

Power Sector in Andhra Pradesh during February 2012

POWER GENERATION

Peak power demand in the state will reach 13,050 MW in March, while the availability will be only 9,900 MW. The state utilities were able to tie up additionally for only 1000 MW from other sources leaving a gap of more than 2,000 MW. Constraints of transmission corridor were also coming in the way of procuring additional power. Transmission capacity of 1500 MW was already booked by all the southern states and no additional transmission capacity is available indicating a serious power crisis on hand in the coming few days.

According to a press release APGENCO is planning to achieve additional capacity of 3210 MW during the next four year period.

Anil Ambani group company Reliance Power's 2,400 MW gas based power plant set up at Samalkot in Andhra Pradesh with an investment of Rs. 10,000 crore is said to be ready for commissioning. It took the company just 15 months to set up the plant from the day of placing orders with GE for machinery. Now the plant is waiting for gas allocation. This plant alone could contribute about 15% of the power generation in AP. The Company also claimed that in the past the central Ministry of Power allocated 9.6 MMCMD of gas for this plant. Company executives claimed that the plant was entitled for fuel supply as an investment of Rs. 10,000 crore has been made based on government assurance. They said that the Company was told by the government to build our gas-based plants in the 11th plan period and that the government would support the plant in allocation of gas. The plant also sourced plant and other expertise from Hamon (Belgium), Hyundai (South Korea) and Xian Electric (China). In the coming years they plan to ramp up the plant's capacity to 5,000 MW.

The GVK Power is said to be planning to acquire two under construction thermal power plants in AP as the developers executing these projects are facing financial constraints and want to exit the sector.

500 MW new unit of NTPC Simhadri thermal power plant near Visakhapatnam and 200 MW from Madhucon's Simhapuri project near Nellore are going to be added to the grid, and this is expected to bring down pressure on the utilities in times of mounting demand. In addition to this 1,100 MW of additional power is going to be procured from the open market to meet the increasing demand.

NTPC is planning to set up a 4,000-Mw (5x800 Mw) coal based thermal power project with an investment of Rs24,000 crore at Pudimadaka near Anakapalli in Atchutapuram Mandal,

Vishakhapatnam district of Andhra Pradesh. This project will become operational during the 13th Five Year Plan (2017-22). AP will have to share power from this plant with Karnataka.

Singareni Collieries Co Ltd is investing about Rs 7,000 crore to set up a 1,200-MW power unit. The first unit of 600-MW is expected to be commissioned by February 2015, and the second unit three months after that. Rs 3,000 crore loan was already tied up for the project.

In a reply in Assembly on 23rd February Ponnala Lakshmaiah, a cabinet minister said that APIIC had allotted 4,510 acres of land to five private power companies with a total installed capacity of 14,460 MW in Nellore district. These companies are: Thermal Powertech (1,432 acres), Krishnapatnam Power (1,033 acres), Kineta Power (814 acres), Meenakshi Energy (939 acres), and Simhapuri Energy (497 acres).

FUEL

Gas output from Reliance Industries' D6 block is expected to fall by about 10% to 34 mmscmd by April. The D6 block currently produces about 37 mmscmd of gas. While RIL attributed the decline to geological complexity of the D6 block the oil ministry attributed this to drilling fewer wells than what was planned. The ministry's stand was that had RIL performed its obligations under PSC and the approved field development plan, the production rate ought to have been touching 80 mmscmd by now, rather than showing a gradual trend to decline.

RIL has informed the government that gas production from KG-D6 fields will drop to about 22 mmscmd by 2013-14. This was expected to be 27.60 mmscmd during 2012-13.

The government has decided to serve a notice on RIL for breach of contractual obligations in the D6 block in meeting gas production targets. In this block gas production has been declining sharply.

According to the Central Electricity Authority (CEA) fall in the gas production at RIL's KG-D6 wells led to a negative growth rate in the country's gas-based power generation — of 13.92 per cent in January and of 4.72 per cent during April 2011-January 2012. The resultant shortage in the supply of gas led to a total loss of generation — it was 1,247 million units (mu) during December, and 5,108 mu in April-December 2011.

Gujarat State Petroleum Corporation (GSPC) announced that drilling of third appraisal well in the Deen Dayal East (DDE) area of the KG Basin block has started. With this the total number of wells drilled on the KG Block reached 18. 13 these wells had shown availability gas and condensates. The Ministry of Petroleum and Natural Gas (MoPNG) had approved an extension of 20.5 square kms to its existing contract for the KG Block (KG-OSN-2001/3). The field development plan for the Deen Dayal West (DDW) area in the KG block, which includes wells KG-8, KG-15, KG-17 and KG-28, was approved by the Government of India in November

2009. The hydrocarbons encountered in discovery wells KG-8 and KG-15 extend towards the South/South-West of the original block boundary. These areas are now covered by the extension to the block, a GSPC official said. Because of the present extension, approved development area for DDW has increased from 17 square kms to a total of 37.5 square kms.

RIL and its partner BP plan to submit a new, fully integrated field development plan (FDP) for the entire D6 block by June instead of the existing one that covers only a segment, giving the operator flexibility to cut costs by making sure that existing facilities are fully utilized and the need to build new infrastructure for each field in the block is minimized. Higher production following from the new plan was expected to provide relief both to gas users and the government. BP's expertise and experience in developing deep-sea blocks was expected to contribute to higher gas production.

The Management Committee approved field development plan approval for four satellite fields – D-2, D-6, D-19, and D-22 – and commerciality for D-34 fields in the KG-D6 block. These fields together are expected to produce nearly 20 mmscmd of gas. RIL wanted declaration of commerciality of the four finds - D-29, 30, 31 & 34. The MC did not approve commerciality of D-29, D-30 and D-31 discoveries in absence of individual well tests of the finds. Also the DGH brought down inplace reserves at D-34 to 1.645 trillion cubic feet from 2.207 Tcf estimated by RIL-BP. The MC approved drilling of 11 wells to produce 14.68 mmscmd of gas for 8 years beginning 2016-17. The capital expenditure for developing D-34 was estimated at USD 2.338 billion. The MC had last month approved a USD 1.529 billion development plan for producing up to 10 mmscmd of gas from the D-2, D-6, D-19 and D-22 fields in the KG-D6 block by 2016.

The agenda for meeting of the Empowered Group of Ministers (EGoM) on gas related issues headed by Finance Minister to be held 24th February, which is meeting after a gap of 18 months, included considering changes in gas allocation in view of a sharp decline in output from RIL's KG-D6 block, to stop gas supplies to power producers that do not sell electricity at regulated tariff and cancel allocation to a gas based merchant power plants in Andhra Pradesh that sell electricity at above the tariff determined by the regulatory commission, to make future gas allocations to only urea fertiliser plants and stop fuel supply to phosphates and potassium fertiliser plants, to examine gas requirement of 14 power plants with a total capacity of 7,219.5 MW that are planned to be commissioned in the Eleventh Five-Year Plan. The EGoM was also expected to examine Saumitra Chaudhuri report that recommended preferential allotment of domestically produced natural gas only to fertiliser and power plants. Ahead of this meeting a body of oil and gas producers like Reliance Industries has opposed pre-allocation of the scarce fuel saying it distorts demand-supply equation and eliminates possibility of discovering free market price of gas.

The EGoM which met on 24th February today decided not to divert ONGC produced APM gas from non-priority sectors, like petrochemical units, to electricity plants as volumes available were "very low". The EGoM felt there was only 3.84 mmscmd of natural gas from state-owned ONGC's fields that currently goes to non-priority sector. Of this, only 1.92 mmscmd can be diverted as users of rest cannot be switched due to reasons like low pressure, 5.23 mmscmd that goes to city gas distribution companies for sale as CNG and cooking gas. The EGoM felt this is also a priority sector as without APM gas prices of CNG and piped cooking gas would spiral. The EGoM did not discuss price changes or pooling of rates as they were not on agenda. The EGoM stopped KG-D6 gas supplies to power producers that do not sell electricity at regulated tariff. But two merchant power plants in Andhra Pradesh that currently sell electricity at open market price would not face disconnection as they have signed short term agreements with DISCOMs in AP to sell power at regulated tariff. The EGoM also decided to allocate gas to urea fertiliser plants only and stop supply to phosphates and potassium fertiliser plants. The three non-urea plants currently getting KG-D6 gas would continue to get the fuel. The incremental revenues that they make from using subsidised gas for making market priced products, would be mopped up by Department of Fertilizer.

Prime Minister's Office has directed the petroleum ministry to examine whether the government can allow RIL to increase the price of gas from the KG D6 basin from the current \$4.2 per mmbtu as decided by EGoM in October 2007. RIL wanted to exercise its contractual right to market natural gas on the basis of arm's length competitive sales to "benefit all parties under the production sharing contract (PSC) including the government. According to it the current price of KG D6 gas was "sub-market" and damaging to both the contractors and the government. It wanted to re-negotiating a revised formula. BP a partner of RIL in KG-D6 fields also demanded that natural gas should be priced at import parity, which would be three times the current price. RIL and BP contend that only Qatar LNG price, which is indexed to crude oil, is the right import parity price. They ignore the recent long-term deal that state-owned GAIL India signed to import LNG from the US at American gas index Henry Hub-linked rates. At USD 100 per barrel oil price, Qatar LNG will cost USD 12.67 per million British thermal unit. GAIL's US contract would be priced at less than USD 9 per mmbtu. If their contention is approved India will be the first country to have domestically produced gas priced at LNG rates. They argue that clarity on gas pricing was vital for the development of the "next wave" of projects which will add production beyond 2015, but for which investment decisions need to be made in 2012. It is widely speculated that RIL-BP may be looking at increase in gas price before raising output.

In some quarters there is a feeling that the order issued by the ministry of petroleum and natural gas on October 10, 2007 fixing gas price at USD 4.20 per MBTU has provision to increase gas prices. According to this order "If the actual price at which any supplies made to any consumer happens to be higher than the one arrived at by (the formula approved by the Empowered Group of Ministers), then the higher price shall be taken for purposes of the Government take for that quantity". That is if RIL was to realise a price higher than USD 4.20

per mmbtu, that rate would be used for determining government's take from KG-D6 block. This might be the reason behind RIL's letter requesting for revision of gas prices.

Earlier the Government of India had rejected Reliance Industries' demand for a revision in the KG-D6 gas price, saying the USD 4.2 per mmbtu rate for five years was not only agreed to by the Mukesh Ambani-run firm but also upheld by the Supreme Court. The GoI quoted from the May 7, 2010, Supreme Court judgment in the gas row between the company and Anil Ambani's RNRL to assert that "any price revision proposal will be examined by the government after expiry of five years from commencement of supply." RIL started gas production from the block in April 2009 and thus price revision was due only in 2014.

Some sections within the central government appear to support RIL's contention. Montek Singh Ahluwalia, the deputy chairman of Planning Commission said that domestic gas prices should be aligned with international rates and criticised distorted gas-pricing formula where producers discovered market prices of gas through customers identified by the government.

Singareni Collieries Co Ltd has proposed capital expenditure of Rs 3,500 crore for the 12th Plan to enhance coal mining capacity from 52 million tonnes to 57 million tonnes. Rs 2,000 crore will be spent on underground coal mining capacity. Its underground mining is planned to increase to 18 million tonnes in the next five years. Underground coal mining projects require relatively larger investments. While cost of production from underground mines is about Rs 2,357 a tonne, that from opencast mines is around Rs 1,130 a tonne. Last fiscal, SCCL's aggregate cost of production was Rs 1,392 a tonne, with the average sales realisation during the year being Rs1,610 a tonne, including the premium it charges through e-auction sales.

Thermal Powertech Corporation (India) Ltd, jointly owned by Gayatri group's Gayatri Energy Ventures Pvt Ltd and Singapore-based Sembcorp has signed a coal supply agreement with Indonesia-based PT Bayan Resources Tbk for supply of 1 million tonnes coal per annum for over 10 years for its 1,320-MW power project with supercritical technology costing Rs 6,869-crore being set up at Krishnapatnam in Nellore district. The supply is expected to begin from 2014, coinciding with the commissioning of the plant. This agreement is expected to meet half the plant's requirement of imported coal.

According to the Department of Atomic Energy (DAE) the Tummalapalle uranium mine located in Kadapa district would be commissioned by early April. The DAE has estimated uranium reserves of the mine at 1.5 lakh tonnes. According to it while the mine is ready the uranium processing plants are still under construction. About 1.1 million tonnes of ore be would be mined a year from Tummalapalle, which after processing would yield 250 tonnes of yellowcake (uranium oxide). DAE is also carried out mine development at Lambapur-Peddagattu in Nalgonda district of the State.

TRANSMISSION & DISTRIBUTION

APTRANSCO and APDISCOMs are planning to strengthen transmission and distribution network in the state by investing Rs 14,000 crore in the coming four years. They plan to strengthen T&D network in keeping with the rising demand for power in the state. They also plan to introduce innovative schemes to reduce T&D losses and improve quality of services to the consumers in the state.

The recruitment process for filling up of 8,539 posts in APTRANSCO and DISCOMs is underway. Concerned officials say that all foolproof arrangements are being made to fill up vacant posts without giving any scope for malpractice by the end of April and that this process would be fair and transparent. In addition to these posts APGENCO would issue another notification to fill up vacancies for 342 posts. The results announced on 9th February following recruitment test for the posts of assistant engineers kicked up lot of dust. Within a few hours time results changed leading to severe criticism from the candidates who appeared for the test. Following this the GoAP appointed a senior IAS officer Ms. Minnie Mathew to probe in to this controversy.

In the wake of power cuts announced by the DISCOMs in the state the Federation of Andhra Pradesh Small Industries Associations (FAPSIA) representing small and medium enterprises in the state threatened to shut down production. It sought permission from the labour commissioner to shut down units as it would no longer be viable to continue production. Some managements have already hinted at a 50 percent cut in the salaries of the employees. There about 161,000 small scale units in the state providing employment to lakhs of families.

In response to industrialists' opposition to longer duration power cuts – three days a week – the state government decided to limit the power cuts to two days a week. Also continuous process industries would be asked to go with out for ten days in a month, instead of weekly power cut.

Opposition to the tariff hike announced by DISCOMs in the state is mounting. At the four public hearings held by APERC at different locations in the state between 18th and 29th of this month representatives of different stakeholders stated their opposition to the tariff hike. At these public hearings consumers brought to the notice of the Commission the low quality of power.

The CPDCL is planning to install prepaid electric meters in the city of Hyderabad to prevent pilferage of power. Under this consumers will have to recharge their connection like mobile recharge for using power whenever balance reaches a minimum value. Already 102 such prepaid meters were installed on a pilot basis. The CPDCL had purchased 702 such meters from ECIL on the advice of the Centre under the 'Advanced Metering Infrastructure' programme.

The Union Ministry of Power has advised Andhra Pradesh Government to expedite the implementation of R-APDRP and complete the scheme on schedule. The central government

expects successful implementation of this programme in AP within the stipulated period as AP had been a role model in IT initiatives. Pilot projects under this scheme were completed at Gooty town in Ananthapur District and Punganur town in Chittoor district. Rs 1,604 crore has been sanctioned by the Power Finance Corporation for the implementation of this programme.