SUPPLEMENTARY SUBMISSION ON 4 GAS BASED PLANTS FROM

PEOPLE'S MONITORING GROUP ON ELECTRICITY REGULATION

1. ARBITRARY SELECTION

The APTRANSCO is claiming that the gas based power plants that are placed before the Hon'ble Commission for consent were selected through ICB. But we would like to submit that there is no relation between the plants selected through the ICB and the PPAs of the plants that are placed before the Commission. All the parameters of the plants apart from the fuel like capacity of the plant, capital cost of these plants, their location and tariff structure are altered to such an extent that they don't bore any resemblance to the selected plants. Even ownership of some of these companies have changed considerably to call them same entities that have successfully bid for this. In some cases even the location of the plants have changed.

Name of the Plant	**Consent Requested in MW**	**Original Proposal in MW**	**Present Proposal in MW**
Konaseema	445	Oakwell Engineering 200	445
Vemagiri	370	Ispat Power 468/492	(370+150) 520
Gautami	(292+172) 464	NCC 227 Gautami 300/358	(464+133.9) 597.9
GVK Extension	220	240	(220+220) 440
Gross	1499		
Net	1454		

Particularly, the capacity of the plants changed greatly in the interregnum and there appears to be no relation to the demand forecasts for the power and the capacity sought to be achieved through these additions. Changes made to the capacity of these plants are quite arbitrary.

Given these factors these PPAs need to be summarily rejected and fresh bids need to be floated as and when the demand forecasts necessitate any addition.

It appears that APTRANSCO is trying to come up with a demand forecast that will suit these plants.

2. DEMAND FORECASTS

Before adding any additional power to the grid in the state it is necessary to establish that this additional capacity is indeed needed. In the previous attempt the APTRANSCO has failed to prove that the addition of these four plants is needed. The Commission has rejected its estimate of additional capacity of 4270 MW by 2007 and arrived at its own figure of 3180 MW.

While APTRANSCO adopted 7.35% APERC adopted 6.8% as the growth rate. We fear that both the figures are on the higher side. In a recent article T.L.Sankar has estimated that in the coming years the growth of demand for power may not cross 4%. He placed the energy demand in 2007-08 at 34,073 MU compared to 28,309 MU in 2002-03. (Economic and Political Weekly, October 5, 2002, p.4144). Over the last few years there is no addition to industrial capacities. Whatever production is achieved it is based on the already installed capacities only. In this background it is prudent to take in to account this lower growth rate to estimate energy demand.

The ongoing AP Power Sector Restructuring Programme envisages spending of Rs. 28,740 crore to improve transmission and distribution system. This is expected to improve T&D system and bring down T&D losses. The T&D losses are expected to come down to 17.7% by 2007. Besides this, DSM measures are also to be propagated to lead to reduction in power consumption. We are not sure whether these measures to reduce power consumption by conserving available power were taken into account while computing future power demand.

In its order on demand forecasting dated 29th July, 2002 the Commission has stated that The Power Purchase Agreements submitted before the Commission for consent and pending public hearing would be taken up by the Commission once they appear in the revised supply expansion plan, which should be submitted by APTRANSCO as per this order. The same order also mentions, “As per the paragraph 2.2 of the power procurement guidelines the licensee shall submit its load forecast to the Commission in the month of April of each year”.

We do not know if they have submitted one in April 2002. The Commissions’ Order which came in July 2002 do not indicate that APTRANSCO has come up with any revised demand forecast. In its replies to our objections it states “Due to necessity APERC has to go for public hearing for considering these four gas based projects for capacity addition" (Vemagiri 2.4).

From the replies given we are unable to comprehend as to what necessitated the Commission to go for public hearing. We don’t know whether APTRANSCO has come up with a revised demand forecast, if so whether it has altered any of the parameters of the demand forecast.

3. TARIFF FIXATION

Time and again it is asserted that these plants are selected on the basis of tariff but not capital cost. But actually in the beginning they are selected on the basis of other parameters including capital cost (all these parameters are never made public, and some of them also obtained TEC from CEA). Only after they are allowed to run on gas they were asked to accept a uniform FDSC and OFC. These bench marks are said to be chosen on the basis of Gautami power plants tariff which is said to be cheaper among these plants.

Name of the Plant	Plant Capacity in MW	Capital Cost in Rs. Crore	Per MW Cost in Rs.Crore
Konaseema	445	1362.39	3.06
Vemagiri	370	1043.00	2.82
Gautami	446 (292+172)	1300.00	2.80
GVK extension	220	760.00	3.45
BSES	220	700.00	3.18

In the draft PPA proposals it is not made clear how they arrived at the fixed charges.

From the available data gleaned from draft PPAs it appears that Gautami plant is the cheapest. But unlike other plants it is a two stage plant and as such per MW cost calculated in this manner may be misleading, and it instead of being cheaper it may be costlier than other plants. Further, it is doubtful as to what extent the data/information given in the draft PPAs are reliable and suitable for the present.

Vemagiri plant is slightly costlier than the Gautami plant. What is the tariff initially and later stages fixed for it before arriving at the present tariff?

In the replies provided to us there is no clarification given on the logic behind the present agreed tariff.

As they repeat that it is tariff based bidding but not capital based bidding and refuse to give information on the capital cost of these plants it is difficult to verify whether this tariff is based on cheaper plant or costlier plant!

There is need to reexamine the fixed charges arrived at by the parties and

4. PAYMENT GUARANTEES AND PRIME LENDING RATES

The proposed PPAs also talk about state government guarantees, though in its replies APTRANSCO deny that state government gives any guarantee on any particular rate of return, and guarantees only payment obligations. But these payment obligations in turn in them must have or be based on a particular rate of return, or the tariff it self is based on such rate of return.

These PPA were drafted in the background of high rate of interest regimes, leading to guarantee if high rate of return. But during the last few years the RBI has brought down the lending rates quite substantially. Recently it has reduced the prime lending rate to 6.5%. In response to the banks and other financial institutions have brought down their lending rates to 9.25%

In this background it is necessary to see that the proposed fixed as well as variable charges reflect this. In other words there is need to bring down FDSC and OFC.

Since financial closures are not over, see that the benefits of lower interest rates is reflected in the tariff. Otherwise, IPPs will have windfall profits at the cost of ordinary consumers.

5. GAS AVAILABILITY

Concern has been expressed on the availability of gas to the proposed power plants. While some of them are allocated gas on fall back basis, some are allocated on firm basis. Even in the case of firm availability this is based on speculation on availability in the future. In the replies given to the objectors APTRANSCO appears to rely on the success of future gas explorations: "Keeping in view the future plans of ONGC, CAIRN and RELIANCE it is felt that gas availability will not be problem in future" (Vemagiri 11.4).

Recent news about gas found in the wells drilled by Reliance might have raised the expectations of these institutions. According to the news report put out by the Reliance Industries there is 7 trillion cubic feet of gas. This find is expected to give 40 million standard cubic meters per day (MCMD) for 15 years.

But the report of the Director General of Hydrocarbons (DGH) has placed the proven reserves at 3.6 trillion cubic feet of gas. This may tentatively produce gas at a plateau of about 25 to 35 MCMD for a period of 6 to 8 years. This should keep in check any over optimism about availability of huge gas reserves.

We appeal to the Commission to thoroughly examine the issue of gas availability before considering these four PPAs.

6. NTPC

According to the letter of the Commission informing about this public hearing and also according to news paper reports NTPC will be appearing before the Commission. According to new paper reports the ostensible purpose of NTPC in appearing before the Commission is to request for Escrow facility in its favour. This may be with regard to its Simhadri thermal plant.

We would like to submit that in our submissions before the Commission during hearings on tariffs we have highlighted the need to examine the PPA entered into with NTPC for the Simhadri plant through a public process by APERC. But we were given to understand that as it is a central generating station, even though it supplies power only to AP, CERC will decide its tariff.

But we fail to understand NTPC's present submission before APERC. At the same time we welcome NTPC's appearance before APERC. We would like to submit two things:

1. NTPC/APTRANSCO have to place the PPA before the Commission for consent
2. We are opposed to Escrow cover to all IPPs as it will be an additional burden on APTRANSCO and DISCOMs. Particularly, there is no need for NTPC, which is a parastatal like APTRANSCO to demand Escrow facility.

PRAYER TO THE COMMISSION

As these four gas based power plants do not fit in to the demand forecasts and also entail huge costs to the consumers through its higher tariff we appeal to the Commission not to give consent to the said PPAs.

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