# Power Sector in Andhra Pradesh during December 2012

POLICY

Andhra Pradesh Chief Minister N. Kiran Kumar Reddy said that free power to farmers would continue in spite of various hurdles faced by the power sector. He reiterated the Government's resolve to provide free power to farm sector notwithstanding the shortages and steep increase in power purchase expenses.

The Andhra Pradesh Government has embarked on energy conservation measures and addition of capacity under renewable energy segment covering wind and solar units. GoAP is planning partnership with industries and other stakeholders for continuous deliberation on a long-term basis to improve electricity situation in the state. It was estimated that about 4,820 million units of energy per annum can be saved in the industrial sector alone through conservation measures. To take it forward an interactive workshop was jointly organised by the Confederation of Indian Industry and the Industries Commissionarate.

The State Energy Conservation Mission of Andhra Pradesh Government is contemplating fixing annual energy saving targets on various departments, starting with energy, municipal administration and urban development, industries, agriculture. The State energy conservation mission has targeted a saving of about 15,000 million units equivalent to Rs 4,751 crore during the year with targets set for domestic, industrial, local bodies, agriculture sectors. It was estimated that a middle-class household could save up to 1080 units equivalent to Rs 5,000 a year. Plans are also afoot to improve demand side management for agriculture pump sets and checking indiscriminate usage of air-conditioners.

Andhra Pradesh Government has asked power utilities to expedite awareness campaigns on conservation of electricity throughout the State to avoid wastage of power and overcome shortage of power to some extent. The awareness would be created by towns and villages with hoardings and posters having slogans that highlight the need to conserve energy.

The APTRANSCO had bagged the Bureau of Energy Efficiency award on energy conservation in the category of Government buildings for 2011-12. The award was given for achieving the best results for its headquarter building 'Vidyut Soudha' by replacing appliances with energy efficient electrical appliances, according to a release.

## GENERATION

The Greater Hyderabad Municipal Corporation was reported to have obtained clearances for a 40 MW power plant with municipal solid waste generated in the city. About 3,100 tonnes of municipal solid waste a day would be used as fuel in the power plant. Ramky Enviro Engineers would set up the plant under public, private partnership mode at the Jawaharnagar dump yard.

In order to tide over the demand supply gap for power AP Transco planned to float tenders for purchase of about 1,000 MW of additional power, including about 300 MW from the Southern region. Besides this the Andhra Pradesh Electricity Regulatory Commission was approached for permission to generate power in some of the gas-based plants using re-liquefied natural gas. The State government also hoped to add about 2,000 MW from renewable energy in the short term.

The two merchant power plants of Lanco and GMR in Andhra Pradesh have been asked to sign long-term power purchase agreements to sell power at a regulated price as they are using natural gas allocated at a regulated price of $4.2 per mmbtu from the K-G basin. The move comes after the power ministry reminded the state government that the decision to cancel the allocation of K-G D6 gas to the two plants was put in abeyance last year by the Empowered Group of Ministers on the condition that they would supply power to AP DISCOMs at a regulated price. The two power plants — Lanco Infratech’s 360 Mw Kondapally second phase project and GMR’s 220 Mw barge mounted Tanir Bavi plant— were allocated natural gas from K-G D6 in 2010, but they have been selling power in the open market in the absence of any power supply agreements with the state power utilities. The DISCOMs in the state had earlier entered into short-term power purchase agreements with both the power plants through a bidding process for supply during this year and next year in place of a regulated tariff arrangement. This was reported to go against the EGoM’s decision.

## FUEL

The Ministry of Petroleum and Natural Gas accepting the plea of power firms, which complained that their plant load factor (PLF) had dropped below the economic level of power generation because of acute gas shortage, has decided to allow these companies to divert natural gas from one of their plants to another to achieve optimal operations. According to the Ministry, "If domestic natural gas is allocated to different plants of a power company, the company will now be allowed to club the entire allocated gas and use it in one or more plants to improve PLF". The company has to take approval of the distribution company. This arrangement would be availed among plants of a common owner and the power ministry would ensure compliance. The oil ministry has decided to relax allocations guidelines after domestic gas output fell sharply because of steep decline in natural gas production from Reliance Industries' KG-D6 block.

Declining gas output

Gas production from D6 block in December first week was 22.77 mmscmd against the planned production of 86.73 mmscmd. Out of the current production, 14.84 mmscmd has been sold to fertilizer plants and 5.03 mmscmd to power plants. Remaining 2.9 mmscmd is supplied to other priority sectors such as LPG

Oil Minister M. Veerappa Moily had previously informed Parliament that RIL had not drilled its committed 31 wells on D1&D3 field, which was the main reason why the current output does not match the targeted 80 mmscmd for this time of the year. The government, he had said, does not accept RIL's contention that geological reasons alone were responsible for the decline.

## GAS PRICING

The six member Rangarajan Committee which was appointed to suggest changes in existing oil and gas exploration contracts with energy firms to minimise monitoring of expenditure, fix system to determine domestically produced natural gas price and modify existing profit-sharing mechanism, submitted its report to the Prime Minister's Office on December 20, 2012. Besides Rangarajan, other members of the committee are former Supreme Court Judge Jagannadha Rao, Planning Commission Member B K Chaturvedi, Prof Ramprasad Sengupta, former bureaucrat J M Mauskar and former ONGC Videsh Ltd Managing Director Joeman Thomas.

The committee was appointed in the background of RIL and its partner BP writing to the Prime Minister demanding that they be allowed to charge market price of KG-D6 gas and of adverse comments from the CAG that the oil ministry had not enforced contracts effectively and had overlooked lapses that adversely impacted the state's share of profit from fields.

The Committee suggested pricing of natural gas based on weighted average of the fuel in North America, Europe and Japan markets as well as imported liquefied natural gas (LNG). The committee accepted the principle of linking domestically produced gas rates with the price of a substitute, imported liquefied natural gas (LNG) but only after excluding liquefaction, transportation and re-gasification charges. The formula translates into a gas price of just over USD 8 per million British thermal unit compared to the current rate of USD 4.2 per mmBtu for most of the gas produced in the country.

The panel also suggested changes in future oil and gas contracts by ending the controversial system of oil firms first recovering their costs from sale of oil and gas before sharing profits with the government. The Committee suggested moving to a production-linked payment regime where explorers will be required to bid for the government share of production after royalty. The firm offering the maximum would win a block or area.

At the same tine any immediate change in the price of natural gas produced from the Reliance-operated D6 block was ruled out as the government had fixed its gas price for five years, a period which will end in March 2014.

Natural gas pricing policy adopted by the Planning Commission is also in support of producers like RIL. According to the 12th Five Year (2012-17) Plan adopted by National Development Council (NDC), "Natural gas prices charged to producers must be determined by market forces".

The government is yet to reach a decision on the kind of audit the Comptroller and Auditor General (CAG) would do in case of Reliance Industries' KG D6 block. The auditor has been at loggerheads with RIL over doing a field examination instead of auditing the production sharing contract (PSC) through the books of the company.

While CAG does not conduct performance audit of private operators, it can do a performance audit of PSCs, covered under section 16 of the CAG's Act. "Profit Petroleum is non-tax revenue credited to the Consolidated Fund of India and such audit would involve examination of all records including those of the operator which are relevant to our audit," an earlier statement by CAG said.

Later Veerappa Moily, petroleum minister has stated that RIL has agreed to an audit of its KG – D6 block for the period ending March 2012. During winter session in Rajya Sabha, Moily said the CAG of India had not asked his ministry to withhold approvals to RIL. "CAG has recommended that pending complete submission of all supporting records by the operators of PMT and KG-D6 relating to expenditure up to 2011-12, the ministry may examine all relevant issues closely and carefully before considering the desirability of further approvals of capital expenditure", he said. CAG wants the ministry to verify that government's financial interests have not been affected.

Moily said the government had directed the contractor to give access to all records, accounts, documents of the block to CAG in line with the production sharing contract (PSC) and legal framework. In November 2007, CAG was requested to conduct for special audit of PSCs for eight blocks from where revenue is generated. CAG had initiated audit of 4 blocks for financial year 2006-07 and 2007-08 and filed its report in August 2011, which is under examination by Public Account Committee. In May 2012, it was decided that CAG would undertake audit for the year 2008-09 to 2011-12. A petroleum ministry statement had said RIL had raised certain apprehensions regarding this audit and expressed their desire to discuss the issue further.

Ministry of Petroleum and Natural gas stated that RIL will be allowed to install a compressor to increase gas recovery from its fields in the KG-D6 block if the company agrees to an audit by the CAG.

The Ministry also asked the company to drill more wells in the fields to reverse declining output.

The DGH has rejected Reliance Industries' (RIL) proposal to do a single test to confirm three natural gas discoveries in the flagging KG-D6 block, saying separate tests are required as the three finds are distant and unconnected.

The Directorate General of Hydrocarbons (DGH), the technical arm of the oil ministry, has since February 2010 not recognised the D-29, 30 and 31 as discoveries as RIL had not performed its prescribed tests to confirm the finds. RIL and its partner BP Plc on October 8 proposed to do a single Drill-Stem Test (DST) on the three finds to establish them as commercially viable finds.

RIL and its D6 partners BP and Niko Resources started drilling work on December 2 at one of the satellite fields (G2 in D19) in the block. Once the development activity is completed at this satellite field, it is expected to add another 10 mmscmd to the block's production. If all the four satellite fields, coupled with the R-Series discovered in the D6 block, go on stream, estimates show that the operator can produce an additional 30 mmscmd.

GAIL (India) and AP Government's LNG floating and processing unit near Kakinada on the east coast will be operational by December next year. This is expected to ease pressure on gas supply in the region and on power projects. The project, a venture of Andhra Pradesh Gas Distribution Corporation, French company GDF Suez and Gail Gas (part of GAIL), will handle 3.5 million tonnes of gas per annum. This is equivalent to 14 mmscmd.

## Coal

Ahead of the second meeting of a ministerial panel to give final shape to the Coal Regulatory Authority Bill the coal ministry has proposed that coal producers can determine the price of the commodity. However, the proposed coal regulator should decide the methodology to fix prices to check abuse of monopoly by any coal producer. The coal ministry has also rolled back a crucial proposal to give power of authorisation in grant of leases to the regulator.

State-owned CIL accounts for about 80 per cent of the domestic coal production of approximately 530 million tonne. The coal ministry has amended the provisions on price regulation for determining the price of coal on a rational and scientific basis, leaving the responsibility of fixing prices to coal producers. The regulator will only specify, with government approval, the principles and methodology for price determination in a more rational manner. While the coal prices are theoretically decontrolled, the government continues to sway pricing decisions, a trend that has irked CIL's stakeholders. The ministry, while acknowledging CIL's freedom to fix prices, wants to check the current practice of price revisions by CIL in line with wage hikes.

Independent regulation of the coal sector is aimed at ensuring competitiveness of market sales, fixing guidelines for price revision and increasing transparency in allocation of reserves. In May, the Union Cabinet had discussed the proposal to set up the coal regulator and asked to set up a Group of Ministers (GoM) to give a final shape to the Coal Regulatory Authority Bill.

Singareni Collieries expects production level to touch 54 million tonnes during the fiscal year 2013. The company is also said to be on track in implementing a power project in Jayapore in Adilabad district.

## DISTRIBUTION

Andhra Pradesh power utilities have sought more time from the AP Electricity Regulatory Commission (APERC) to file the mandatory annual revenue requirement (ARR) for 2013-14.

The Andhra Pradesh High Court on passed a common order refusing to interfere in the process of collection of fuel surcharge adjustment (FSA). While disposing 175 cases filed relating to collection of surcharge, the court ordered that the surcharge could be collected for three quarters of 2010-11, four quarters of 2011-12 and first quarter of 2012-13 over two years. However, the court directed distribution companies not to levy the surcharge for the first quarter of 2010-11, which is due in December 2012. FSA was attributed to inflationary effect of around 10.05 per cent and unforeseen additional taxes and royalties, which led the cost of coal to increase by 15-17 per cent over the projected rates.

## OTHERS

Power cuts imposed in the state under R&C measures to handle widening demand supply gap for power had adversely impacted different segments of economy in the state. A few examples are given below.

Dairying is one of the segments impacted by power cuts. On the one hand due to power cuts cost of production feed and other materials had shot up significantly. Production of green fodder was been effected due to power cuts. In rural areas power cuts range beyond six hours. Most of the power cuts are happening in the morning when the dairies go for milking machines. Besides this hundreds of milking, cooling and processing units all over the state were severely impacted by these power cuts. Small dairy farmers were reported to be most affected. Many of the milking machines, priced Rs 75,000-2 lakh, are idle due to the power shutdown. To reach consumers on time, milking operations are generally carried out around 3-4 am in the morning and again 12 hours later. If the farmers want the machines and processing units to work, they should deploy generators. This would increase the cost of production dairy products further.

Power cuts are reported to have pushed the cement industry in Andhra Pradesh into a state of uncertainty. It was reported that cement companies were more worried about power shortage rather than price volatility. For cement companies, the future seems to be bleak as far as power supply is concerned. Cement industries’ attempts to find a solution in captive power plants also came unstuck as there had been inordinate delays in clearing files related for permission to set up these plants, particularly related to water allocation.

Due to power cuts as well as ballooning power bills with the added burden of FSA spinning mills in Andhra Pradesh had resorted to cuts in production. Some units are also planning pulling down the shutters. These units were reported to be receiving only about 40% of their requirement. These would indirectly impact cotton farmers in the state.

Ferro alloy and related units in Andhra Pradesh are reported to be mulling over cutting down production or shut down due to power cuts as well power tariff burden. About four of the 31 Ferro alloys units in the State, which account for 30 per cent of India's production were reported to have shut down their operations. About a dozen other units are reported on the same path. About 100 related units are also reported to have suffered due to shortage in power supply.

The IT and ITeS sector is also reported be at the receiving end due power cuts. Its was being subjected to 4 hours power cut daily. As most of these companies service overseas clients including in US, they have no way out but generate power on their diesel sets to maintain uninterrupted power supply. The cost of production have increased by 60- 70% due to this. This sector had been lured to the state by promise of uninterrupted power supply but this promise is being reneged upon. Industry sources are reported to be asking: "If this is the situation in November/ December when the power demand is moderate, what will be the situation post February."

The less said the better about the agriculture sector. The state government made it clear that it was not possible to provide seven hour power supply to the agriculture sector in the Rabi season. The district agriculture department officials were directed to prepare action plan accordingly for Rabi 2012-13. During a video conference on December 12, chief secretary Minnie Mathew informed the collectors that the government was unable to supply power to farming sector for more than four hours in the wake of the water shortfall for irrigation projects and powers shortage in the state.