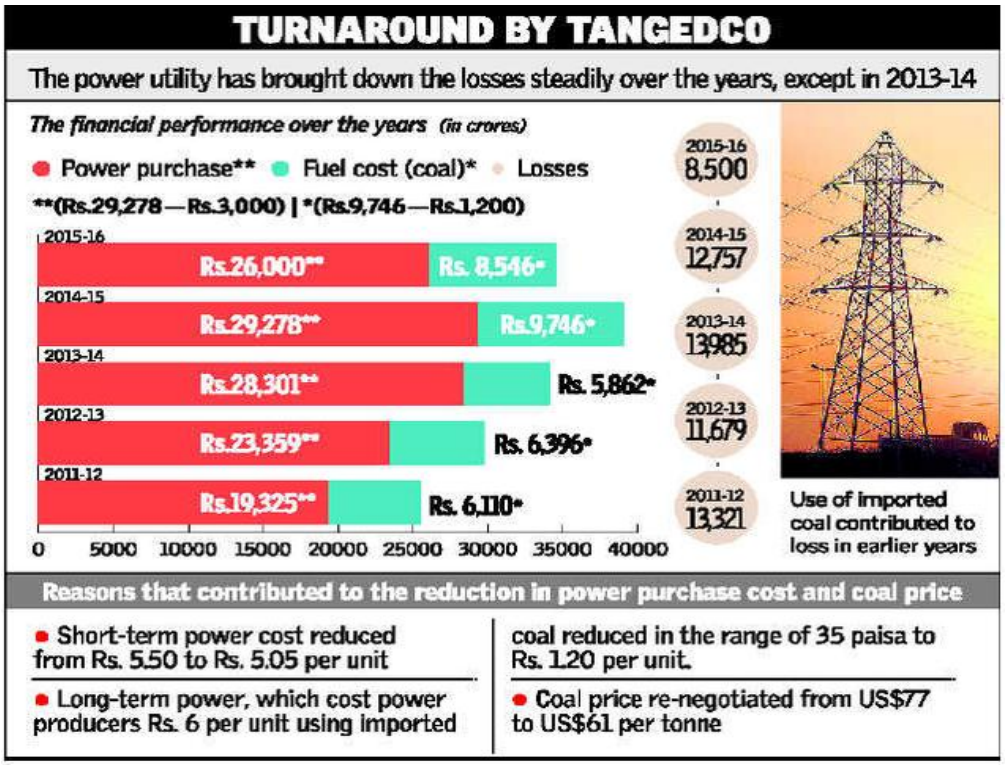
Tangedco reduces losses, produces surplus power

The Hindu: April 2, 2016



In addition to ensuring surplus power for the State, the Tamil Nadu Generation and Distribution Corporation (Tangedco) has made a turnaround by cutting losses by Rs. 4,250 crore this financial year.

A senior Tangedco official said the corporation, as is clear in the revised estimate for this financial year (April 1, 2015 to March 31, 2015-2016), brought down the losses to around Rs. 8,500 crore against a loss of Rs. 12,757 crore suffered in the financial year 2014-2015. The losses suffered in previous years are: Rs.13,985 crore in 2013-2014, Rs. 11,679 crore in 2012-2013 and Rs. 13,321 crore in 2011-2012. The official said the reasons such as savings made in power purchase, reduction in cost of coal, improvement in production and better distribution infrastructure, helped in huge savings, bringing down the losses. The use of domestic coal in a blend has resulted in better generation, and this led to a reduction in the number of units purchased from private players.

Going into the details of the financial transformation, the official said the renegotiation of cost price of Rs. six per unit with long-term power manufacturers, who use imported coal, and reduction in the cost of short-term power suppliers to Rs. 5.05 per unit against Rs. 5.50 per unit has also helped. The savings from this alone are in the range of Rs. 3,000 crore. He said discontinuance of power purchase from Independent Power Producers (IPPs) also helped in savings. The other major component that helped the corporation cut its losses was the prudent policy followed in coal purchase, officials said. The use of imported coal for

thermal stations in the State and the volatility of US dollar contributed to higher losses in the previous years. The corporation was now optimistic that huge revenue savings will be made in power and coal purchases in the coming years.

Uday can save Rs 22,400 crore for Tamil Nadu: Power Ministry

The Economic Times: April 4, 2016

Not withstanding the politics around it, the power ministry believes Tamil Nadu's debt-laden power utility stands to save Rs 22,400 crore by 2019 through efficient energy transmission and cheaper funds among a host of 'positives', should it get on the discom-revival and modern bulb adoption schemes.

"Benefits of the Ujwal Discom Assurance Yojana (UDAY) can be seen by the fact that already 18 states have joined the scheme (accounting for 90 per cent of India's population) and these include states across the political spectrum like Uttar Pradesh, Bihar, Uttarakhand, Himachal Pradesh and Punjab. They wouldn't have joined the scheme if there were no benefits," a senior power ministry official, requesting to remain unidentified, said in a mail to ET.

The official added that bonds under the scheme by states including Rajasthan, Uttar Pradesh and Haryana, had raised Rs 99,541 crore by March.

The optional scheme, announced in November last, promises to help discoms deep in debt by enabling states to take over debt and issue cost-effective bonds, access to cheaper coal, modernising transformers to cut losses and also a provision to "revise rates," which has turned out to be the bone of contention with the state government.

While the power ministry has had success in this drive, Tamil Nadu proves a tough nut to crack.

In a statement, electricity minister Natham R Viswanathan termed price increases every quarter under UDAYa harsh imposition on the poor. He hit out at opposition parties that latched on to Goyal's tirade with the question of whether subscribing to the scheme would be beneficial to the poor.

The state utility Tangedco's debt by 2015-16 fiscal was around Rs 80,000 crore. In its budget announcements for the previous fiscal, Tamil Nadu committed to subscribe to Tangedco's debt bonds worth Rs 2,000 crore, taking its total financial support for power up to Rs 13,586 crore.

MP and Maharashtra headwinds may trip wind energy capacity additions in FY17: ICRA - Business Standard: April 8, 2016

However, upward tariff revision in TN is a positive for new wind energy projects, says the ratings agency

Reduction in preferential tariff by State Electricity Regulatory Commission (SERC) is a negative development for new wind energy projects to be commissioned in MP says ICRA in its latest research on wind energy sector. The ratings agency said that the reduction is likely to result into moderation in project Internal Rate of Return (IRR) by about 360 basis points assuming plant load factor (PLF) level of 22%. In case ofMadhya Pradesh (MP), wind energy tariff has been revised downwards from Rs 5.96 per unit to Rs 4.78 per unit, while the same in Tamil Nadu (TN) has been revised upwards from Rs 3.51 per unit to Rs 4.16 per unit.

ICRA's senior vice president (co-head corporate sector ratings) Sabyasachi Majumdar said, "This reduction in tariff in MP, coupled with slowdown in signing of fresh power purchase agreements (PPAs) over last 6-8 month period & reported delays in payments by state owned utility in the state of Maharashtra as per Industry sources is further likely to impact

fresh wind energy capacity addition expected in the country in near to medium term to some extent". This, given the fact that wind energy capacity addition in Maharashtra and Madhya Pradesh together accounted for about 35-40% of incremental capacity addition seen on all India level in last two years, given the fairly attractive feed-in tariffs notified by SERCs in both the states.

On the contrary, ICRA in its report said the upward revision in tariff by SERC in state of TN is a positive for new wind energy projects in the state, although tariff determination process has been significantly delayed (with previous tariff order issued in July 2012 as per which tariff validity was till July 2014). As per ICRA's estimates, project IRR for new projects in TN is expected to improve by about 270 basis points assuming PLF level of 24%. This in turn augurs well for improvement in fresh capacity addition in the state, given the high wind energy potential with attractive PLF level.

However, ICRA observed that realisation of this potential is critically dependent on the extent of improvement in transmission bottleneck in the state as well as payment discipline by state owned Utility. The state of Tamil Nadu is also yet to participate in UDAY (Ujwal Discom Assurance Yojana) scheme as notified by Government of India in November 2015 for financial turnaround of the state owned distribution utilities.

According to ICRA, preferential tariff norms by SERCs across the key states that have wind resource potential are not consistent with the guiding principles/norms as stipulated by Central Electricity Regulatory Commission (CERC). The preferential tariff regulations in Madhya Pradesh and Tamil Nadhu have stipulated tariffs, which remain fixed over the tariff period and thus do not take into account of the impact of inflation/indexation on the cost structure during the control period. Also, wind zone based tariff principles have not been followed by SERCs across these key states, except Maharashtra and Rajasthan, ICRA said.

Electricity supply to face disruptions amid high demand and acute water shortage - The Economic Times : April 4, 2016

Electricity supply across India will be vulnerable to disruptions this summer as the official forecast of severe heatwave will boost demand significantly, while power stations face acute water shortage this year because of the alarming dip in water levels that has forced some plants to shut down.

Water shortage is not only hurting coal-based and hydropower plants but will also decrease the efficiency of solar and wind plants, adding to the pressure on the grid. Coal-based power plants need water for cooling and ash disposal.

Temperatures have already been more than 5 degrees above normal in recent weeks, and the trend is likely to continue in the peak summer months, according to the firstever temperature forecast issued last week by the India Meteorological Department. This has already boosted demand, which is expected to soar to record levels as the summer intensifies, industry executives and analysts said.

PwC leader Kameswara Rao said generation capacity or distribution companies' ability to pay may not matter much this summer as there is surplus generation capacity available at low prices. "Instead, water availability and grid reliability hold the key," he said.

"Water shortage can stall operations of coal-based power plants, and a decision to shut down older, smaller unit-sized plants that overuse water may become necessary.

State generation companies are at most risk and have to undertake water audits and invest in conservation," he said. Feedback Infra chairman Vinayak Chatterjee said hotter than usual summer will affect water availability, generation from coal and hydropower plants and spur transmission and distribution outages.

Water shortage has already led to closure of some power plants in Karnataka, Madhya Pradesh, Bihar and West Bengal, including NTPC's Farakka unit. Rao said renewable energy companies are affected too. Over fourfifth of large hydro reservoirs hold lower water levels than previous year. Power generation from hydel plants was about 15% less in 2015-16 than the previous year.

High ambient temperature impairs solar generation, and wind farms have already suffered the impact of El Nino effect. Steep demand from air-conditioning and water pumping in urban areas could overload the grid causing outages, Rao added.

Water situation in parts of the country has worsened after an extended period of deficit rainfall, including two consecutive monsoon failures. Water levels in the country's 91major dams have plunged to 25% of their capacity and well short of the 10-year average, possibly impairing electricity production, especially in the southern and western states.

"The rise in temperature in April will result in higher demand for power," said Sonu Agrawal, managing director, Weather Risk Management Services. Agrawal said power demand this month may see a 3-5% year-on-year rise in north, north west and central Indian cities like Delhi, Jaipur, Indore and Ahmedabad.

Agrawal said average maximum temperature for April showed a rise of about 4-6 degree Celsius in north, north west and central parts of the country.

Meteorologist and power distribution companies say a variation of 1 degree Celsius temperature from normal can lead to increase in demand of power by 300-350 mw in Delhi alone to beat the heat. This will benefit idle power generation capacity. BSES Rajdhani Power vice-president Satinder Singh Sodhi said day demand in peak hours in Delhi touched 3,700 mw on Saturday, compared to normal demand of 3,300-3,400 mw.

Power Grid to procure Rs 40,000 crore worth distribution equipment for states : The Economic Times: April 4, 2016

State-run Power Grid Corporation will procure distribution equipment worth Rs 35,000-40,000 crore from domestic vendors on behalf of states for implementation of rural electrification and network strengthening programmes.

The online reverse auction for procurement of large-scale distribution equipment, which is being conducted by state-run MSTC Ltd, began on April 1 and will continue till May 4. About 110 domestic equipment manufacturers empanelled with Power Grid are participating in the auction.

Power Grid is seeking supply of critical equipment including distribution transformers, conductors, power transforms and cables for all states.

Implementation of UDAY, NTP critical for power sector: Icra

The Economic Times: April 7, 2016

Implementation of initiatives like UDAY scheme and amendments in the national tariff policy (NTP) is critical for the power sector, ratings agency Icra said.

"Given the concurrent status of the electricity sector in India, for these policy measures to have the intended impact of achieving 24x7 electricity supply along with increased sourcing from renewable energy (RE) sources, it is critical that timely and proactive efforts are taken by all the states and SERCs to implement the NTP," Icra said in a statement issued here.

Following the announcement of Ujjwal Discom Assurance Yojana (UDAY) in November last year for the financial turnaround of discoms, governments in 17 states have agreed in principle to participate in the scheme.

Within these, 10 states, accounting for about 45 per cent of overall debt on the books of distribution utilities as on September 2015, have signed MoUs with the Ministry of Power for implementation of the scheme.

Moreover, sustained coal production growth at 8.6 per cent in 2015-16 following a 6.9 per cent growth in FY15 achieved by Coal India is a positive for power sector, as it has led to a decline in dependence on the costlier imported coal.

"The power sector, however, continues to face challenges arising out of weak demand from state utilities leading to absence of fresh signing of the long term PPAs, slow progress in resolution of tariff compensation issues for the affected thermal IPPs and uncertainty on improvement in domestic gas availability," Icra said.

The agency further said with a fall in spot LNG price level, third auction round in March for subsidy scheme to use Regasified Liquefied Natural Gas (RLNG) in case of stranded gas based projects has witnessed negative bidding.

A negative price bid of Rs 0.03 per unit in turn implies net realisation at Rs 4.67 a unit, which is not sustainable.

"At a delivered LNG cost of USD 6.2 per MMBTU, exchange rate at Rs 66 and assuming a moratorium period on debt repayment, the average under-recovery in cash cost of generation is estimated to be Rs 0.15 per unit for such projects, which further remains exposed to variation in spot LNG prices as well as exchange rate," the agency noted

Discom debt to impact states' spending on development: RBI

Live Mint: April 7, 2016

UDAY will not only increase states' debt but also their interest payments, affecting capex, says report

Fixing the finances of power distribution companies (discoms) will reduce the ability of Indian states to spend on developmental activities which supports economic growth in the medium term, said a study of state finances by the Reserve Bank of India.

"Although the effect may not be instantaneous, state finances may come under stress in the coming years on account of burgeoning liabilities due to takeover of 75% of the existing debt of discoms," RBI said in its report titled*State finances: A study of budgets of 2015-16* released on Thursday.

Under the Ujwal Discom Assurance Yojana (UDAY) launched by the central government, states that opt for the scheme are mandated to take over 75% of the liabilities of their power distribution companies by converting loans into state guaranteed discom bonds.

"This would considerably reduce the fiscal space of states which might lead to curtailment of capital expenditure with an adverse impact on growth," said the report.

This move will not only increase the debt of states but also their interest payments, which will swell in the coming years, RBI said.

States would be forced to deviate from the discipline on spending that they adhere to under Fiscal Responsibility and Budgetary Management (FRBM) rules, the central bank said.

The outstanding loans of all power discoms in the country were Rs.4.3 trillion as of September.

A total of 15 out of 29 states and Union Territories have voluntarily joined UDAY, covering 90% of the total debt of discoms, the central bank's report noted. These 15 states are Uttar Pradesh, Bihar, Odisha, Maharashtra, Andhra Pradesh, Himachal Pradesh, Madhya Pradesh,

Uttarakhand, Chhattisgarh, Jammu and Kashmir, Jharkhand, Gujarat, Punjab, Haryana and Rajasthan.

"Reforming state-level public enterprises and the proposed implementation of the consumption-based destination-centric goods and services tax (GST) can strengthen state finances," said the report.

Incidentally, developmental expenditure, especially towards education and health care has taken a hit as states returned to the FRBM discipline in fiscal 2016.

Aggregate capital expenditure of states has remained almost stagnant over the years as a proportion of gross states domestic product (GSDP), the report noted.

"A disconcerting feature is the stagnation in expenditure on education and health," RBI said.

Gross fiscal deficit of states narrowed to 2.4% of GSDP in fiscal 2016, as per the budget estimates of states, from 2.9% in fiscal 2015, the report said.

In contrast, net market borrowings of states have increased by 26% in fiscal 2016 even though their deficits narrowed and cash surplus increased. According to the report, states had an aggregate cash surplus of Rs.1.88 trillion as of 31 March, RBI said.

Analysts have expressed concerns over state finances in recent months, particularly the increase in their market borrowings.

"Budgets of 14 states accounting for around 75% of India's GDP highlight that the states' finances will be strained in FY2017," said Kotak Economic Research in a report on 29 March. "Some of the states have relaxed their FRBM targets of GFD/GDP to 3.5% given the additional burden of servicing the UDAY bonds."

"The recent surge in the state market borrowings is expected to keep the pressure in the bond markets intact," the report went on to say.

Power tariff cut by 10 paise per unit for Gujarat discom consumers

Business Standard: April 1, 2016

Rs 414 crore worth benefit of surplus revenue passed on to consumers

Passing on benefits worth Rs 414.03 crore from surplus revenues from state discoms to consumers, Gujarat Electricity Regulatory Commission (GERC) reducedpower tariff by 10 paise per unit for all residential consumers in Gujarat. The revised tariff is applicable from April 1, 2016.

Based on a petition filed by four state discoms for truing up of their financials for 2014-15 and determination of tariff of fiscal 2016-17, the state electricity regulator rationalised the tariff for various category of consumers.

While the tariff cut for LTMD category of consumers was 10 paise per unit, that for HT category was 14 paise per unit. Following the revision of tariff structure, there will be gross benefit of Rs 414.03 crore to the consumers of the state-owned discoms.

Against the consolidated revenue gap of Rs 234.77 crore claimed by the Discoms, the Commission approved the consolidated revenue surplus of Rs 115.55 crore.

Further, GERC also capped the FPPPA charges at Rs 1.35 per unit as against the present FPPPA of Rs 1.98 per unit. for the consumers of private sector power producer, Torrent Power Limited. The power consumers of all the categories in Ahmedabad, Surat and Gandhinagar cities will get reduction of 18 paise per unit.

Torrent Power Limited had proposed to recover the past periods gaps of Rs 638.51 crore by introducing 'regulatory charges' at 60 paise per unit.

However, GERC approved to recover the final past periods gaps of Rs 470.50 crore after adjusting the revenue surplus of fiscal 2016-17 by fixing the regulatory charge at 45 paise per unit. Once these past periods gaps get recovered, the regulatory charge recovery shall be stopped, the commission stated in its order.

Compensatory rate issue back to starting point

Business Standard: April 7, 2016

Rate to be governed by power purchase agreement and not the regulator, says electricity tribunal

Appellate Tribunal for Electricity (Aptel) has set aside the electricity regulator's order for granting compensation for increase in fuel costs to projects won through competitive bidding.

Reacting to the decision, shares of Tata Power dropped 3.8 per cent while Adani Power lost 2.9 per cent on the BSE on Thursday.

Thus, the contentious issue of deciding compensatory ratefor Tata Power's 4,000-megawatt (Mw) ultra mega power project (UMPP) and Adani Power's 4,620-Mw power plant in Mundra, Gujarat, is back to where it started in 2011.

However, it clears the air that any pass-through of escalated cost would be decided only in line with the terms of the power purchase agreement and not by the regulatory commission. This judgment would pave the way for companies looking for compensation when their cost escalates due to unforeseen circumstances or change in Indian law.

CLEARING THE AIR

- Aptel returns case on compensatory rates to CERC
- Rules against regulatory power of latter to decide this for competitively bid projects
- Cases like these to be treated under 'change of law' and/or 'force majeure'
- Apart from Tata Power & Adani Power, other companies such as Reliance Power, GMR, GVK to benefit, since any entity contesting a change in cost due to unforeseen events benefits from the judgment

The case was being fought in Aptel between Tata Power and Adani Power on the one side and the state utilities of Gujarat, Rajasthan, Maharashtra, Punjab, and Haryana on the other. The five-year-old issue pertains to pass-through of cost escalation due to change in imported coal prices and regulations in the Indonesian coal market. Tata's Mundra UMPP (under Coastal Gujarat Power Limited or CGPL) and Adani's power plant run on imported coal.

Aptel, which earlier allowed pass-through of increased costs, has now sent the case back to Central Electricity Regulatory Commission (CERC). It has asked the commission to decide the rate in line with power purchase agreements and under 'force majeure', which means

unforeseen events that were not accounted for while deciding the rate and led to escalation in costs.

"We hold that promulgation of Indonesian regulation has resulted in a force majeure event impacting the projects of Adani Power and CGPL adversely. The generators would, therefore, be entitled to relief only as available under the PPA," said Aptel.

The tribunal directed the Central Commission to assess the extent of impact of force majeure event on the projects of Adani Power and Tata Power "and give them such relief as may be available to them under their respective PPAs and in the light of this judgment after hearing the parties." Aptel has aksed CERC to deliver an order in three months.

Earlier, CERC had quashed force majeure and change of law and invoked special regulatory powers for itself under Section 79 (1) of the Electricity Act. The tribunal has struck down the regulatory powers of CERC and said, "the Central Commission has no regulatory powers under Section 79 (1) (b) of the said Act to vary or modify the rate or otherwise grant compensatory rate to the generating companies in case of a rate determined under a ratebased competitive bid process in line with Section 63 of the said Act."

The Street was expecting Aptel to approve the CERC order and the state electricity boards (SEBs) to follow up with an appeal to higher authorities. Analysts at ICICI Securities say that if the computation under force majeure clause comes without any caveat, the compensation will be around 35 paise per unit for Tata Power. Tata Power in a statement to the exchanges acknowledged the order. Adani Power did not respond.

In an order dated February 2014, CERC decided a compensatory tariff to be paid by the states procuring power from the two power companies with effect from the commissioning date of the units. It was over and above the tariff agreed in the power purchase agreement. The power procuring states of Tata Power's Mundra UMPP are Gujarat, Rajasthan, Maharashtra, Punjab and Haryana. Adani Power has two power purchase agreements for its project in Mundra with the state utilities of Gujarat and Haryana.

The five procuring states appealed against the order in APTEL and also moved Supreme Court to get a stay on the order. Supreme Court directed APTEL to expedite the hearing. APTEL in July ruled in favour of Tata and Adani allowing the compensatory tariff calculated by CERC.

The five states contested the tariff again in the APTEL. It's now that the APTEL has ruled that CERC cannot decide the quantum of compensation and need to look at the issue as force majeure.

Tata's Mundra UMPP was awarded compensatory tariff at 52 paise per unit and Adani's project got 41 paise per unit, over the remaining life of the project. Commenting on Tata Power, Sanjeev Zarbade of Kotak Securities says, "As the company does not include the compensation tariff approved by the CERC in its revenue computation, the verdict is unlikely to have any near-term implication on its earnings. "However, the ruling raises concerns on viability of this project", he adds. In case of Adani Power, reports suggest that, the company has been accounting for the incremental revenue from CERC's ruling in its revenue (Rs 600 crore in December'15 quarter). However, any near-term revenue impact owing to this order is ruled out until the final verdict is out. Nevertheless, loss on account of Tata Power's Mundra plant stands at Rs 275 crore for nine-months of FY16 while Adani Power's loss from Mundra plant is Rs 380 crore during this period.

Power regulator order in consumers' interest: Pramod Deo

Business Standard: April 8, 2016

Interview with Former chairman, CERC

The Appellate Tribunal for Electricity (Aptel) has struck down the Central Electricity Regulatory Commission (CERC)'s order on compensatory tariff. Former CERCchairman **Pramod Deo**, during whose tenure thecompensatory tariff order was passed, talks to *Sanjay Jog*on the issue. Edited excerpts:

On what grounds has Aptel struck down CERC's compensatory rate order?

Aptel held that the central government's guidelines on competitive bidding do not provide for general regulatory powers to override the terms of power purchase agreements (PPAs). Accordingly, the central government has not delegated or prescribed any power in the commission to grant compensatory rate. According to Aptel, the commission has no power to modify the rate or grant compensatory rate to the generators.

What relief has the tribunal granted to Tata and Adani's projects?

In its judgment, the tribunal draws attention to Article 12.7 of the PPA, which speaks of performance of obligation being hindered due to force majeure (unexpected circumstances, such as war, that can be used as an excuse when they prevent somebody from doing something that is written in a contract). It observes that the 12th edition of Concise Oxford English Dictionary defines the word 'hinder' as "make it difficult for (someone) to do something or for (something) to happen". Thus, in this case, the generators continuing to supply electricity to the procurers, will not necessarily lead to the conclusion that there was no occurrence of force majeure. The generators could get fuel-cost adjustment charge. The tribunal, therefore, directed CERC to assess the extent of impact of force majeure in the light of this judgment.

Can you explain the philosophy behind CERC's judgment?

It saw merit in the plea that promulgation of the Indonesian regulation has led to abnormal increase in the cost of generation of electricity making the project unviable. Unless the generators' concerns are addressed, the possibility of their defaulting on obligations under the PPA cannot be ruled out. That will affect consumers' interest. Utilities will have to invite fresh bids to meet their power requirements. It will affect investment in the electricity sector, which will. In view of all this, CERC saw it necessary to intervene in the interest of consumers, investors, and the power sector.

What were the legal grounds on which CERC's order was based?

On April 2, 2013, the Commission unanimously decided that the claims of Adani Power and Tata Power's Coastal Gujarat Power for force majeure and change in law were not admissible. However, by majority of three with one member dissenting, it was held that considering public interest, in exercise of regulatory powers provided under Section 79 of the Electricity Act, the Commission can provide redressal to generating companies and proceeded to constitute an expert Committee to look into the alleged difficulties faced by Adani Power and find an acceptable solution.

What were the legal grounds on which the Supreme Court delivered its order?

According to the Supreme Court, CERC has the power to regulate the tariff of the generating stations falling under its jurisdiction, keeping in view the objects of the Electricity Act to promote competition, encourage investment in the power sector and to protect consumers' interest. The power to regulate tariff will also extend to the tariff determined through competitive bidding.

The apex court ruled that CERC can fashion a relief even in the case of generating stations' tariff discovered through competitive bidding, by providing for suitable adjustment in tariff while retaining the sanctity of competitive bidding under Section 63 of the Act.