

Power Sector in Andhra Pradesh during May 2012

POLICY

The Andhra Pradesh Government envisaged a gas-driven economy in the State. Towards this it recently supported ventures to lay gas pipeline infrastructure. One of them is the floating storage is being set up by A.P. Gas Development Corporation and GAIL in partnership with GDF Suez LNG UK Ltd. Another one is the establishment of a LNG terminal at Gangavaram jointly by Petronet LNG Ltd and Gangavaram Port Ltd. Both together involve investments worth Rs 10,000 crore. As natural gas availability in the state is declining this proposed infrastructure helps in transport of LNG.

GENERATION

Simhapuri energy Pvt Ltd., which is part of the Madhucon Group of industries promoted by Nama Nageswara Rao started power generation at its 150MW first unit at Krishnapatnam in Nellore district. This power project is envisaged with a total capacity of 1,920MW to come up in three phases. The first phase of the project will have two units of 150MW each and second phase will have similar capacities. The third phase will have two units of 660MW each. The second unit of 150MW of the first phase will commence operation by June. These plants will be powered by imported coal. Madhucon Group entered in to a power tolling agreement with Power Trading Corporation (PTC) under which PTC will supply coal and purchase 70 per cent of the power generated in the unit and the remaining power will be sold by Madhucon Group in the open market on the lines of merchant power. Madhucon Projects Ltd is planning to raise about Rs 600-700 crore by divesting about 26 per cent stake in this company. This stake divestment was expected to help mobilize funds necessary to achieve financial closure for the 1,320 MW third phase. The financial closure was expected to be achieved by the end of the current financial year by which time 300 MW of the first phase would be operational. Madhucon Group also recently signed a power purchase agreement with the Indonesian government-owned power utility for a 300MW pit head coal based power plant at Dawas in South Sumatra involving an investment of \$410 million. The company owns three coal mines in Indonesia with estimated reserves of around 1,500 million tonne.

The UMPP at Krishnapatnam may not be completed during the current 12th plan period (2012-17). Reliance Power which won the bid to set up this plant filed a petition in the Delhi High Court after its principal coal supplier, Indonesia, more than doubled the fuel price to \$60 per tonne. At the time of the agreement it was understood that the imported coal would be sourced from Indonesia at \$24 per tonne,

The National Green Tribunal cancelled the environmental clearances granted to Nagarjuna Construction Company's (NCC) proposed 2,640MW coal-fired power project at Sompeta in Srikakulam district. The Tribunal has asked NCC to go in for fresh public hearings on the project for environmental clearances. Works at this plant was brought to standstill two years ago following local communities'

staunch protest against it. Paryavarana Parirakshana Samithi which is spearheading the people's movement against the proposed power plant welcomed the Tribunal's directions.

The management of the plant (NCC) seems to have not paid much attention to it as they shifted their investment to another power plant located at Krishnapatnam in Nellore district. NCC bought 55% stake in Nelcast which is setting up 1,320MW coal-fired project at Krishnapatnam. Remaining equity in Nelcast is held by Gayatri Group. This plant is expected to cost Rs. 7,047 crore. They are in search of a strategic partner who will take up operation and maintenance of this plant once it is ready and they are ready to dilute their stake in this plant up to 49%. While NCC itself is handling EPC contract works related to boiler, turbine and generator is being handled by a Chinese company. They propose to sell power through PPA in Andhra Pradesh and the price would be about Rs. 3.70 per unit.

Operators of gas based power plants in AP are apprehensive that the proposal to treat Pragati Power that meets power needs of Delhi and Ratnagiri power plant in Maharashtra on par with fertilizers plants will lead to severe shortage of gas to these plants and technically it might not be possible to run these plants as gas supply is gradually declining. While gas supply to power plants in AP was being curtailed on pro rat basis in keeping with dwindling gas supply from RIL's KG basin gas fields similar restriction was not placed on fertilizer plants. Now Pragati and Ratnagiri plants were proposed to be treated on par with fertilizer plants.

Mytrah Energy Limited planned to hold development of its 79.9-megawatt Burgula project in Andhra Pradesh until an expected increase in tariffs for wind power in the state.

FUEL

Reliance Industries Ltd (RIL) demanded an import-parity price for sale of gas from its D6 field in the KG basin. This would imply that RIL would be able to sell KG basin gas at the import price for liquefied natural gas (LNG). If RIL's demand were to be approved KG gas could be sold at over three times its current price. RIL claimed that it was entitled to import parity price as through this price only they would get sufficient return on costs and all the risks. If central government agrees to this then India would be the first country in the world to price domestically produced gas at LNG prices. LNG price is high because natural gas needs to be converted in to liquid form at minus zero temperature, ship it and then regasify it. While natural gas is priced at \$ 4.2 per MBTU LNG price is \$16-18 per MBTU. RIL claims, "We are not suppressing gas production; it is the government which is suppressing the price."

While the law ministry sees no legal hurdle in raising the price of gas from RIL's KG basin D6 block the Oil Ministry is not inclined to accept RIL's contention. The oil ministry says that an EGoM decision had approved the current price of \$4.2 per unit until 2014 and prices cannot be raised before that.

Gas output from RIL's KG basin D6 Block was projected to decline to 20 mscmd in 2014-15 from 28 mscmd in this fiscal year. RIL and its partners attributed this decline to unexpected geology and wanted the geological model to be revised.

The ministry of petroleum and natural gas disallowed the RIL's cost recovery of \$1.2-billion from its investment in the KG-D6 field. The ministry through a notice sent to RIL disallowed a cost recovery of

\$457 million for 2010-11 and \$778 million for 2011-12 due to its failure to meet drilling commitments. The ministry has held RIL responsible for violation of its committed work programme in the production sharing contract (PSC). In its letter, it alleged the company failed to fulfill “obligations” under the PSC and “deliberately and willfully caused breaches, which have led to immense loss and prejudice to the government and the people of India”. RIL opposed the move saying that they have followed the production sharing contract and development plans approved by the Directorate General of Hydrocarbons (DGH). Later the ministry hiked this by 18 percent to \$ 1.46 billion. According to the notice issued by the ministry \$457 million expenditure in 2010-11 and another \$1.005 billion in 2011-12 will be disallowed for cost recovery.

The Parliament Standing Committee on Petroleum and Natural Gas has asked oil ministry and DGH to closely monitor RIL's KG basin D6 block saying any production decline should be supported by proper evaluation.

The central government's coal ministry has served a show cause notice on APGENCO for not developing the coal blocks allotted to in Tadicherla. This block is estimated to contain 61 million tonnes of coal. In the past APGENCO called for bids to develop this coal block and also selected a developer but the same had to be dropped following protests on agreement conditions.

TRANSMISSION

APTRANSCO completed laying of the 220 KV underground cable line of 16 km length in Hyderabad city. It took one and a half years time and Rs. 200 crore expenditure to lay this underground line. This will help to improve electricity voltages in different parts of the city.

DISTRIBUTION

DISCOMs in the state claim that farm sector was being given seven hours of power. Also small-scale industries were exempted from power cuts. Only major industries continued to face power cuts up to 30 per cent. The average demand in May 2012 was 262 million units a day against 227 mu/day during the same period last year, registering an increase of 15.41 per cent. DISCOMs are supplying 239 mu/day and the shortfall is 29 mu/day.

OTHERS

Confederation of Indian Industry and Cement Manufacturers Association organized a two day conference in Hyderabad to explore opportunities to increase energy efficiency in the cement industry.

Contract employees of Central Power Distribution Corporation (CPDCL) in the metro zone went on two day tool down strike on 22nd and 23rd May demanding improvement in service conditions and removal of discriminatory wage system.

Before that meter readers struck work in the city protesting low wages and other benefits.