Mundra UMPP will stay cost-effective even after tariff revision

Publication: The Financial Express, Edition: Ahmedabad, Reporter: Subhash Narayan, Published Dt.: 10 Aug 2013, Page No.: 6

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For Coastal Gujarat Power (CGPL), a Tata Power company that runs the country's first fully operational ultra mega power project (UMPP) at Mundra, the commissioning of the 4,000-MW power plant was not smooth. Ever since the project was awarded to Tata Power in December 2006, the company has faced challenges on getting possession of land, securing consent of the local population and financing, besides facing environmental-clearance hurdles. But the biggest challenge, CGPL executive director and CEO ***Krishna Kumar Sharma*** *says, has come from the change in Indonesian regulations on coal exports, which has substantially increased the input cost for the imported coal-based project. In a conversation with* ***FE's Subhash Narayan****, Sharma gives an insight into how the UMPP was managing despite tough operating conditions. Excerpts:*

Tata Power has completed commercial operations of the 4,000-MW Mundra UMPP. How do you view this achievement and what were the major challenges encountered during the process?

The 4,000-MW Mundra UMPP heralds the entry of the 800-MW supercritical boiler technology among UMPPs in India. The supercritical boiler technology is environment-friendly and efficient. Mundra was completed within a record time despite problems.

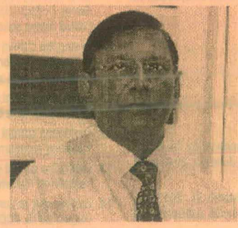
One of the major challenges encountered is the unprecedented rise in imported fuel prices. The change in law in Indonesia led to a 130% hike in our imported coal tariffs. It is important to add that Tata Power had contracted coal from Indonesia on terms that mirrored CGPL's tariff for coal. However, since the Indonesian government has changed the export norms for coal, Tata Power can't get imported coal based on the contracted terms. The problem has got compounded as Australia and some African countries also have made changes, which takes away the possibility of discounted coal prices.

What is the level of under-recovery being faced by the UMPP on account of higher coal prices?

Ever since the project's first unit got commissioned in March 2012, the company has lost close to ₹2,600 crore by supplying electricity at a price that is not providing us full recovery of the high cost of imported coal. The entire 4,000 MW of the project capacity is operational since March 2013, and if we do not get relief on tariff to recover the high input cost, annual losses would be around ₹1,800 crore at full capacity. Equity erosion would happen if tariff is not revised in the next 12-18 months. This is clearly unsustainable.

Power sector regulator CERC has ordered compensatory tariff for Mundra, based on the recommendations of a high-level committee. What kind of correction in tariff would be required to address your under-recovery?

The levellised tariff that we bid for Mundra UMPP was ₹2.26 paise per unit. Clearly, maintaining this level of tariff with Indonesian coal prices has now become unsustainable. In June 2012, we had calculated that an upward tariff revision of 67 paise would help us cover the under-recovery. With the fall in global price of coal over the last few months, we feel that a tariff revision between 49-50 paise would cover our losses. Even with this hike, consumers would get competitively priced power from us, as the average power purchase cost hovers close to ₹3.30 and above for all states.



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>
> **Krishna Kumar Sharma,**
> CGPL executive director & CEO

By when do you think the committee constituted to recommend tariff revision for Mundra give its report?

While the meetings are still going on, we are given to believe that the committee's report would be available by the end of the first fortnight of August. This then has to be ratified by the CERC.

However, I personally feel that this is only a partial solution not enough to achieve the break-even, and we hope that a government policy is put in place that can effectively deal with the change in law at international forums.

What would be the impact of the Mundra UMPP becoming unviable?

The average power purchase cost of all the five procurer states of Mundra UMPP is over ₹3.30 per unit and Mundra UMPP will still be cost-effective even with the revised tariff. Based on the estimated power consumption in Maharashtra, Punjab, Haryana and Rajasthan, additional annual impact of the proposed increase will be around approximately 3 paise per unit for all these states and around 13-15 paise per unit for Gujarat, which is a very nominal impact. This impact would come down further if coal prices come down. Similarly, if coal prices go up, the impact will also go up. In case Mundra UMPP power is not available due to tariff issues, replacement cost is likely to be at least at ₹4.10-4.50. Power from Mundra results in significant savings in purchase cost as compared to any other source for these states.

Could you elaborate if the company is blending low calorific-value imported coal to cut fuel costs?

We have commenced blending and deploying alternative coal called eco-coal, which is equally environment-friendly and low in sulphur content, but is cost-effective, and thus helps in offseting costs. Up to 70% blending is being done to offset some of the cost impact due to the steep increase in international coal prices and we plan to maximise this to reduce overall fuel costs. This is only a partial solution that will mitigate large excursions in costs due to the rupee's devaluation.

How has CGPL not been able to capitalise on coal supplies from its own mines in Indonesia to contain costs?

Yes, it is true that coal mines do get higher earnings due to higher coal prices. However, while at the coal mine's end, Tata Power earns 30% (by virtue of its stake in the Indonesian mine), it has to spend 100% increased costs at Mundra's end. Further, at the mine-end, there is an advent to 45% corporate income tax, 13% royalty, 10% withholding tax and, whatever income is brought, it is taxed 15% for dividend tax. Thus, the resultant gains at the mine-end get about 85% or are withheld by government agencies.