

Mundra UMPP

Recent developments

The Tata Power Company's generation capacity reached 6,899 MW with the recent synchronisation of the third unit of the Mundra ultra mega power project (UMPP). The company commissioned the first 800 MW unit of the 4,000 MW project in March 2012 and the second unit in July 2012. This is the country's first UMPP to commence operations and the first project to deploy units of 800 MW rating.

Project background

In 2006, Tata Power had emerged as the lowest bidder by offering a 25-year levelised tariff of Rs 2.26 per kWh to win the Mundra UMPP. The project is being developed by Coastal Gujarat Power Limited (CGPL), Tata Power's wholly owned subsidiary. It comprises five 800 MW units based on supercritical technology. Says Anil Sardana, managing director, Tata Power, "This technology and the choice of unit sizes will help ensure lower greenhouse gas emissions than conventional coal-fired power stations. Further, the choice of imported coal significantly lowers sulphur emissions."

Once fully commissioned, the UMPP will meet about 2 per cent of the country's energy needs. It will supply power to five states – Gujarat (1,805 MW), Maharashtra (760 MW), Rajasthan (380 MW), Punjab (475 MW) and Haryana (380 MW). The total cost of the project is around Rs 180 billion, which has been funded in a debt-equity ratio of 75:25.

The Mundra UMPP requires 10-12 million tonnes per annum (mtpa) of imported coal. To meet the coal requirement, Tata Power acquired 30 per cent equity stake each in PT Kaltim Prima Coal (KPC) and PT Arutmin Indonesia, and a trading company owned by PT Bumi Resources Tbk in 2007. The company also signed an offtake agreement



with KPC to purchase about 10.1 mtpa of coal till 2021, which is extendable. However, the project started facing fuel challenges following a change in the Indonesian coal pricing regime in early 2011. The government issued the Indonesian Coal Price Regulation (ICPR), which required benchmarking coal prices against a set of international and domestic indices. This led to an increase in the landed price of coal, thereby affecting the economics of projects based on Indonesian coal, includ-

Once fully commissioned, the UMPP will meet about 2 per cent of the country's energy needs.

ing the Mundra UMPP.

ICPR's impact on the project

Following the notification of the ICPR, Tata Power cannot procure coal on the contracted terms. This has impacted the project's viability. The company is trying to mitigate the effect of the price rise by blending high quality Indonesian coal with eco-coal, which is cost competitive. Despite this, it is not able to achieve break even for the project. As per the "Tata Power Limited Q1-FY13 Results Conference Call" document, the company needs a tariff hike of 40 paise per unit under the power purchase agreement to break even and a hike of 65 paise per unit to generate reasonable returns. This would increase the tariff to around Rs 2.66 per unit and Rs 2.91 per unit respectively.

For the year ended March 2012, Tata Power reported a consolidated loss of Rs 10.88 billion as compared to a profit after tax of Rs 20.6 billion in the previous year. These losses have been mainly on account of the provisions for impairment of the Mundra project, reversal of forex gains and deferred stripping costs by Indonesian coal companies. In 2011-12, the company had booked an impairment of Rs 18 billion for the Mundra project. As per the "Analyst Conference Call – September 2012" document, the Mundra UMPP would incur monthly losses of about Rs 400 million in 2012-13.

Meanwhile, Tata Power reported a consolidated profit of Rs 1.46 billion in April-June 2012, which is significantly lower (about 66 per cent) than the Rs 4.3 billion registered in the corresponding quarter of 2011-12. During the April-June 2012 quarter, Tata Power blended high grade coal with eco-coal in a 60:40 ratio, which resulted in high fuel costs. The company is gradually increasing the blend of eco-coal in its total fuel mix for the project. "Up to 70 per cent of eco-coal is being blended to offset some of the cost impact of the steep increase in international coal prices. We plan to maximise this to reduce the overall cost of fuel," Sardana says.

Standard & Poor's rating revision

Against the backdrop of imported fuel price uncertainty and its impact on the project, Standard & Poor's Ratings Services revised its outlook on Tata Power

from "stable" to "negative" on July 9, 2012. However, Tata Power's long-term corporate credit rating and issue rating on senior unsecured notes remained unchanged at "BB".

According to an official statement by Standard & Poor's, "The outlook revision reflects our expectation that Tata Power's cash flow and financial risk profile could deteriorate over the next six to nine months because the company has breached a debt-equity ratio covenant on loans to its Mundra project." For 2011-12, Tata Power had booked impairment in CGPL's assets due to steep depreciation of the Indian rupee against the US dollar, thereby increasing CGPL's foreign currency debt. The reduction in CGPL's equity and its higher debt resulted in the breach of the debt-equity ratio covenant.

Standard & Poor's may revise the outlook depending on the outcome of Tata Power's negotiations with lenders on the breach of the loan covenant. The outlook would be upgraded to "stable" if the company secures a waiver from its lenders on the breach of covenant and the UMPP's construction adheres to timelines and meets budget projections. So far, lenders have not reduced disbursements to the project and Tata Power is optimistic about receiving waivers for the project. "Given the technical nature of the covenant breaches comprising mainly non-cash entries like impairment and forex costs, we believe our request (to lenders) should

get favourable consideration. Further, the covenant breaches do not constitute a payment default," explains Sardana.

To support CGPL's cash flows, Tata Power is in discussions with lenders to finalise a structure for transferring dividends from its Indonesia-based coal special purpose vehicles (SPVs) to CGPL and is hoping for a favourable outcome. The company may undertake a restructuring process, whereby it would transfer 75 per cent of its equity in the coal SPVs to CGPL, subject to regulatory approval.

CGPL approaches CERC for tariff revision

In July 2012, CGPL submitted a petition to the Central Electricity Regulatory Commission (CERC) seeking a tariff revision for power generated from the Mundra UMPP. The CERC initially asked the company to hold meetings with the discoms procuring power from the project. The discoms, led by Gujarat Urja Vikas Nigam Limited, reportedly disagreed to revise tariffs stating that CGPL had considered the variable element of fuel cost in the tariff-based competitive bidding process. They further argued that a tariff increase after the award of the tender would be unfair to bidders who had lost out to Tata Power.

The last CERC hearing on the matter was held on September 27, 2012, where all the parties presented their views and were asked to submit their responses to the regulator. Formal hearings will commence soon after the respondents submit their replies to the petition. "CGPL looks forward to a positive and early resolution, considering that it has built a national resource and one of the most competitive sources of power," says Sardana.

The regulator's decision on the issue would pave the way for other imported coal-based projects that have been demanding a tariff hike, including Reliance Power's Krishnapatnam UMPP. The Mundra UMPP's fate hangs in the balance till the CERC gives its final verdict on tariff revision. ■

Neha Bhatnagar

Community development at Mundra UMPP

CGPL has been undertaking various development initiatives in Mundra for improving the quality of life of the communities in and around its project. Some of its initiatives are as follows:

- Project Sujaan aims to provide formal education and impart computer literacy to students. It has been successful in educating more than 900 students in Mundra, Kutch.
- Project Uttkarsh serves the community by installing reverse osmosis plants for the supply of clean drinking water. It also promotes rural energy and water management, and conducts activities related to farming, drip irrigation, etc.
- Project Swachh Jal aims to provide clean and safe drinking water to residents of the area.
- Project Surya Prakash focuses on the installation of boat lights at Modhva, a fishermen's hamlet. The target for installation is 65 boats.
- Project Shiksha Sarathi focuses on educational excellence for schoolchildren and arranges various learning programmes for them.