

CHAPTER 7

Data Analysis: Options for mainstreaming the investments and way forward

7.1 Introduction

This section analyses causes leading to potential stranding of assets created by the IPPs in the recent past, and generates various options to address this. Depth interviews were conducted with a renowned Developer (IPPs), eminent Policy makers, leading Consultants in power sector, Industry Associations, Banker, Power Traders, Discoms, one Ex-CMD, CIL and Energy Law Experts. The interviews and subsequent analyses were conducted following “Framework Analytic Approach” (Ritchie & Spencer, 1994). Transcriptions were made and interesting segments of texts were highlighted. These text responses were read through to look for patterns and/or themes emanating. Themes and responses were charted.

Table 7-1: Interview Chart X- Coal availability issues

Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
Supply side Policymaker 1	Step up production. Start commercial mining	Need for higher domestic production	1. New mines, sufficient scale to attract large miners
Policymaker 2	Production to be augmented with better project management and tackling environmental issues		2. Change in tendering process
CIL	Step up mining. Explore unexplored/ under-explored blocks. Then QCBS based tendering with ROFR for initial explorer.		3. Inter-ministerial coordination
Energy Lawyer 1	<ul style="list-style-type: none"> • Stepping up production will need close coordination with MOP, MOC & MOEF to avoid delays • Local State Government support essential during development phase • Evacuation network coordination between MOC & MOR 		4. Transportation Rationalisation

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Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
Consultant 1	<ul style="list-style-type: none"> • More blocks to come under competitive allocation • Coal market to be created • Technology adoption and MDO route for enhancing productivity 		5. Coal Market creation
Licensee 1	Coal production to be stepped up		
Industry Asscn 1	<ul style="list-style-type: none"> • Efficient production process necessary • Huge reserve. Immediately to be exploited by bringing in investment and technology 		
Distribution / Allocation issues			
Policymaker 1	Keep coal import under Open General License (OGL)	Large IPP capacity starving for cost effective coal.	
Policymaker 2	<ul style="list-style-type: none"> • Rationalisation of coal transportation to avoid crisscross movement • Coal import to continue under OGL • Indonesian wants to retain more coal over next few years for own benefit. • So 1 Bn. Tonne coal production effort needs to fructify 		

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Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
CIL	Encourage short term import		
Energy Lawyer 1	<ul style="list-style-type: none"> Change in linkage condition was actionable on the grounds of “promissory estoppel” or legitimate expectation. New coal linkages to be granted immediately 		
Consultant 1	Ensure linkage for all power plants including merchant power plants		
Licensee 1	Coal market to be created		
Industry Asscn 1	Linkages to be granted immediately		
Industry Asscn 2	Large IPP capacity lying without linkage. Immediate coal supply necessary. (Shared project-wise details)		

Sample Quotes:

1. *A perusal of the various judgments does indicate that even the action of unilateral change in the terms of Linkage/LOA by changing the terms of FSA in Long Term PPAs can be challenged and put to judicial review by the Project Developer(s). – Energy Lawyer*
2. *“Government to take steps to augment, to open up the coal supply, open up the coal market instead of allocating captive coal blocks, they should develop coal market – open up the coal mines to coal producers and that coal should be made available to the power producers. And while allocating the coal , the economic distance of haulage from the coal mine to the power project, efficiency of the machine should be accounted for so that the consumer get the best advantage of the lower tariff.” – Policymaker*

Table 7-2: Interview Chart XI -Contracting issues (Power Purchase)

Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
Policymaker 1	<ol style="list-style-type: none"> 1. Linking coal allocation to LTPPA is wrong 2. Not all the LT contracts are economical or good 3. Short term and medium term should also qualify 4. Distribution cos. not to be allowed to do load shedding and thus shying away from inviting bids. 	<ol style="list-style-type: none"> 1. Serious thoughts warranted around redesigning power purchase contracts. 2. Insistence on long term PPAs may not be relevant today. 	<ol style="list-style-type: none"> 1. Flexible tenure of PPA 2. Short / Medium Term also to be eligible 3. Tolling contract may be explored
Policymaker 2	<ol style="list-style-type: none"> 1. Insistence on LTPPA was MOP's prescription 2. Now MOP recommends medium term also to get concessional coal 		
Consultant 1	Regulators to take a market-oriented supportive role in fixing tariff of this distressed asset.		
Industry Assen 1	Tolling contract may be explored		

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Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
Trader 1	<ol style="list-style-type: none"> 1. Duration of contract needs to be revisited 2. 7-10 years contract may suit current situation instead of 25 years long PPA 		
Developer 1	Short term and medium term contract should also qualify for concessional coal		
Developer 2	<ol style="list-style-type: none"> 1. Short term and medium term contract should also qualify for concessional coal 2. Tolling concept may be fraught with litigation 		

Sample Quotes:

1. *“And I remember conferences being done by the Government – that you can develop merchant power projects and they were saying 100% merchant power projects also.” - Policymaker*
2. *“It may be more appropriate if such linkages are transferred on tolling basis and not bidding basis, where in plant with economical vicinity to mines and super critical technologies can pass on these benefits to the utilities”. Industry Asscn*

Table 7-3: Interview Chart XII - Access to Retail market / Retail market development

Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
<p>Policymaker 1</p> <ul style="list-style-type: none"> • Retail market development to be encouraged • Currently with high barriers • To be gradually reduced • Discoms will also improve on the face of competition 	<p>Retail Power Market in India</p> <p>does not have the benefit of competition today, which was the avowed objective of new electricity law of 2003.</p>	<ol style="list-style-type: none"> 1. High Barriers exist, to be lowered gradually 2. Independence of system operator necessary 	
<p>Policymaker 3</p> <ul style="list-style-type: none"> • High level of cross subsidy, high level of T&D loss, high level of financial loss for Distribution companies • Natural resistance from incumbent players (Discoms) to open up for competition. • Political milieu not ready for competition at retail market. • New amendment also not being pushed through • Economy has go grow, create demand and then create market • Industrial and commercial sector to move up • Financial health of Discoms have to be improved then Discoms will allow competition and they will also go for large purchases 	<ol style="list-style-type: none"> 3. Rationalisation of cross subsidy necessary 4. Political will needed 		

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Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
Policymaker 4	<p>stimulating the whole market.</p> <ul style="list-style-type: none"> ● Root cause of problems besieging power sector is lack of competition ● Power sector to see same competition as in Telecom sector- but it may not be easy ● Too many barriers remain ● In one State we tried bringing down Wheeling charge and Cross-subsidy charges (barriers), but that did not happen ● Discoms are afraid of losing creamy customers ● Perfect competition will come with generation being surplus in the country ● Once transmission issues are resolved, it should take about 3/4 years for retail market to develop 		
Energy Lawyer 1	<ul style="list-style-type: none"> ● Retail market development situation is not ripe 		
Consultant 1	<ul style="list-style-type: none"> ● Final phase of reform brining in competition in retail market did not arrive ● Stiff entry barriers have been created in form of high charges/ surcharges and technical grounds for rejection of open access application 		

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Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
Licensee	<ul style="list-style-type: none"> ● Considering ground reality, a 5 year preparatory period is required to bring in true competition. ● Aggressive push from the Regulator is a must. ● Regulators to effect tariff hikes for State Discoms ● State Government to support turnaround of Discoms and market development ● Wholesale / bulk power supply price will remain under pressure in medium to long term ● This will be more so because of reverse auction prices ● Ordinarily retail price in free market economy is determined by demand and supply. However, since the entire value chain of power is predominantly regulated, retail price is also regulated ● There are distortions due to lack of power transmission capacity ● Biggest problem in retail market is theft of electricity and politically mandated tariff ● State Governments should summon the courage to let Discoms function on sound commercial principles. ● Electricity Act mandates implementation of open access and 		

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Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
Trader 1	<p>reduction of cross subsidy</p> <ul style="list-style-type: none"> ● Reduction of cross subsidy has not happened – hence open access is difficult ● Once cross subsidy is addressed and technical constraints are removed, artificial barriers will fast disappear and retail power price would be determined by market forces. ● Operational and technical efficiency of Discoms is a pre-condition for ushering in Retail market. UDAY to play a major role ● Large barriers are there which may be eased out by regulatory pressure progressively. ● Compliance of RPO will however be a challenge to Discoms for controlling supply costs. 		
Industry Assen 1	<ul style="list-style-type: none"> ● There is a demand slump in electricity market ● Discoms are renegeing even on their existing PPA commitment let alone going in for new PPAs. 		
Trader 2	<ul style="list-style-type: none"> ● Open access started with large industrial consumers, particularly Refineries ● Next came SEZs ● About 4000 open access customers are there today, but on a particular day not more than 1500 are trading 		

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Respondent	Responses	Recurrent Themes & Emerging Issues	Mapping & Interpretation
	<ul style="list-style-type: none"> States have huge charges as barriers apart from corridor congestion issues Other barriers include high standby charges and Agreemental issues 		
Developer 2	<ul style="list-style-type: none"> Restriction and control measures introduced by Discoms forces us not to sell to their consumers Concept of open access in TN has not picked up much. 		
Developer 4	<ul style="list-style-type: none"> Reduced distribution loss makes Discoms viable (UDAY talks of this) Then develop market Act envisaged competition market Blocks forces structure to move away from this 		

Sample Quotes:

1. “We are applauding today that power is at 230 Paise. But this is a market failure. Spot market being cheaper than long term market is an anomaly ... Retail market would I think develop in 5 years time progressively, but lots of regulatory capacity building is necessary to institutionalize it.”- Industry Assen
2. “All those issues might get addressed partially if you can open up your retail sale segment. So if you ask for my personal opinion, I shall be happy if in one year from now I can see the legislation seeking to bring in this concept of separation of carriage and content becomes a reality. Still in the cold storage in the Parliament.” – Policymaker

Table 7-4: Interview Chart XIII- Financing and Policy issues

Respondent	Response	Recurrent Themes & Emerging Issues	Mapping & Interpretation
Industry Asscn 1	<ul style="list-style-type: none"> • Efficient consumption to be encouraged. Old inefficient plants to be de-commissioned • Urgent need to improve Discom health over time • Many State Governments are levying hefty taxes on electricity production/ auxiliary consumption. This is to be avoided • COR funding and working capital funding to be arranged • Serious under-recovery of legitimate pass-through 	<ul style="list-style-type: none"> • Consumption efficiency to be incentivized – large old inefficient thermal capacity in the market • Issues on overrun funding to be resolved • Decisions taken by Joint Lenders Forum not being implemented by individual lenders 	<ol style="list-style-type: none"> 1. COR funding 2. JLF recommendation 3. SDR issues 4. Discom financial health improvement 5. PPA pass-through clauses to be honoured
Industry Asscn 2	<ul style="list-style-type: none"> • COR to be streamlined • JLF recommendations to be followed⁵⁰ • SDR process to be streamlined 		

⁵⁰ Power producers have taken up the matter with RBI. "It is observed that in many cases, certain banks do not implement decisions taken by majority of the lenders in the consortium and put additional conditions. This often leads to long delays, which impacts the infrastructure project ... Once a decision has been taken in JLF consortium meeting, all lenders and other nonbank institutions should be made to comply with majority decision," power producers said in a letter to the RBI." Economic Times dated 5.9.2016

Sample Quotes:

1. “In spite of various order / judgments of regulatory commissions/ APTEL there is ambiguity on execution of orders and payment from discoms..”- Industry Asscn
2. “All increase in taxes and duties should be payable as per PPA and in case of dispute appropriate commission can adjudicate without holding the pending payments..”- Industry Asscn

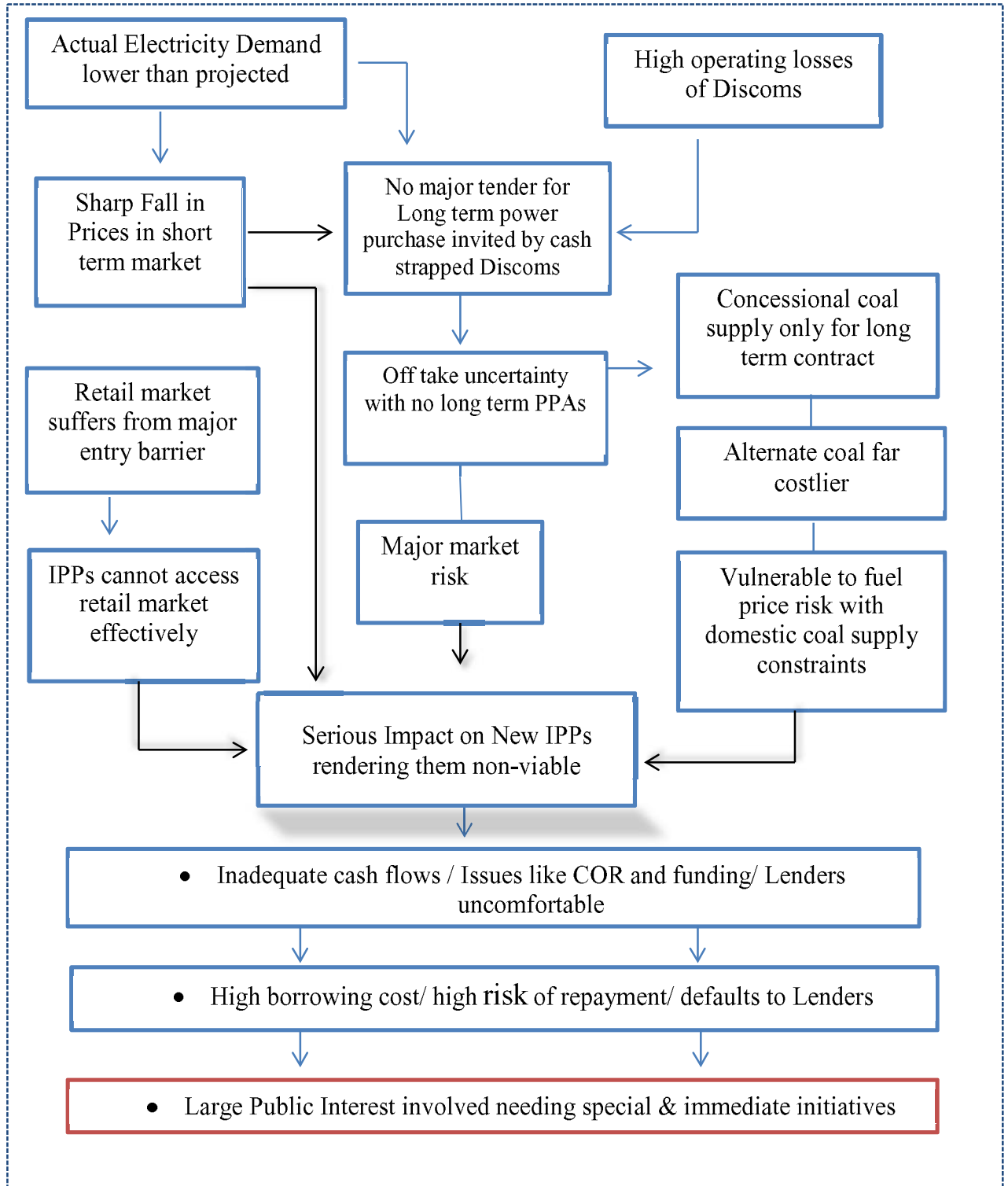
7.2 Analysis of problems leading to stranding

A detailed analysis of problems leading to stranding of large capacity of new IPP assets has been made in order to generate options and identify possible measures to address the issues. Recommendations follow indicating areas needing immediate attention. Tasks for each stakeholder involved in the process are also summarised in a separate chart.

7.2.1 Stress Areas of IPPs – Impact Tree

A schematic chart showing the problem areas is given here.

Figure 7-1: Problem Areas leading to stranding



7.3 Conclusion :

Based on interviews and subsequent analyses, this section identifies the main issues involved leading to likely stranding of the thermal assets recently developed by IPPs in India. These are Coal Availability issues, Contracting issues, Access to Retail market / Retail market development and Financing and Policy issues. It also identifies the main stakeholders concerned.

Having identified these, the next section goes on to give Issue-wise and Stakeholder-wise recommendations.