80-IA(4)(iv) from 2011 to 2017 for ultra mega power and transmission projects, it may be pointed out that the benefit under this section was first introduced in 1999. Initially, it was for undertakings which commenced business by 2003. Subsequently, 2003 was substituted by 2006 and then by 2010. **A conscious decision was taken during the last budgetary exercise to give one last extension to the sunset clause for the given section from 31.3.2010 to 31.3.2011.** (vi) While phasing out profit-linked deductions, incentivisation of priority sectors has been re-engineered by providing for a special method of computing taxable profits which provides

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			for economic profits as the basis for tax. Under the new method, a person would be liable to tax on profits determined after allowing for all capital and revenue expenditure (except expenditure on land). Generally, in the case of lumpy investments, a person is unlikely to have any tax liability in the first eight to ten years of its operations. This period of virtual tax holiday can be further extended if investment is undertaken periodically.
16.	80C	Individual taxpayers be given an additional exemption of Rs. 50,000 besides an existing investment limit of Rs. 1,00,000 p.a. u/s 80C for investment in infrastructure bonds issued by financial institutions engaged in financing power sector.	A new section 80CCF has been proposed to be 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 notified by the Central Government during the financial year 2010-11. This deduction would be over and above the existing limit of Rs. 1 lakh under the existing provisions of the Act.
17.	115JB	Taxes are pass-through in tariff and any reduction or exemption will help to	According to section 115JB of the Income-tax Act, all corporate taxpayers are required to pay a Minimum Alternate Tax (MAT) at the rate of 15% of their book profits if the tax payable by them

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		reduce the tariff of power companies. In view of this MAT should be abolished in the case of power generating transmission companies and ESCOs. If not, the present rate of MAT of 15% may be reduced to 10%. The deduction of 80-IA is not available for calculating MAT. The same may be allowed as deduction for calculating MAT.	under the normal provisions of the Act is less than 15% of the book profits. The philosophy behind MAT is that every corporate entity should contribute a minimum amount of tax towards the national exchequer and thus contribute a minimum amount towards the national development. Further, credit in respect of the tax paid under MAT is also allowed to the assessee and the MAT paid by companies can be carried forward for 10 years. This MAT credit can be adjusted against normal tax payable in any of the future 10 years. Thus, it is only an advance payment of tax. The philosophy of MAT being what it is, it is applicable to all corporate taxpayers including those that enjoy tax incentives under any section of the Income-tax Act. Moreover, profit-linked tax incentives being inherently iniquitous with the bigger entities cornering greater tax benefits, MAT acts as a cap on the total exemption claimed by profit-making corporate entities. A tax rate of 15% of the book profit for this purpose is already very low and tax credit for the same has also been made available from A.Y. 2006-07. Hence, there is no justification for exclusion of specific sectors *i.e.,* infrastructure sectors such as power, or other sectors such as hotels, tourism, hospitals, aviation, refining etc., or special category States from its purview.

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			Therefore, there is no justification for abolition of MAT or reducing its rate for companies in any sector.
18.	115-O	No tax on distributed profit shall be chargeable in respect of total income of a company as it amounts to double taxation of an income earned. In case equity is owned by Government of India, the dividend paid to the Central Govt. on such equity may be exempted from provisions of section 115-O. Alternatively, in case above is not possible, the exemption may be granted to such undertakings which provide long term finance for the power sector development as per the Section 36(1)(viii), or to the undertakings as specified under section 80-IA (4)(iv) of Income Tax Act.	There is no double taxation involved on income earned. 'Dividend' is infact income of the shareholder paid by the Company. The worldwide practice is to tax income from dividends. Dividend Distribution Tax under section 115-O simply shifts the tax to be paid by the Company on behalf of the shareholder in respect of and from the income which shareholder would have received. Therefore, tax paid by the company on its own income and Dividend distribution tax operates in different field. For the same reason there is no rationale for non-applicability of Dividend distribution tax in respect of payment to Central Government as the amount would otherwise also have been paid to Central Government as dividend and could not be retained by the company.

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19.	244A	Interest on refund of Income tax may be paid at par with the interest levied by the Income Tax Department on short payment of tax, which is presently charged at 1%. In addition, interest on refund may be granted from the date of deposit instead of one month after the date of order of the Court.	The interest charged from the assessee has to have a penal element to discourage delay in payment of taxes. Interest payable to the taxpayer on the other hand should be at a rate which would not encourage parking of funds with the Government. Therefore, a differential has to be maintained between the two rates. The worldwide practice is to tax income from dividends.
20.	195	A per current market practice, withholding tax on payment of interest and other sums to non-residents is borne by Indian domestic companies. Thus, withholding tax increases the cost of power. Therefore, it is recommended to exempt power infrastructure companies or	Income which is sourced from India is to be taxed in India as per the general provisions of the Income Tax Act. There is no strong logic to exempt this income, as such income would anyway be taxed by the home country of the non-resident; hence an exemption in India would only mean foregoing tax which is rightfully due in India. Also, in a regime of stable and moderate taxation, the policy has been to remove various deductions and exemptions. Such concessions should be provided through the mechanism of Double Taxation Avoidance Agreements (DTAAs) on reciprocal basis.

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		power projects SPVs or public financial institutions with the main objective of lending power sector, from the provision of payment of withholding tax.	
21.	Chapter XVII	A clarification may be incorporated in Chapter XVII of the Income Tax Act 1961 that transmission charges including short term open access and long term open access and State Load Despatch charges is not covered under chapter XVII of the Income Tax Act 1961 and as such no TDS require to be deducted on payments made to transmission companies. This will help to obviate blocking of funds	This relates to interpretation of the existing provision of the Income-tax Act. The matter will be examined by the Central Board of Direct Taxes to decide whether any clarification is required.

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		which are required for deploying in various capital projects of these companies.	
22.	Wealth Tax	Consequent to pay revision of power sector companies the liability on account of Wealth Tax of power generating and transmission companies will increase. In view of this, specific exemption may be given to power generating and transmission companies from the payment of wealth tax.	The current wealth tax rates which are @1% over a limit of Rs. 30 lakhs are very moderate. Wealth tax has been levied on a few items and does not provide for specific exemption for any sector. The acceptance of proposal will result in similar competing demands from other sectors.

INDIRECT TAX PROPOSALS

Sl.No.	Issue	Remarks
1	2	3
1.	Excise Duty	
	Rationalisation of Excise Duty: In case of power sector including Transmission project, electricity is not cenvatable/modavtable, as the finished product *i.e.* electricity is not an excisable good. Therefore, it is suggested that Excise Duty on power sector be reduced from present level of 8% to zero per cent excise duty and CVD be accordingly aligned.	Exempting excise duty on supplies to power sector will need an end use exemption which will be difficult to monitor because such exemptions are prone to misuse. It will also have substantial revenue loss.
2.	Reduction of Excise Duty for Energy Efficient equipment/appliances (airconditioners, refrigerators, motors and pumps): All energy efficient end use equipment, particularly that are covered under the Standards and Labelling Programme of Bureau of Energy Efficiency under the Ministry of Power may be provided fiscal incentives in form of a progressive Excise Duty structure in two different rates of 4% and 0%.	At present the energy labelling scheme is voluntary. The energy gradings of these products are not constant but subject to revision. Therefore, it will not be possible to administer such a graded excise duty scheme on energy labelled products. This may also lead to disputes between the department and the manufacturers, and between the manufacturers and ultimate consumers.

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3.	**Customs Duty** **Rationalisation of Customs Duty:** There are many duty structures for power sector projects/equipment imports which are quite confusing. There should be only two sets of duties, namely, concessional zero Customs Duty as exists for mega power project imports, including transmssion projects and another uniform set of duty for imports for other than mega power project for goods/project import, including transmission projects@ CD 5% and Nil CVD. Power Generation includes power Transmission also. In order to reduce transmission losses and technological up-gradation, power generation has been bifurcated into Generation and Transmission. In view of this the transmission also should get the same benefit as available to power generation. Transmission projects associated with ultra mega/mega power project should get the same duty benefit *i.e.* zero duty; and project imports for transmission projects associated with other than mega power project should attract the zero per cent Customs Duty.	Keeping in view the energy requirements of the country, and the requirement of huge capital investments, Government has consciously allowed a zero customs duty regime for Mega/Ultra mega/Nuclear power projects. Also, a concessional customs duty of 2.5% has been provided on Brownfield mega power (expansion) projects. However, for other power projects (including transmission projects), a concessional 5% basic customs duty as against a peak rate of 10% and general 7.5% rate on all capital goods has been allowed. Transmission projects involve considerably less capital investment compared to power generation projects. Therefore, it is not feasible to equate the customs duty structure on power generation and transmission projects.

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4.	**Complete Customs Duty waiver on import of LNG/ NG:** LNG and NG presently attracting Basic Customs Duty of 5% may be made completely exempt from Customs Duty to make them an affordable fuel by reducing cost of CNG/NG in the fuel starved regions of the country.	At present LNG/NG attracts concessional 5% customs duty for specified projects. Sector specific exemptions are distortionary in nature and act as hidden subsidies. In addition, domestic production of NG/LNG is also registering a healthy growth. Removing protection will deprive the domestic industry of a level playing field.
5.	**Complete Customs Duty and CVD waiver for LNG Re-gasification plants:** To reduce the high cost of LNG, the capital goods for LNG Re-gasification plants should be fully exempted from Customs Duty and CVD.	LNG re-gasification plants have already been notified under project imports and therefore attract concessional 5% basic customs duty. Full exemption to such plants cannot be granted as it may hurt the domestic capital goods industry. Zero duty regime has only been given only in exceptional cases.
6.	**Waiver of Excise Duty/CVD on Naptha**: Naptha may be exempted from the present Excise Duty/CVD of 14%.	Naptha is the basic feedstock for many industries. Exempting naptha for power sector would need an end use based exemption. Any such exemption will also have substantial revenue loss.
7.	**Rationalization of duty on bulk power Transmission equipment:** All high power (765 KV and above)	Transmission projects have been provided a concessional 5% basic customs duty as against peak rate of 10% on

1	2	3
	transmission equipment should also attract 0% basic customs duty as is applicable for HVDC main equipment presently, since both kinds of equipment serve the same purpose of bulk power transmission over long distance.	non-agricultural goods and general 7.5% rate on all capital goods. Same rate is applicable to HVDC or HVAC transmission systems.
8.	**Customs duty exemption for construction equipment being used in hydro projects:** Import of construction equipment Tunnel Burrowing Machines (TBM), cable cranes/tower cranes, concrete pumps, heavy earth moving equipment etc. for Hydro Power Project construction should be exempted from customs duty on the lines of such exemption for the equipment used in road works of NHAI.	Full exeption has been provided to specified road construction machinery items. These items are specific to road construction and do not have any domestic angle. However, if a list of machinery items which are specific to power sector, is provided, then it can be examined. Full exemption has been provided in the Budget (2010-11) on the tunnel boring machines which is used for hydroelectric project.
9.	**Customs duty exemption for import of Capital Goods for energy efficiency projects:** specific exemption to be introduced under the Customs Laws and the R&D Cess Act for duty free imports of capital goods.	For further examination of this proposal, a list of capital goods specifically used for energy efficient projects may be provided.
10.	**Waiver of customs duty on imported coal:** At present, import of coal attracts customs duty @ 5%. The anticipated coal shortage for the power sector	Coal already attracts a concessional rate of 5% basic customs duty without any excise duty/CVD.

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	upto F.Y. 2012 is approximately 70 million tonnes. It is proposed that Nil customs duty be levied on import of coal by the power utilities so that the cost of generation of electricity may be kept low.	
11.	**Complete waiver of Customs Duty and Excise Duty on energy conservation items:** Items of Energy Conservation like, Compact Fluorescent Lamp (CFL), Light Emitting Diodes [LED] and Electronic Ballast which are highly energy efficient should be completely exempted from Customs Duty and Excise Duty/CVD. It is also proposed that Basic Customs Duty on raw material and components of CFL be reduced from 10% to 0%.	Exempting customs duty on these items will create inverted duty structure *vis a vis* their inputs which would continue to attract higher rate of duty. As regards exempting raw material/components of CFL, the suggestion cannot be accepted as there is grave threat to domestic industries manufacturing CFLs because of dumping from China and other countries. Excise duty on LED lights/lighting fixtures has been reduced from 8% to 4% in the Budget (2010-11).
12.	**Service Tax** Exemption of service tax on activities related to setting up of power projects including transmission projects: Various activities related to setting up of power projects including Consulting Engineer Services,	It is the policy of the Government that end-use exemptions have to be kept minimal, since they are prone to misuse and result in difficulties in administration. With the introduction of Goods and Service Tax (GST) Scheme, tax base would need to be wider so as to ensure seamless flow of input tax credit. Exemptions create distortions in the tax structure.

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	construction services, erection, installation or commissioning services, works contract services etc., may be exempted from the levy of service tax.	
13.	**Proposal to keep Transmission and Wheeling charges out of ambit of Service Tax:** Service Tax Authorities are interpreting that Transmission charges etc. covered under Finance Act 1994 and demanding Service Tax from Transmission companies. As transmission has been separated under the process of unbunding and only few states have implemented the reforms programme. There would be cost discrimination between those unbundled and other SEBS. This is affecting the reform process. Further transmission is a statutory function, in view of this clarification may be given that Transmission activity including Long/Short Term Open Access and State Sector LDCs is yet to be brought under the Finance Act 1994.	As part of the budget exercise, notification number 11/2010 dated 27.2.2010 has been issued exempting transmission of electricity from service tax. This exemption would be prospective in nature.
14.	**Proposal to keep Consultancy Charges paid for Rural Electrification out of the ambit of**	End-use exemptions are prone to misuse and difficult to monitor. With the introduction of Goods and Service Tax

1	2	3
	Service Tax: Specific exemption from Service Tax on the Consultancy Charges paid for Rural Electrification under Rajiv Gandhi Grameen Vidyutikaran Yojana may be issued as Government of India is funding the said project.	(GST) Scheme, tax base would need to be wider so as to ensure seamless flow of input tax credit. Exemptions create distortions in the tax structure.
15.	**Exemption of Service Tax on transportation of RLNG/Natural Gas:** As per the XIth Working Group on Petroleum and Natural Gas, India's demand for Natural Gas by 2011-12 is projected to be 283 MMSCMD. Out of this projected requirement, availability of domestic gas is likely to be around 200 MMSCMD. The balance requirement is to be met through the import of LNG. Any imposition of Service Tax on transportation of GAS will increase the generation cost and will affect the consumer at large. In order to minimize the cost of generation service tax may be exempted on transportation of GAS.	End-use exemptions have to be kept minimal, since they are prone to misuse and difficult to monitor. With the introduction of Goods and Service Tax (GST) Scheme, tax base would need to be wider so as to ensure seamless flow of input tax credit. Exemptions create distortions in the tax structure.
16.	**Exemption from Service Tax on energy efficiency services:** At present, no specific service tax	Policy of the Government is that end-use exemptions have to be kept minimal, since they are prone to misuse and

1	2	3
	exemptions are available to energy efficient products. In order to encourage this sector, Service Tax exemption may be given for services provided by ESCOs.	result in difficulties in administration. With the introduction of Goods and Service Tax (GST) Scheme, tax base would need to be wider so as to ensure seamless flow of input tax credit. Exemptions create distortions in the tax structure.
Central Sales Tax		
17.	**Rationalisation of Local Sales Tax/Central Sales Tax applicable to transmission business:** Section 8(3) of the CST Act is applicable only to the companies engaged in ''generation and distribution of electricity or any other form of power''. Since it does not specifically cover Transmission business, the States are demanding Local Sales Tax instead of CST. Therefore, ''transmission business'' should be specifically included under Section 8(3) of Central Sales Tax Act.	CST is likely to be abolished with the introduction of Destination based GST, for which discussions are on with the Empowered Committee of the State Finance Ministers and modalities for which are being worked out. In any case, any amendment to the Central Sales Tax Act, 1956 will require consultations with States and, therefore, even if 'Transmission Business' has to be included in the Section 8(3) of the CST Act, it will be a long drawn process and may not be desirable when in-principle decision had already been taken for introduction of GST. It may, however, be important that a large number of items made of iron and steel like steel bars, structures, wire, wire rods are already declared ''goods of special importance'' and thus Sales Tax on these items cannot exceed 4%.''

ANNEXURE II
(*Vide* Para 1.63 of the Report)

OPTIONS AND BASIS OF CALCULATING THE INTEREST SUBSIDY AMOUNT

Details of Interest Subsidy Scheme Involves a Total Expenditure of Rs. 82,266 Crore over a period of 15 Years

Year	Scenario 1	Scenario 2	Scenario 3
Year 1	3,375	1,688	3,375
Year 2	6,750	5,063	8,438
Year 3	10,125	10,125	10,125
Year 4	9,998	10,062	9,998
Year 5	9,534	9,766	9,471
Year 6	8,733	9,070	8,564
Year 7	7,720	8,058	7,552
Year 8	6,708	7,045	6,539
Year 9	5,695	6,033	5,527
Year 10	4,683	5,020	4,514
Year 11	3,670	4,008	3,502
Year 12	2,658	2,995	2,489
Year 13	1,645	1,983	1,477
Year 14	759	1,034	591
Year 15	211	316	105
Grand Total	**82,266**	**82,266**	**82,266**

Assumptions for calculating the subsidy amount:—

(a) Repayment period is 15 years. Moratorium period is 3 years.

(b) Release of interest subsidy on the date of disbursement.

(c) Repayment of loan on quarterly basis.

(d) Subsidy will be ranged from minimum 1% to maximum 5% of the outstanding amount depending on the criteria

fixed for financial assistance from NEF. The subsidy for special category States has been proposed 2% above than that of non-special category States.

(e) Average rate of 5% is assumed for calculation.

(f) There is no default in the entire term of the loan and if the borrower fails to repay the principal amount on due date, no subsidy will be claimed/paid for the defaulted period and the borrower has to pay the additional interest for the defaulted period.

(g) Subsidised portion of the loan will be adjusted first on repayment.

(h) Approval of Procedure for claiming the subsidy amount under NEF will be taken separately from MoP.

(i) The criteria for financial assistance from NEF for the States categorized as "Special Category and Focused States" and "States other than Special Category and Focused States".

APPENDIX

STANDING COMMITTEE ON ENERGY

MINUTES OF THE SEVENTH SITTING OF THE STANDING COMMITTEE ON ENERGY (2009-10) HELD ON 30TH DECEMBER, 2009 IN COMMITTEE ROOM '62' PARLIAMENT HOUSE, NEW DELHI

The Committee met from 1100 hrs. to 1300 hrs.

PRESENT

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Shri Paban Singh Ghatowar
3. Shri Shripad Yesso Naik
4. Shri Ravindra Kumar Pandey
5. Shri Nityananda Pradhan
6. Shri M.B. Rajesh
7. Dr. K.S. Rao
8. Shri Radha Mohan Singh

Rajya Sabha

9. Shri Motilal Vora
10. Shri Santosh Bagrodia
11. Shri Rama Chandra Khuntia
12. Shri Bhagat Singh Koshyari
13. Shri Shyamal Chakraborty
14. Shri Veer Pal Singh Yadav
15. Shri Govindrao Wamanrao Adik

SECRETARIAT

1. Shri Brahm Dutt — *Joint Secretary*
2. Shri Shiv Singh — *Director*
3. Shri Rajesh Ranjan Kumar — *Deputy Secretary*

REPRESENTATIVES OF THE MINISTRY OF POWER

Ministry of Power

1.	Shri Hari Shankar Brahma	Secretary (Power)
2.	Shri Anil Kumar	Special Secretary
3.	Shri Sudhir Kumar	Joint Secretary
4.	Shri Devender Singh	Joint Secretary
5.	Shri I.C.P. Keshari	Joint Secretary
6.	Shri M. Ravi Kanth	Joint Secretary
7.	Shri Rakesh Jain	Joint Secretary

Public Sector Undertakings/Autonomous Bodies/Statutory Bodies

8.	Shri Rakesh Nath	Chairperson, CEA
9.	Shri S.K. Garg	CMD, NHPC
10.	Shri R.S. Sharma	CMD, NTPC
11.	Shri S.K. Chaturvedi	CMD, PG
12.	Shri P. Uma Shankar	CMD, REC
13.	Shri Satnam Singh	CMD, PFC
14.	Shri R.S.T. Sai	CMD, THDC
15.	Shri I.P. Barooah	CMD, NEEPCO
16.	Shri S. Biswas	Chairman, DVC
17.	Shri M.K. Gupta	Chairman, BBMB

At the outset, the Chairman welcomed the Members of the Committee and the representatives of the Ministry of Power to the sitting of the Committee and apprised them of the provisions of Direction 58 of the Directions by the Speaker.

2. The representatives of the Ministry of Power made a power-point presentation on the subject "Funding of Power Projects".

3. Thereafter, the Committee *inter-alia* discussed with the representatives of the Ministry of Power on the following important points:—

(i) Overall position of capacity addition in power sector *vis-a-vis* availability of funds.

(ii) Plans and efforts of the Ministry to bridge the funding gap during current plan period.

(iii) Role of Power Finance Corporation (PFC), Rural Electirification Corporation (REC), Banks and International Agencies in funding of power projects.

The Members sought clarifications on various issues relating to the subject and the representatives of the Ministry responded to the same. The Committee directed the representatives of the Ministry to furnish written replies to the queries which could not be responded to by them.

4. The Committee decided to have further evidence of the representatives of the Ministry of Power and the Ministry of Finance on the subject in the next sitting.

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

The Committee then adjourned.

STANDING COMMITTEE ON ENERGY

MINUTES OF THE EIGHTH SITTING OF THE STANDING COMMITTEE ON ENERGY (2009-10) HELD ON 8th JANUARY, 2010 IN COMMITTEE ROOM NO. '62' PARLIAMENT HOUSE, NEW DELHI

The Committee sat from 1130 hrs. to 1315 hrs.

PRESENT

Dr. K.S. Rao — *In the Chair*

MEMBERS

Lok Sabha

2. Mohammad Azharuddin
3. Shri P.C. Chacko
4. Shri Paban Singh Ghatowar
5. Shri Arjun Munda
6. Shri Jagdambika Pal
7. Shri Nityananda Pradhan
8. Shri Radha Mohan Singh

Rajya Sabha

9. Shri Motilal Vora
10. Shri Santosh Bagrodia
11. Shri Rama Chandra Khuntia
12. Shri Bhagat Singh Koshyari
13. Shri Shyamal Chakraborty
14. Shri Veer Pal Singh Yadav
15. Shri Govindrao Wamanrao Adik
16. Shri Mohammad Shafi

SECRETARIAT

Shri Brahm Dutt — *Joint Secretary*

LIST OF WITNESSES

MINISTRY OF POWER

1.	Shri Hari Shankar Brahma	Secretary (Power)
2.	Shri Anil Kumar	Special Secretary
3.	Shri G.B. Pradhan	Addl. Secretary
4.	Shri Devender Singh	Joint Secretary
5.	Shri I.C.P. Keshari	Joint Secretary
6.	Shri M. Ravi Kanth	Joint Secretary
7.	Shri Rakesh Jain	Joint Secretary

MINISTRY OF FINANCE

8.	Shri R. Gopalan	Secretary, Deptt. of Financial Services
9.	Shri G.C. Chaturvedi	Addl. Secretary, Deptt. of Financial Services
10.	Smt. Ravneet Kaur	Jt. Secretary, Deptt. of Economic Affairs
11.	Shri. R.C. Srinivasan	Principal Advisor, Deptt. of Economic Affairs
12.	Shri G. Gopalakrishna	Executive Director, RBI

PUBLIC SECTOR UNDERTAKINGS/AUTONOMOUS BODIES/ STATUTORY BODIES

13.	Shri Rakesh Nath	Chairperson, CEA
14.	Shri R.S. Sharma	CMD, NTPC
15.	Shri S.K. Chaturvedi	CMD, PG
16.	Shri P. Umashankar	CMD, REC
17.	Shri Satnam Singh	CMD, PFC
18.	Shri R.S.T. Sai	CMD, THDC
19.	Shri I.P. Barooah	CMD, NEEPCO
20.	Shri H.K. Sharma	CMD, SJVNL
21.	Shri S. Biswas	Chairman, DVC
22.	Dr. Ajay Mathur	DG, BEE

2. In the absence of the Chairman, the Committee chose Dr. K.S. Rao, 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 the representatives of the Ministry of Power and the Ministry of Finance to the sitting of the Committee and emphasized the need for adequate and timely availability of funds for power projects.

4. Thereafter, the representatives of the Ministry of Power made a brief power-point presentation on the subject 'Funding of Power Projects'.

5. The committee discussed with the representatives of the Ministry of Power and the Ministry of Finance (Department of Financial Services and Department of Economic Affairs) on the following important points relating to the subject:

(i) Coordination amongst the Ministry of Power and the Ministry of Finance in order to ensure adequate and timely availability of funds for power projects including funds for power distribution/transmission, etc.

(ii) Response of the Ministry of Finance on the recommendations of the working group.

(iii) Availability of funds from banks in providing finances to power sector and RBI's approval for the proposals of PFC/REC.

6. The Members sought clarifications on various issues relating to the subject and the representatives of the Ministries responded to the same. The Committee directed the representatives of the Ministries to furnish written replies to the queries which could not be responded to by them.

7. The Committee also decided to seek information from the Ministry of Finance (Department of Revenue) on the subject.

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

The Committee then adjourned.

STANDING COMMITTEE ON ENERGY

MINUTES OF THE ELEVENTH SITTING OF THE STANDING COMMITTEE ON ENERGY (2009-10) HELD ON 15th MARCH, 2010 IN COMMITTEE ROOM NO. '62' PARLIAMENT HOUSE, NEW DELHI

The Committee sat from 1500 hrs. to 1645 hrs.

PRESENT

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Mohammad Azharuddin
3. Shri Adhir Ranjan Chowdhury
4. Shri Paban Singh Ghatowar
5. Shri Arjun Munda
6. Shri Sanjay Nirupam
7. Shri Jagdambika Pal
8. Shri Ganesh Singh

Rajya Sabha

9. Shri Motilal Vora
10. Shri Santosh Bagrodia
11. Shri Rama Chandra Khuntia
12. Shri Bhagat Singh Koshyari
13. Shri Shyamal Chakraborty
14. Shri Mohammad Shafi
15. Prof. Anil Kumar Sahani

SECRETARIAT

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

LIST OF WITNESSES

MINISTRY OF POWER

1.	Shri Hari Shankar Brahma	Secretary (Power)
2.	Shri Anil Kumar	Special Secretary
3.	Shri G.B. Pradhan	Addl. Secretary
4.	Shri Sudhir Kumar	Joint Secretary
5.	Shri M. Ravi Kanth	Joint Secretary
6.	Shri Rakesh Jain	Joint Secretary

CENTRAL ELECTRICITY AUTHORITY

1.	Shri Gurdial Singh	Chairperson, CEA
2.	Shri S.M. Dhiman	Member, CEA

PSUs, AUTONOMOUS BODIES, STATUTORY BODIES, ETC.

1.	Shri R.S. Sharma	CMD, NTPC
2.	Shri S.K. Chaturvedi	CMD, Powergrid
3.	Shri P. Uma Shankar	CMD, REC
4.	Shri Satnam Singh	CMD, PFC
5.	Shri H.K. Sharma	CMD, SJVNL
6.	Shri R.S.T. Sai	CMD, THDC
7.	Shri I.P. Barooah	CMD, NEEPCO
8.	Shri S. Biswas	Chairman, DVC
9.	Shri M.K. Gupta	Chairman, BBMB
10.	Dr. N.S. Saxena	DG, NPTI
11.	Dr. Ajay Mathur	DG, BEE

MINISTRY OF FINANCE (DEPTT. OF REVENUE)

1.	Shri Sunil Mitra	Secretary (Revenue)
2.	Shri C.S. Kahlon	Member (L&C), CBDT
3.	Shri Y.G. Parande	Member (Budget), CBEC
4.	Shri K. Jose Cyriac	Additional Secretary (Revenue)
5.	Shri A.K. Srivastava	Joint Secretary (Revenue)

6.	Shri Ashutosh Dikshit	Joint Secretary (TPL-I), CBDT
7.	Shri Sunil Gupta	Joint Secretary (TPL-II), CBDT
8.	Shri Vivek Johri	Joint Secretary (TRU-I), CBEC

2. At the outset, the Chairman welcomed the Members of the Committee and the representatives of the Ministry of Power and the Ministry of Finance (Deptt. of Revenue) to the sitting of the Committee.

3. Thereafter, the representatives of the Ministry of Power made a brief power-point presentation on the subject 'Funding of Power Projects'.

4. The Committee discussed with the representatives of the Ministry of Power and the Ministry of Finance (Department of Revenue) on the following important points relating to the subject:

(*i*) Response of the Ministry of Finance (Deptt. of Revenue) on the proposals of the Ministry of Power regarding generating funds through tax free bonds and getting tax exemption for various power sector activities;

(*ii*) Post Budget assessment of funding of power projects;

(*iii*) Role of PFC and REC in bridging the funding gap;

(*iv*) Status of creating National Electricity Fund (NEF); and

(*v*) Capacity addition targets *vis-a-vis* achievements in 11th Five Year Plan.

5. The Members sought clarifications on various issues relating to the subject and the representatives of the Ministries responded to the same. The Committee directed the representatives of the Ministries to furnish written replies to the queries which could not be responded to by them.

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

The Committeee then adjourned.

STANDING COMMITTEE ON ENERGY

MINUTES OF THE EIGHTEENTH SITTING OF THE STANDING COMMITTEE ON ENERGY (2009-10) HELD ON 8th JULY, 2010 IN COMMITTEE ROOM '53', PARLIAMENT HOUSE, NEW DELHI

The Committee sat from 1100 hrs. to 1200 hrs.

PRESENT

Shri Mulayam Singh Yadav — *Chairman*

MEMBERS

Lok Sabha

2. Shri S.K. Bwiswmuthiary
3. Shri Adhir Ranjan Chowdhury
4. Shri Paban Singh Ghatowar
5. Shri Arjun Munda
6. Shri Sanjay Nirupam
7. Shri Jagdambika Pal
8. Shri Ravindra Kumar Pandey
9. Shri Nityananda Pradhan
10. Shri M.B. Rajesh
11. Dr. K.S. Rao
12. Shri E.G. Sugavanam

Rajya Sabha

13. Shri Motilal Vora
14. Shri Ram Chandra Khuntia
15. Shri Shivpratap Singh
16. Shri Shyamal Chakraborty
17. Shri Veer Pal Singh Yadav
18. Shri Govindrao Wamanrao Adik
19. Shri Mohammad Shafi
20. Prof. Anil Kumar Sahani

SECRETARIAT

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

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPTT. OF REVENUE)

1.	Shri Sunil Mitra	Secretary
2.	Shri C.S. Kahlon	Member, CBDT
3.	Shri Y.G. Parande	Member, CBEC
4.	Shri S. Dutt Mazumdar	Member CBEC
5.	Shri Ashutosh Dikshit	JS, CBDT
6.	Shri Sunil Gupta	JS, CBDT
7.	Shri Vivek Johri	JS, CBEC
8.	Shri Gautam Bhattacharya	JS, CBEC

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPTT. OF ECONOMIC AFFAIRS)

9.	Ms. L.M. Vas	Additional Secretary

REPRESENTATIVES OF RESERVE BANK OF INDIA

10.	Shri C. Krishnan	Executive Director, RBI

MINISTRY OF POWER

11.	Shri Rakesh Jain	Joint Secretary and FA

2. At the outset, the Chairman welcomed the Members of the Committee and the representatives of the Ministry of Finance (Department of Revenue, Department of Economic Affairs and representatives of RBI), to the sitting of the Committee and apprised them of the provisions of Direction 58 of the Directions by the Speaker.

3. The Chairman, highlighted the need for generating resources for the power sector and hence the need to give tax concessions and other benefits to the power sector to achieve the capacity addition, power transmission and distribution targets of the 11th Plan. The committee was not convinced and satisfied with the replies of the representatives of the Department of Revenue and other officials of

the Ministry of Finance. Instead of treading over the beaten tracks, the witnesses were asked to come out with specific new proposals which may help in generating the resources required for power sector.

4. *The witnesses then withdrew.*

5. *** *** ***

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

7. *** *** ***

The Committee then adjourned.

STANDING COMMITTEE ON ENERGY

MINUTES OF THE NINETEENTH SITTING OF THE STANDING COMMITTEE ON ENERGY (2009-10) HELD ON 20TH JULY, 2010 IN COMMITTEE ROOM '074', PARLIAMENT LIBRARY BUILDING, NEW DELHI

The Committee sat from 1100 hrs. to 1135 hrs.

PRESENT

Dr. K.S. Rao — *In the Chair*

MEMBERS

Lok Sabha

2. Mohammad Azharuddin
3. Shri P.C. Chacko
4. Shri Ram Sundar Das
5. Shri Paban Singh Ghatowar
6. Shri Arjun Munda
7. Shri Shripad Yesso Naik
8. Shri Jagdambika Pal
9. Shri Ravindra Kumar Pandey
10. Shri Nityananda Pradhan
11. Shri M.B. Rajesh
12. Shri Radha Mohan Singh
13. Shri Vijay Inder Singla

Rajya Sabha

14. Shri Rama Chandra Khuntia
15. Shri Shyamal Chakraborty
16. Shri Govindrao Wamanrao Adik
17. Prof. Anil Kumar Sahani

SECRETARIAT

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

2. In the absence of the Chairman, the Committee chose Dr. K.S. Rao, 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. The Committee then took up for consideration of the draft Report on 'Funding of Power Projects'. The Committee adopted the draft Report without any change.

4. The Committee then authorized the Chairman to finalise the Report taking into consideration the consequential changes arising out of factual verification, if any, by the Ministry of Power and the Ministry of Finance and also to present the same to both the Houses of Parliament.

The Committee then adjourned.