Power Sector in Andhra Pradesh during March 2012

POLICY

The Confederation of Indian Industry, Andhra Pradesh Chapter (CII-AP) proposed a long-term planning approach, including cluster development of power plants and better management for meeting the power requirement of industry in the State. It wanted the state government to ensure maximum gas supply to meet the requirements of the industries in the state. It also wanted immediate implementation of Expensive Power Purchase Charge to meet power needs of HT customers in the background of frequent power cuts to industry. To overcome power shortages in the state it suggested establishment of new power plants based on cluster mode through public private partnership approach.

The Andhra Pradesh Electricity Regulatory Commission (APERC) has announced new renewable power purchase obligation (RPPO) regulations applicable for the period 2012-13 to 2016-17. It continued the earlier stipulation that 5 percent of the power consumed in the state should come from renewable sources. Out of this 0.25 percent shall be from solar power. This order for the first time introduced renewable energy certificate (REC) in the state. If the DISCOMs in the state fail to procure 5% of power from renewable sources the gap need to be filled with RECs. The 'average pooled purchase cost (APPC)' has been determined to be Rs 2 a unit until May 31, 2012. Along with the DISCOMs open access consumers and captive power plants (1 MW and above) have been identified as 'obligated entities'. Penalty for non-fulfillment of RPPO will be on the basis of shortfall in units of RPPO and forbearance price of RECs.

In the report prepared by CAG on land allotments by the GoAP during the 2006-2011 period some private power projects also figure in the list that were characterised by grave irregularities involving allotment in an ad-hoc, arbitrary and discretionary manner to private persons and entities at very low rates, without safeguarding the financial and socio-economic interests of the state. In these cases the state government is said to have ignored the prescribed procedures and disregarded canons of financial propriety. Simhapuri Energy and Vikas Power Limited for which land was allotted in Nellore district figure in this list.

GENERATION

The 500 MW Unit 4 of Simhadri super thermal power project was synchronised with the grid on 29th March. With this the total installed capacity of NTPC-Simhadri plant has gone up to 2,000 MW. Andhra Pradesh will get 384.4 MW power generated from Simhadri Stage-II consisting of two units of 500 MW. In the case of Simhadri Stage-I 1000 MW (2x500MW) the entire power generated is supplied to AP.

Tecpro Systems Ltd., an engineering procurement and construction company has bagged an order worth Rs.119.70 crore from Andhra Pradesh Power Development Co. Ltd., (APPDCL) for 2 x 800 MW Sri Damodaram Sanjeevaiah Thermal Power Station at Nellore. As a part of it the company will undertake design, engineering, manufacturing, erection, testing and commissioning of the complete external coal conveying system and equipment to be installed between Krishnapatnam port to SDSTPS plant crusher house, including civil, structural, mechanical, electrical control and instrumentation works for the thermal power station.

The Power Finance Corporation (PFC) has come forward to extend funding of Rs 13,000 crore for three thermal power projects to be taken up by AP Genco. These projects include expansion projects at Kothagudem, Vijayawada and Krishnapatnam. This is in addition to Rs 15,525 crore loan sanctioned to AP Genco for some of the ongoing projects. This loan will carry an interest rate of 11 percent.

Hinduja Energy India a part of the Hinduja Group has formed a joint venture with Steag Energy Services (India) a subsidiary of German energy major Steag GmbH for operation and maintenance of power projects. This joint venture will operate the Hinduja National Power Corporation Ltd's (HNPCL) 1040-MW coal-based plant at Visakhapatnam. This plant is expected to be commissioned in 2013.

11 power distribution companies spread over four states Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra have imposed a fine of Rs 400 crore on Coastal Andhra Power Limited (CAPL), a special purpose entity set up by Reliance Power which is setting up a 4000 MW plant at Krishnapatnam in AP. Reliance Power has stopped work at the plant siting reasons like difficulties in erecting the plant and changes in Indonesian government's coal export policy. CMD of AP Southern Power Distribution Company, which served the notice on behalf of 11 power distribution companies, spread over four states on March 15. They have also threatened to encash bank guarantees, terminate power purchase agreements and recover the land allotted for the coal-fired project. The distribution companies alleged that Reliance Power has not adhered to the timelines prescribed for financial closure, fuel supply agreements, awarding contracts, submission of additional bank guarantees and resuming work at Krishnapatnam. Andhra Pradesh was to get a 40% share of the electricity while the three other states would share 20% each. Subsequently, Reliance Power obtained a stay from the Delhi High Court on the notice to invoke bank guarantees of Rs 300 crore and terminate the power purchase agreements.

Reliance Power is contending that the project would become unviable if the rate of Rs 2.33 per unit agreed in 2007 was to be continued in the background of changed rules in Indonesia to benchmark the coal export price to that prevailing in the international market. The Reliance Power had invoked the force majeure clause saying events in Indonesia were beyond its control. On the other distribution companies point out that fuel and consumables for the project were excluded from the force majeure clause.

In the back ground of declining gas production in KG basin (gas production declined from 42.67 mmscmd to 27 mmscmd. This is projected to further decline by 3.42 mmscmd during 2013-14) the Ministry of Petroleum & Natural Gas issued a circular to the Central Electricity Authority to tighten the approvals to set up new gas-based projects in the country or expand the existing ones. In Andhra Pradesh out of installed capacity of 2,770 MW gas based power plants only about 1,500 MW capacity is in operation and this may further decline to 1,000 MW in near future.

The Hindu Business Line on March 8 reported that the Chairman of the AP Electricity Regulatory Commission at a recent hearing made a statement to the effect that the Commission would consider raising the wind power tariff provided there were petitions seeking a hike. This is reported to have led to have raised hopes among the wind power developers and a stream of petitions landing in the Commission's office. The present wind power tariff of Rs 3.60/unit, is “unappealing” as according to the guidelines for tariff determination announced by the Central Electricity Regulatory Commission, the minimum tariff for wind power would be Rs 4.78/unit. According to latest estimates of the Centre for Wind Energy Technology (C-WET) if one puts up wind turbines at a height of 80 metres, there are enough sites in the State to generate 14,500 MW.

Amrit Jal Ventures commissioned a 1 MW grid-connected solar photovoltaic power plant at Kadiri in Anantapur district of Andhra Pradesh on 7th March as a part of the Jawaharlal Nehru National Solar Mission. This plant is developed by SunVolt Energy Pvt Ltd. The design and engineering works of the plant have been done by AIC Projects, Germany and power conditioning units were manufactured by SMA AG, Germany.

Orient Green Power Ltd would be commissioning of a 50-MW wind farm in Andhra Pradesh by June. At present it has a 26.5 MW capacity at Tadipatri in Andhra Pradesh. The company plans to add another 100 MW capacity in the State by next year.

Gamesa Wind Turbines has bagged an order from New and Renewable Energy Development Corporation of Andhra Pradesh (NREDCAP) for commissioning 5.95 MW wind power plant in AP. The plant would come up at the Rekalakunta site in Ananthapur district and is expected to be commissioned by March 31. With this order Gamesa's combined installation in AP will be 11.05 MW.

FUEL

The Directorate General of Hydrocarbons (DGH) rejected RIL's argument that it could not drill approved number of wells in KG basin’s D6 block due to its inability to firm up "appropriate" drilling locations due to "geological complexities". DGH asked RIL to drill more wells to boost blocks' output. DGH asked RIL contractor to comply with the approved field development plan (FDP) by drilling more number of gas producing wells. The DGH attributed lower gas output to drilling of less number of development wells compared to that approved as a part of FDP. According to DGH gas output decline due to drilling only 22 wells against 31 wells approved for drilling up to March this year. Out of 22 wells drilled, RIL had not put four wells on the production process. In addition, five out of total 18 gas producing wells have stopped gas production due to water/sand ingress in those wells. A technical team of DGH also visited D6 block to ascertain reasons for decline in less output.

Gas output from RIL’s D6 block has dropped further by about 1 million standard cubic meters per day to 34.62 mmscmd since February. A month ago this block produced 35.77 mmscmd of gas. Six out of 18 producing wells in the D6 block ceased to produce gas due to water loading/sand ingress in the wells.

In the background of declining gas output from D6 block in KG basin the Ministry of Natural Gas and Petroleum in July 2010 had ordered pro-rata cuts in gas supply against the firm allocation to all customers on days when the total production is less than the signed gas supply agreements. As the gas output continued to decline, the Ministry in March 2011 directed that Reliance meet the firm allocation for the core sectors – fertiliser, LPG, power and city gas distribution – apart from the gas needed for operation of East-West Pipeline. Further, if there is any shortfall in meeting the firm demand of remaining sectors due to fall in production, pro-rata cuts should be imposed on non-core sector customers. If the output is still insufficient to meet the demand of core sector, then cuts would be imposed in the reverse order – the sequence of CGD, power, LPG, and lastly fertiliser.

In response to a request from the State Government the Ministry of Petroleum and Natural Gas directed GAIL (India) and RIL to supply gas to power plants in Andhra Pradesh by swapping KG Basin D6 gas with imported RLNG. The Ministry had issued orders for supply of about 2.5 mmscmd of gas through this swapping mechanism. While RLNG price is about $13/mmBtu, the natural gas is priced at $4.2/mmBtu. D6 gas will be made available to power plants in Andhra Pradesh, compensating the equivalent quantity of imported gas. Swapping of gas was considered as AP did not have connectivity to an LNG plant and also R-LNG from plants located in Gujarat cannot flow from West to East against D6 flow from East to West. The swap will apply only up to May 31 of this year. Initially RIL expressed inability to carry out this swap as the pressure in RIL operated pipeline was facing falling pressure. Later RIL had given clearance for supply of swapped gas to power plants in AP.

In response to RIL's proposal for hike in natural gas price Association of Power Producers (APP) on March 7 wrote to Minister for Petroleum and Natural Gas requesting not to increase domestic natural gas prices above current rate of USD 4.2 per mmbtu. They contend that for every USD 1 per mmbtu increase in gas price, the cost of generator increases by 35 paisa per unit, and the cost of power to the end consumer goes up by 50 paisa per unit. The EGoM on Gas Pricing in February noted that there is a wide divergence between the domestic and international prices of gas and the import of natural gas at a high price to meet the domestic shortfall adversely impacts the current account balance. APP said any gas price increase would make the fuel unaffordable to the power sector. Increasing gas price would render over 15,500 MW of existing gas based capacity and 9,500 MW of upcoming capacity as stranded assets and NPAs or if the DISCOMs were made to buy this expensive power it would increase the existing cash deficit and subsidy burden.

The Ministry of Petroleum and Natural Gas would refer RIL's demand for an increase in price of natural gas it produces from KG basin D6 fields to the Law Ministry.

On March 23rd at the Asia Gas Partnership Summit Prime Minister Manmohan Singh said, "The government has initiated gas-pricing policy reforms to incentivise production of natural gas. We are conscious that remunerative energy prices are needed to ensure expanded energy supplies." "At the same time, oil & gas are natural resources and therefore should be within the framework of governmental and regulatory oversight. The economic exploitation of these resources should lead to a win-win solution for both investors as well as the people of India." And "We are committed to ensuring the predictability and transparency of our policy and regulatory environment."

NTPC has proposed team up with Singareni Collieries Co Ltd (SCCL) to jointly develop some of the latter's viable mines in Andhra Pradesh. NTPC would bring in needed investments if SCCL identifies viable mines that can be jointly developed.

DISTRIBUTION

The AP Electricity Regulatory Commission (APERC) announced new electricity tariffs for the year 2012-13 on 30th March 2012. The new tariffs hike came into effect from April 1. After a gap of 12 years electricity charges in the state have been hiked. This high will impact almost all categories of consumers, but at different levels. Though the ruling Congress party during the last election campaign promised that electricity charges will not be increased till 2014, it ended up increasing tariff by 18% on the average. Though, the DISCOMs proposed a total hike of Rs 4,941 crore, the APERC finally agreed to increase charges to the tune of Rs 4,441 crore. The state government made a commitment to provide Rs 5,358.67 crore subsidy to DISCOMs to overcome revenue deficit. Though the DISCOMs pegged the ARR for the year 2012-2013 at Rs 36,090 crore, the APERC allowed Rs 34,343 crore. Of the government subsidy, Rs 1,736 crore will go towards the domestic consumers, Rs 3,620 crore for the farmers and Rs 1.56 crore for irrigation.

The domestic consumers with contracted load less than 500 Watts and consuming less than 50 units a month and constituting more than 50% of the domestic consumers have been left untouched. In the case of domestic consumers in 0-50 slab but with a contracted load of more than 500 W will have to pay Rs. 2.60/ unit instead of Rs. 1.45/unit. For domestic category whose contracted load is less than 500 Watts and consuming 51 to 100 units per month tariff has been brought down from Rs. 2.80 to Rs, 2.60/ unit. The tariff has been hiked from Rs 3.05/ unit to Rs 3.60/ unit for 100-200 units a month slab; Rs 4.75 to Rs 5.75 for 200-300 unit slab, Rs 6 to Rs 6.75 for 300-500 slab and Rs 6.25 to Rs 7.25 for 500 units and above. The tariff for industrial consumers has been increased from Rs 4.13/ unit to Rs 5/ unit. For the ferro alloys units, it is up from Rs 2.65/ unit to Rs 3.65/ unit and further more for other higher categories.

A new category has been carved out for aviation wherein it has been hiked from Rs 4.10 a unit to Rs 4.54 a unit. The railway traction has been increased from Rs 4.45/ unit to Rs 5.43/ unit. Corporate farmers and IT assesses in agriculture category have been levied charges of Rs 2.50 a unit. The cottage industries too face higher tariffs. For them tariff increased from Rs. 1.80/ unit to Rs. 2.67/ unit.

Political parties and mass organizations in the state condemned this steep tariff hike and decided to launch agitation against the new tariffs.

OTHER

R. Kurupaiah and Kuruma Nadipi Yellaiah of Nadipally village in Nizamabad district, frustrated with frequent power cuts, attempted suicide by consuming pesticide at the electricity substation at Dichpally mandal head quarter on 29th March. The paddy crop raised by them was drying up due to frequent power cuts.

Farmers in Muddukur village in Chandrugonda mandal of Khammam district on 25th March attacked the local electricity sub station angry over erratic power supply. Similarly in Darpally mandal head quarter in Nizamabad district detained the electricity staff in the office as a protest against frequent disruptions in the power supplied to agriculture. They withdrew after an assurance from the officials that 7 hour power would be supplied.

The Andhra Pradesh Power Finance Corporation issued a tender on 29th March to issue Non-Convertible Power Bonds worth Rs. 300 crore which would be given unconditional and irrevocable guarantee by GoAP.

According to 2011 census 92 percent of households in AP have access to electricity.

Organisations representing industries in AP like the Federation of Andhra Pradesh Small Industries Associations (FAPSIA), The Federation of Andhra Pradesh Chambers of Commerce and Industry (FAPCCI) and Confederation of Indian Industry (CII) opposed the power holidays being imposed on them. Some of these organizations also threatened to take the path of protest. They were apprehensive that these power cuts would break the back of industries in the state. They argue that even if industry is closed due to non availability of power they would continue to incur the expenses like wages and interest of loans contracted. They suggested procuring power from other parts of the country and producing power using costly LNG. In the case of procuring power from other parts of the country DISCOMs in the state pointed out that because of transmission infrastructure constraints the possibility of additional procurement is limited. In the case of generating power using LNG it was pointed out that at least gas equivalent to generate 500 MW needs to be procured. Industrial organisations' representatives said the medium and big industrial units would take 400 Mw of power at high cost while the remaining 100 Mw should be allocated to small-scale industries at the existing rates.