Power Sector in Andhra Pradesh during April 2012

POLICY

The Government of Andhra Pradesh through G.O. Rt. No. 1663 dated 16-04-2012 constituted a Group of Ministers to suggest: (i) Steps to be taken to encourage setting up of Non Conventional Energy Projects like Wind, Solar, Hydel etc., (ii) Measures to be taken to meet the power requirement of the State.

The Andhra Pradesh government has cancelled the land allotted to the public sector company Hindustan Petroleum Corporation Ltd (HPCL) for setting up its proposed Rs 45,000-crore petrochemical complex at Visakhapatnam, due to delay in executing the project. HPCL was allotted 1,500 acres in 2007 for setting up the petrochemical complex in the proposed Petroleum, Chemicals and Petrochemicals Investment Region (PCPIR) coming up near Visakhapatnam. As a part of the cancellation of land allotment the government had returned the land deposit money given by HPCL. The state government has in the past announced incentives to the Petroleum Refinery Project as a Mega Project under the Andhra Pradesh Industrial Investment Promotion Policy, 2010-15.

The demand for power touched 307 MU on March 29, 2012. Average demand met per day during April 2011 was 253 MU as against the demand of 293 MU now showing a deficit of 40 MU a day. To meet the supply gap, around 26 MU a day is being purchased through medium, short-term open access and intra-State generators. The remaining is being met through load relief to industrial and domestic sectors.

GENERATION

Hinduja National Power Corporation

At the instance of the Public Accounts Committee (PAC) of the Andhra Pradesh Legislative Assembly a high-level committee comprising secretaries of the energy, revenue, land administration, minorities welfare, law departments and the Wakf Board was constituted to go in to the issues related to alleged irregularities in Hinduja National Power Corporation's (HNPC) coal based power plant in the state. The Committee was expected to submit its report by April 23. The Committee will examine whether the project has come up on disputed land and if the power purchase agreement (PPA) is detrimental to the interests of the state. Earlier the PAC took serious view of the way the PPA was revised to allow the company to alter the project in to merchant plant while ignoring the interests of the state even though the government allotted over 1,100 acres of land for the project. Under the earlier PPA, which was said to have lapsed in 2001, the company was to supply all the electricity generated by it to the state. The new PPA entered in to in 2007 permits the company to supply only 25% of the power generated at a fixed tariff and sell the rest at market price.

According to PAC legal advice obtained by the state government in June 2005 before PPA with HNPC was revised, there was breach of contract by the company since it did not pay the cost of land in full and did not fulfill the condition of financial closure within the stipulated period. The contract with HNPC was no longer valid and deemed to have been closed. But the state government did pay heed to this advice. The PAC also pointed out that following the advice of the state government the Wakf Board sold the land to HNPC for Rs. 47.65 crore while the market value was Rs. 224.47 crore. The HNPC claimed that it paid full consideration. It also placed the blame on the state government for the delay in execution of the project.

APGENCO

During the financial year 2011-12 APGENCO has achieved a turnover of Rs 11,381 crore. This is 25 per cent higher than last year. It earned a net profit of Rs 401 crore, registering 28 per cent growth over the previous year. It attributed this to increase in plant load factor and internal efficiencies without resorting to hike in tariffs. The corporation managed a plant load factor of over 80 per cent compared to the national average of 72 per cent. Average cost of generation of APGENCO thermal plant is Rs 3.10/unit and Rs 1.42/unit in case of hydel projects.

During this period it incurred a capital expenditure of Rs 3,640 crore. It mobilized the required funds through redeploying funds from internal accruals while limiting dependence on borrowings and. It discharged Rs 401 crore worth bonds from its reserves.

During the XI Plan the corporation added 2,373 MW capacity. About Rs 12,500 crore was spent on this. Also, 3,000 MW of new capacity is in advanced stage of implementation. This includes 2x800 MW at Krishnapatnam, 800 MW at Bhoopalapally and 600 MW of RTPP. All these plants are likely to start power generation during the next financial year. In all six projects with an outlay of Rs 17,488 crore are under construction. In addition to this six more projects with total capacity of 7,242 MW capacity and an outlay of Rs 35,263 crore are under development and five projects of 6,800 MW capacity are under investigation. In the case of the Vodarevu 4,000 MW power plant all mandatory clearances, including environmental, have been secured.

NTPC

NTPC has agreed to supply the entire power of the soon-to-be-commissioned 500-Mw fourth unit of Simhadri project at Visakhapatnam to Andhra Pradesh in the next 3-4 month owing to the local supply-demand scenario.

IPPs

In the background of uncertainty in gas availability the central government is considering reducing the tenure of power purchase agreements (PPAs) for future gas-based projects by 10 years and reviewing the deals every five years on basis of fuel availability. This measure would benefit companies like Reliance Power, Lanco Infratech and GMR Energy, when they sign power purchase agreements after gas supply is available. They will be able to review their power supply agreements every five years according to the gas supply and their commitment will be for a less number of years. The proposal is in line with recommendations made by the Central Electricity Authority (CEA) that duration of PPA for gas based projects needs to be brought down in view of their economic life. The authority has also suggested that the PPAs should be reviewed every five years since gas is generally allocated for that period.

The setting up of extension plants of the existing IPPs in the state belonging to Lanco, Vemagiri, GVK and GMR are said to be over. These will operate as merchant plants. Though the Electricity Policy enables the DISCOMs to secure a portion of the power generated by these units at the tariff determined by the APERC the DISCOMs did not claim this and as a result the consumers in the state had to forego cheap power.

As part of their efforts to supply satisfactory power to all categories of consumers, agricultural and industrial sectors in particular the state power utilities are going to invest Rs 1,083 crore towards purchase of power from mid January to end of May 2012.

Of the around Rs 6.47 lakh crore worth of investments for which MoUs were signed by various entrepreneurs with the state government during the partnership summit, the AP power sector had attracted a lion's share of around Rs 2.93 lakh crore.

Nuclear Power

The Nuclear Power Corporation of India Limited (NPCIL) is planning to conduct a public hearing on the proposed 10,000 MW nuclear power plant at Kovvada Matsyalesam in Ranasthalam mandal in Srikakulam district in either July-end or August first week. Public hearing was delayed fearing outcry from locals after the Fukushima nuclear disaster in Japan last year. Now the NPCIL is gearing up to fast-track the works on Kovvada N-plant. According to the officials the construction of the plant would be completed within four and a half years along with the commissioning of two reactors in the first phase. Each reactor's capacity is likely to be around 1300-1500 MW. A rehabilitation and resettlement plan for people from the affected villages will be prepared to address the problems of project affected families. The project officials claim that in the beginning people of more than 30 villages in Ranasthalam mandal had opposed the plant but now some of them have given their approval for the plant if the government offers them a better R&R package. At the same time representatives of the to be affected population allege that they have been kept in the dark and threat to their livelihoods is not being addressed.

FUEL

Gas

Gas output from KG-D6 in the last week of March dropped to 33.89 mmscmd from 34.09 mmscmd in the previous week. It was 34.62 mmscmd in the beginning of March. Production from Dhirubhai – 1and 3 of KG-D6 block slipped to 27.52 mmscmd. Together with 6.37 mmscmd output from MA oilfield in the same block KG-D6 produced 33.89 mmscmd during this week. During the week under review total 12 wells were on production and 6 wells A2, A6, A10, B1, B2 & B13) were kept closed due to high water and sand ingress. Of the 33.89 mmscmd of production 12.71 mmscmd was sold to fertilizer plants. Another 18.10 mmscmd was sold to power plants. RIL projected an output of 33.7 mmscmd during the month.

RIL announced that it was surrendering 10 blocks including D9 bringing down its oil and gas portfolio to 17 exploration blocks. RIL had discovered gas in D9 block last year but after drilling three exploration wells and analyzing data it found that the block's hydrocarbon potential was low.

The CAG cautioned the GoI against rushing to validate the entire expenditure of RIL in D-6 block because part of the money was spent after 2008. CAG audited the accounts up to 2008 only. Money spent by RIL in developing the field should be reimbursed from gas sales only after the accounts up to 2011 were audited. Until the full audit is completed up to 2011, it should be careful about settling the costs to the developer. It was felt that if the next audit detects unjustified expenditure the GoI may not be able to recover it from the company. Higher expenditure effectively reduces the share of profit that accrues to the government after taking into account the costs incurred for developing the field.

RIL and its British partner BP had proposed undertaking concept validation and Front End Engineering Design (FEED) for all the 16 gas discoveries surrounding KG-D6 block. RIL-BP felt a comprehensive survey on entire block would save cost and aid in drawing an integrated development plan for all the 18 finds by October. The block oversight committee headed by upstream oil regulator the Directorate General of Hydrocarbons rejected the proposal on the ground that pre-development investments can only be done in fields which have either been proved to be commercially viable or whose field development plan has been accepted by the authorities. The Management Committee approved RIL-BP making the investment in the four satellite fields whose USD 1.529 billion FDP was approved in January, and on D-34 or R-Series field whose commerciality had been approved in February. All investment in pre-development activities are deducted from revenues earned from gas sales before profits are split between the operator and the government. Any infructuous investment would restrict government profit take.

RIL has approached the Supreme Court to appoint an arbitrator in the ongoing dispute with the GoI over recovery of the expenditure incurred by the company in KG-D6 gas fields. RIL had already nominated Mr. Justice S.P. Bharucha, former Chief Justice of India, as an arbitrator and had asked the Centre to nominate a second arbitrator. $1.85 billion, out of the $5.69-billion investment, already made in the facilities will be disallowed by the Ministry and arbitration initiated to recover that from RIL. The Ministry of Petroleum and Natural Gas may also disallow $1.23 billion as cost recoveries for 2010-11 and 2011-12.

In the background of declining gas supply from RIL's KG-D6 fields independent power producers (IPPs) in Andhra Pradesh have proposed a rotational gas use policy for optimum output from the power plants. While IPPs such as GVK, Spectrum, Lanco Infratech and Reliance Infra have stated that they were receiving gas from ONGC's Ravva and RIL's KG D6 fields while GVK Extension, Gautami, Konaseema and GMR Vemagiri were getting gas only from KG-D6 fields. These power plants were receiving about 7.68 mmscmd against the total requirement of 12.97 mmscmd, leaving a deficit of around 5.29 mmscmd leading to an idle capacity of around 1,100 MW. Because of this the IPPs in AP were operating at 46 per cent plant load factor (PLF) as against the 75 per cent PLF prescribed by the Empowered Group of Ministers (EGoM). IPPs contend that operating the plants with the above condition is not feasible technically and economically as the fuel consumed per MW is higher than the fuel consumed at optimum loads and this is causing wastage of scarce fuel. They suggested that the rotation system would be a useful option to utilise the available gas more effectively.

The Chief Minister of AP had written a letter to the GoI protesting against declining gas supply to gas based power plants in the state. Because of this the state had to forego 30 million units of power as 1,300 MW of installed capacity was lying idle due to non-availability of gas. Power deficit in the state per day was about 42 million units. If the gas-based stations were running to capacity the state would have got another 30 million units and deficit should have been reduced to just about 10 million units.

Andhra Pradesh would incur an additional expenditure of Rs 870 crore due to decline in power generation from gas-based power plants during this financial year as the power utilities have to make good the shortfall in power generation with additional purchases from outside the state at higher cost.

<u>Re-gasification unit</u>

The Andhra Pradesh Government and GDF Suez LNG UK Ltd signed an agreement for setting up of a floating storage re-gasification unit at Kakinada. This terminal with capacity to re-gasify liquefied natural gas of 15 mmscmd will be set up by GAIL and AP Gas Development Corporation (APGDC) with an outlay of Rs 4,000 crore. The construction of this plant is expected to be completed by 2012. This will enable additional generation of 3,000 MW of power. The average cost of generation of power under this plant would be about Rs 6 a unit compared to Rs 9 a unit in the case of RLNG now.

<u>Uranium</u>

The Uranium Corporation of India Ltd (UCIL) commissioned the Tummalapalle uranium ore mine and processing plant in Kadapa on April 20. This is the first project commissioned by UCIL outside Jharkhand. The processing plant is constructed next to the mine and will use alkali pressure leaching process to produce sodium di-uranate from the ore. The project will produce 3000 tonnes of ore per day (tpd). The first phase of the project involves an investment of Rs 1,100 crore for mining. The three-phase project envisages creation of 9,500 tpd capacity. It is expected to be completed by the end of the 12th Five-Year Plan

Coal

APGENCO plans to import 1.6 million tonnes of coal for its thermal power plants. This would cost Rs. 950 crore. Cost of each tonne would be Rs. 5,532.

TRANSMISSION

Power Grid Corporation of India (PGCIL) won the bid for Vemagiri Transmission System Project's Special Purpose Vehicle that will transmit power from upcoming private power plants in that area. It quoted lowest bid to bag the Rs. 1,300 crore contract. PGCIL quoted a levelised tariff of Rs. 119.7 crore per annum for this transmission system. The contract involves laying two high capacity transmission lines of 250 km length each for connecting various private power stations in Vemagiri to Hyderabad. The transmission system comprises of 765 kV D/C is to traverse the State and is to be constructed over a period of 36 months.

DISTRIBUTION

Tariff Hike

On 3rd April TRS and YSRCP organized separate protests at Vidyut Soudha, Hyderabad headquarter of APTRANSCO against the tariff hike. BJP activists staged similar protests in other parts of the city.

Telugu Desam Party demanded unconditional and complete roll back of hike in power tariff. The TDP leaders and cadres across the state staged dharnas on 4th April at sub-stations to register their protest against the tariff hike. It attributed the tariff hike to inefficient and corrupt operations of the utilities in the state.

BJP Andhra Pradesh unit decided to organise agitations across the state from April 16 against the power tariff hike. It demanded a roll-back of this power tariff hike. They questioned Chief Minister of AP Mr. N. Kiran Kumar Reddy's claim that his government has extended additional subsidy of Rs 175 crore "to insulate people from any extra burden" when the state government had put a burden of Rs 4,442 crore on people. The BJP criticised the Congress party for violating its 2009 election manifesto, in which, it had promised that power tariff would not by hiked for five years.

Federation of AP Chambers of Commerce and Industry (FAPCCI) described the hike in power tariff as harsh and counter productive. This hike would impact industry as well as state economy adversely. This hike would lead to increase in cost of goods and services between 1 to 5 percent. Added to the tariff hike industry was also facing power cuts to the extent of 40 to 60 percent.

The Andhra Pradesh Chief Minister said that the power tariff hike for 2012-13 had become necessary given the increase in cost of fuel and consequent increase in cost of power generation. From 2003, the cost of coal has gone up by 103 per cent, gas price rate is up 93 per cent and the overall cost to serve is now Rs 4.42/unit versus Rs 3.18/unit. Consumers with lower than 100 units consumption per month and contracted load below 500 watts will not be impacted by new tariff. For this additional subsidy of Rs 175 crore is being provided. Besides this the state government will be bearing the additional cost of Rs 200 crore to help small-scale industries. The hike does not touch nearly 55 per cent of the consumers.

Feeder Segregation Project

APDISCOMs have requested the central government funding to the tune of Rs. 3,014 crore to take up Feeder Segregation Project in the state. This project is intended to provide quality and continuous supply of power in rural areas. The project involves erecting parallel distribution network of 11 kv feeders spanning a length of 1,50,766 km. With improvement in quality of power this project is also expected to encourage establishment of small and medium industries in rural areas and there by reduce pressure on urban infrastructure.

Southern Power Distribution company Limited

The Andhra Pradesh Southern Power Distribution Company Limited (SPDCL) has started works to set up 27 sub-stations in Nellore district during the financial year 2012-13 as a part of its attempts to bring down low voltage problems and burning of transformers due to over load as well as improve quality of power. Out of the proposed 27 sub-stations seven sub-stations have been commissioned and the remaining are in different stages of construction. Besides these 20 more sub-stations are proposed to be taken up in the current year with financial aid from Rural Electricity Corporation. Two private thermal units in SPDCL area – Simhapuri Power and Meenakshi Power are expected to start generation of power during the current year and the proposed sub-stations will help to evacuate power from these new power plants.

Power theft

According to the Central Power Distribution Company of Andhra Pradesh Limited (CPDCL) about 16% of the total electricity distributed within GHMC limits is unaccounted. Out of the daily supply of 40 MU about 3.2 MUs (8%) was lost due to power theft. From this amount of 40 MU, 6 MU is distributed to the South Circle covering Old City. Here the billing is done for 60% of the distributed power and the remaining 40% of the power distributed is unaccounted implying power theft. While it is 10% in urban parts of the city, it is 20% in the peripheral areas of the city.

During the year 2011-12 CPDCL penalised 20,630 consumers for pilferage, unauthorised usage and meter tampering. Fines to the tune of Rs.18.4 crore were collected.

In order to reduce these losses CPDCL plans to installing meters on more than 41,000 distribution transformers under its control including Hyderabad. Already 27,000 distribution transformers have been installed with such meters. These meters would help read the difference in energy demand of an area and the actual power distributed. The difference if major, will point to misuse of electricity supplied and help locate the region corresponding to a feeder line where the anomaly has been detected. The metering is expected to be completed by September this year.

CAG on APDISCOMs

Comptroller and Auditor General of India (CAG) in its report for the period 2006-11 on APDISCOMs brought out inefficiency in their operation. Against planned addition of 1,649 sub-stations only 1,200 were added. While connected load increased by 48 percent (from 28,157 MW to 41,872 MW) distribution transformer installed capacity increased by 33 percent only (from 26,025 MVA to 34,650 MVA. That is, distribution capacity did not keep pace with growth in connected load. Delay in implementation of HVDS was said to have resulted in non-achievement of envisaged benefits to the extent of Rs. 147.71 crore. APDISCOMs could utilize only 32.74 percent of funds available under R-APDRP. CAG estimated that APDISCOMs suffered revenue loss of Rs. 1,634 crore due to T&D losses in excess of norms set by APERC. APDISCOMs purchased 7,903 MU over and above the quantity approved by APERC and as a result incurred additional expenditure of Rs. 4,286 crore. As APERC disallowed 7,530 MU of free power to agriculture CPDCL and EPDCL could not claim Rs. 2,520 crore from state government. APCPDCL did not claim cross subsidy to the tune of Rs. 12.31 crore from Penna Cements which has three captive power plants.

OTHERS

R. Ashoka Chary is appointed as member of the APERC. Earlier he served as Chief Engineer, AP Power Purchase Committee and APTRANSCO.

The electricity Consumer Grievance Redressal Forum (CGRF) with the jurisdiction over Hyderabad and Rangareddy districts received 365 complaints since July 2011. Of these only 36 are yet to be disposed. The rest have been resolved. Majority of the complaints were related to incorrect billing. No complaints were received about the long hours of power cuts. CGRF fined five officials for delay in solving the grievances. Five complainants were awarded compensation which amounted to a total of Rs. 49,950

Addresses of CGRF related to CPDCL:

For Anantapur, Kurnool, Mahabubnagar, Medak and Nalgonda districts:

Consumer Grievance Redressal Forum – Rural,
Plot No.132, Sri Sai complex, Noodles King Building,
Srinagar Colony Main Road, Hyderabad – 500 073

For Hyderabad and Ranga Reddy districts:

Consumer Grievance Redressal Forum – 2,
H.No.8-3-167/E/1,
Central Power Training Institute Campus,
GTS colony, Vengal Rao Nagar, Hyderabad – 500 045