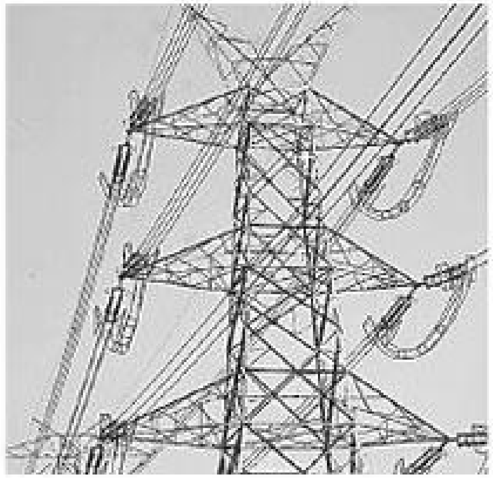
RAJIV CHIBBER EXPLORES HOW NEW CERC ORDER WILL PROTECT CONSUMERS IN THE LONG RUN

Saving buyers from heat of high power bill

THE RECENT decision by Central Electricity Regulatory Commission (CERC) to offer compensatory tariff has helped Mundra UMPP in ensuring its viability and, most importantly, it will protect consumers from high prices in the short and long term. CERC has recognised the importance of Mundra UMPP to this country as a National Asset and has kept alive the promise of delivering abundant, low cost and environmentally friendly power. Mundra UMPP has been developed by Coastal Gujarat Private Limited (CGPL), a wholly owned subsidiary of Tata Power Company and is the first of the 16 envisaged UMPPs to be fully operational generating 80 million units (MU) per day and 27000 MUs annually.

At 90 paise per unit, the fixed cost of production at Mundra is among the cheapest in India. With current tariffs at ₹2.35 per unit, power from this UMPP is offered at an exceptionally competitive rate. However, an unprecedented rise in imported fuel costs arising out of change in law in coal countries required a compensatory breather to make-up for the increased fixed costs. Despite the increase in input cost of fuel, no increase in the tariffs has been possible due to a lack of mechanism for fuel cost pass through, thus making the project unviable. With more than 100 per cent increase in coal price, a minimum tariff hike was necessary to ensure the viability of this Plant.



The decision has come in the nick of time – a little delay would have forced the five procurer States (Haryana, Punjab, Rajasthan, Gujarat and Maharashtra) to look at covering this power gap under current power purchase agreements (PPAs) through higher replacement cost as no alternative capacity was planned. Needless to say, this would have led to higher bills for household consumers in the long run. Considering that this UMPP at Mundra meets 2 per cent of India's power demand and supplies electricity to five most populous states, a considerably large number of consumers have been protected in the long run.

The new compensatory tariff at ₹2.90 to ₹3.10 per unit is much lower than the average purchase price of all five States, which stands at ₹3.30 per unit, and substantially lower than the current market rate for providing replacement power at a cost of ₹4.10 to 4.50 per unit or even ₹8-12 for purchasing spot power in a shortage - which could leave all five states prone to load shedding. Electricity contracted by most of the distribution companies today is priced at or above ₹3.30 per unit (average power purchase cost for all states). It is pertinent to note that the average price of power from almost all recently commissioned plants averages at ₹4.5 per unit. Mundra UMPP will still be cost-effective with the compensatory tariff in place at the ₹2.90 to ₹3.10 - much lower than the average purchase price of all the five states.

In addition to cost benefits, Mundra UMPP is one of the most environment friendly and efficient thermal plant run on super-critical technology as compared to other existing plants based on sub-critical technology.

As India now looks to take off to the next level of growth, its energy needs are rising at a rate much faster than before even as coal-based power comprise the largest component of the country's energy mix in the foreseeable future. Reliable access to fuels - both coal and gas - has been the principle challenge before all thermal and gas-based power plants in India leading to more and more capacity being developed using imported coal. If the costs of input materials are based on market values, the price of the output product (power) must be set such that there is at least cost recovery to ensure sustainability. Also, there is need to bring fairness in implementing power projects. While the domestic-coal based projects enjoy a pass-through of costs if there is any change in law under the non-natural force majeure events defined under the PPAs of the existing projects, it is not the same for the imported coal-based projects as fuel is excluded from the force majeure provisions.

While the CERC decision provides some relief, it does not solve the long term viability problem for Mundra UMPP due to high interest and exchange rates. The government needs to urgently look into the larger issue of dealing with imported fuels and evolve a mechanism to compensate producers for losses arising due to price fluctuations on imports of coal and gas. Also, a plan for more flexible tariff structure needs to be in place. If the urgency to save the Mundra UMPP is not appreciated and immediate steps are not taken to stabilise its financial viability, the plant may even be forced to shut down. In such a scenario the ultimate sufferers will be the end consumer who will not only lose out on uninterrupted power but will be forced to pay more for it in the process eventually.

The author is member of a Delhi-based think-tank. The opinions expressed here are his own