

## **PROCUREMENT PLANNING, EARLY SETTING UP OF COAL REGULATORY BODY, DISTRIBUTION FRANCHISEES AMONG 5 KEY ELEMENTS FOR ATTRACTING RS 11 TRILLION INVESTMENT IN POWER SECTOR IN 12<sup>TH</sup> PLAN: FICCI-CRISIL PAPER**

**NEW DELHI, December 10, 2010.** Comprehensive power procurement planning and institutionalizing procurement, the need for the proposed coal regulatory body to look at development of captive coal blocks, adjustment and revision of tariffs annually under the multi-tier tariffs frameworks with minimal regulatory intervention, promotion of PPP through the appointment of Distribution Franchisee within a license area and bringing the monitoring of the implementation of the Rajiv Gandhi Grameen Vidutikaran Yojana under the State Electricity Regulatory Commissions, are the key priority areas that the government has to tackle to attract investment worth Rs 11 trillion required in the power sector in the 12<sup>th</sup> Plan period (2012-17)

These interventions by the Government in the areas of promotion of power generation, enhancement of coal availability, creation of viable power utility/markets, PPP in distribution and electrifying rural areas, have been suggested by a **FICCI-CRISIL Infrastructure Advisory Paper on the Indian Power Sector**.

The paper notes that Power Procurement costs, which constitute about 80 % of the total costs of distribution utilities, has been increasing by 10% per annum (on per unit basis) due to rise in prices of fuels and increase in the quantum of power purchase on short term basis. One of the key reasons for increased quantities of short term purchases is lack of power procurement planning by distribution utilities. The long gestation period of power plants necessitates that power procurement for a long term horizon is initiated 5-6 years before commencement of supply.

It therefore suggests the need for comprehensive power procurement planning and institutionalizing procurement. Distribution utilities should assess their load requirements (peak, off-peak) and the desired hydel-thermal mix, amongst other aspects of such planning. They should estimate benchmarks for prices emerging through the bid process, which may be required in case bid prices are perceived to be on a higher side. Further, distribution utilities in states with no coal or hydro resource, shall explore Joint Ventures with coal bearing states and with states well endowed with hydro for development of power plants.

As regards State Electricity Regulatory Commissions (SERCs), regulatory approval of power purchase costs while determining tariffs could be subjected to planned procurement of power by the distribution utilities.

For Enhancing Coal Availability, the FICCI-CRISIL Paper points out that over 50% of the installed power generation capacity is coal based. Further, majority of the projected capacity additions including the Ultra Mega Power Projects (UMPPs) are coal-based. Accordingly, commensurate

augmentation in coal-mining and coal imports is crucial for projected capacity additions in power generation to materialize.

Substantial deficits are projected in supplies of coal. Coal India's production has struggled to keep pace with the demand growth and the company forecasts a deficit of 90 million tonnes per annum to 300 million tonnes per annum during the XIIth Plan for linkages allocated upto April 2009. A common issue facing both Coal India as well as captive coal block allottees is the delay in land acquisition and project clearances including environment and forest clearances. A related issue is rail connectivity of coalmines and availability of rakes for coal transportation. Another issue facing particularly the captive coal-block allottees is the lack of mining expertise.

The paper suggests that the Coal Regulatory Body, which is being proposed to look into production & supply, specify grades/quality and pricing of coal, should be set up soon. The Regulator could also look into the development of captive coal blocks, which have not been able to meet the expected production levels.

For the creation of Viable Power Utilities/ Markets, the paper feels it is imperative to ensure that tariffs are adjusted/revised annually under the Multi Year Tariffs Framework with minimal regulatory intervention. It could be formula driven annual tariff adjustment (during the MYT period) reflecting pass through of uncontrollable costs. SERCs should prepare and notify a road map for reduction in cross subsidy. Further, a framework / index - "Open Access Reforms Index" could be prepared, which could regularly monitor, and accordingly grade various states in terms of progress achieved in implementation of open access including ensuring reduction of cross-subsidy surcharges. The subsidy amount should be disbursed in adherence to the related provisions of Electricity Act, 2003.

The paper notes that Aggregate Technical and Commercial (AT&C) losses at 31 per cent are high, as compared to 10-15 percent in some other countries such as Brazil and China. Besides, the distribution networks in India need up-gradation and timely repair & maintenance to ensure reliable quality of supply and service.

The Government had launched the Accelerated Power Development and Reform Programme (APDRP) scheme in FY 2002-03, which led to a small reduction in the overall AT&C loss from 38.86% in 2001-02 to 34.54% in 2005-06. The first phase of Restructured APDRP (R-APDRP) is under way and results are yet to be seen. Further, most of the distribution utilities lack adequate financial strength for carrying out up-gradation of network and invest in improving the quality of supply & service.

Considering the financial constraint as well as the project management capabilities of distribution utilities, it is desirable to consider various PPP options in the distribution sector. EA, 2003 promotes PPP option through appointment of Distribution Franchisee within a distribution license area. Distribution utilities should aggressively identify high loss pockets, where Distribution Franchisee could be appointed to achieve loss reduction. Furthermore, implementation of Distribution Franchisee could be recommended in the event losses remain

unabated or quality of supply remains poor despite using funds/incentives made available through schemes such as R-APDRP.

As for rural electrification, the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched in the year 2005 with the objective to electrify all villages and habitations while providing access to electricity to all rural households including Below Poverty Line (BPL) consumers. So far, 73% of the villages covered under the scheme have been electrified while 35% of the total no. of households have been issued connections. It is expected that with village electrification getting completed, momentum in issuing connections to rural households would pick-up.

The FICCI-CRISIL paper states that the key challenge facing effective implementation of the Scheme involves sustainable provision of stipulated number of hours of supply and appointment of Rural Franchisees. It would be difficult for distribution utilities already suffering from power deficits unless they arrange additional quantum of power purchase to meet the mandated supply hours under the scheme. The response to Rural Franchisee has been mixed - while it has worked in some states, it hasn't in others. Furthermore, dispersed areas with low load densities and low income levels leave viability of provision of electricity in these areas in question.

It therefore suggests that monitoring the implementation of RGGVY scheme may be brought under the ambit of State Electricity Regulatory Commissions (SERCs). Further, possible refinements in RGGVY scheme need to be explored including the process of approvals and earmarking larger areas for Rural Franchisees to incentivise capital and Operation & Maintenance expenditure to be made by them.

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