

Interview with Anil Sardana

“India needs to focus on long-term fuel security”

Tata Power, the country's largest integrated power company with an installed capacity of 8,621 MW, is now in its 100th year of operations. While the company has taken many major strides, it has of late been impacted by sectoral challenges such as high fuel prices and regulatory uncertainty, and its largest project, the Mundra plant in Gujarat, faces significant under-recoveries. In an interview with *Power Line*, Anil Sardana, chief executive officer and managing director, Tata Power, spoke about the company's journey so far, its upcoming projects and key challenges as well as its outlook for the sector. Excerpts...

What does the 100th anniversary represent for Tata Power?

For over a hundred years, Tata Power has been a part of India's growth story. This journey began in 1915, when the company commissioned its first hydroelectric power station at Khopoli. What started with 12 MW has grown into around 8,700 MW today, with over 2 million retail customers being serviced directly.

In the centenary year, we have reinforced our commitment to nation-building. We have launched a unique initiative to help in capacity building in the country with the Tata Power Skill Development Institute, through which we plan to train 200,000 skilled workers for the next decade. We hope that this will help bridge the skill gap and ensure that our suppliers and contractors hire from this pool of manpower. In addition, we continue to stand by our commitment to India's clean and green energy plans.

Tata Power's 100th anniversary is a reflection of the company's long-standing core beliefs. It ranges from our commitment to sustainable development and includes our promise to improve the quality of life of the communities living around our areas of operations. The company wishes to continue on its path of giving back to society many times more than it gives Tata Power, thereby bringing smiles to billions of faces.

What is your assessment of the performance of the power sector during the past year



under the new government?

The power sector is undergoing a lot of reforms under the new government. This year is expected to be eventful as well. We are happy that the government has realised the criticality of this sector and is restructuring areas that need attention. After a long period, domestic coal production has increased by 7 per cent and capacity addition in generation has registered the best growth. However, the government's immediate attention is required in the area of distribution reforms. Further, the issue pertaining to imported fuel-based projects needs to be suitably addressed. The amendments to the Electricity Act will hopefully provide the much-needed impetus to the distribution sector and help developers become more committed to the sector.

How is the uncertainty over the pending compensatory tariff case for the Mundra project affecting the company? Has the dip in imported coal prices eased the pressure on costs?

The losses at Mundra have eroded around Rs 30 billion of Tata Power's net worth over the past three years. While there has been a considerable decline in international coal prices, coal costs continue to be much higher and the plant continues to post losses because of cost under-recoveries. The losses at Mundra have certainly reduced owing to lower coal costs but the change in Indonesian laws has made things worse for the company as it owns a 30 per cent stake in two operational coal mines in the country. The Indonesian company pays 89 per cent of its margin for corporate tax, withholding tax, royalty and dividend tax, after which nothing is left to hedge Mundra's losses. Earlier, when coal prices were higher, we at least had something left to cross-subsidise due to the relatively higher margin between the sale price of coal and the cost of mining.

Also, the order on the compensatory tariff matter from the Appellate Tribunal for Electricity (APTEL) has got further delayed. There have been two instances of APTEL bench hearings wherein due to the retirement of one of the judges or members, the verdict has not been pronounced. We are hopeful that APTEL will give a favourable order, which will be beneficial to both our company and our consumers.

What projects does your current power portfolio comprise (both under construction and those in the pipeline)? What are your capacity addition targets till 2019-20?

Tata Power is India's largest integrated power utility with a business presence across the power value chain, with a gross installed capacity of 8,621 MW and around 2 million customers. The company has a generation capacity of 1,383 MW from clean and green energy sources, which comprises 576 MW from hydro, 56 MW from solar, 511 MW from wind and 240 MW from waste gas-based generation. The company aims to generate 18,000 MW by 2022, of which 20-25 per cent will come from clean and green energy sources.

Our domestic projects under implementation include the Kalinganagar, Odisha captive power plant 1 of 202.5 MW (3x67.5 MW) capacity, 32 MW wind farms at Visapur in Maharashtra, and the 49.5 MW Pethshivpur wind project in Kolhapur. Our international projects under implementation are the 134 MW Amakhala Emoyeni wind farm and the 95 MW Tsitsikamma Community wind farm in South Africa and the 187 MW Adjaristsqali hydro project in Georgia.

A few other projects under development in India and abroad are:

- Dugar hydroelectric project in Himachal Pradesh (449 MW)
- Maithon expansion project (1,320 MW)
- Mundra expansion project (1,600 MW)
- Tirulidih power project in Jharkhand (1,600 MW)
- Coastal Maharashtra project (1,600 MW)
- Coastal Long Phu (2) project at Soc Chang in Vietnam (1,200 MW)
- Coastal project in Myanmar (600 MW).

What is your outlook for the coal-based power generation segment in the country?

The Indian power sector is dominated by thermal power plants. Currently, over 70 per cent of the total installed capacity is based on thermal power generation. The dependence on thermal power

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plants is likely to continue in the near future. However, the plants are now being built on supercritical parameters and are more efficient. Also, the current trend is towards the processing of coal at the mine end to make it more benign. While power generation from renewable energy sources is increasing, it relies heavily on nature for the required wind velocity and sun's radiance and hence faces certain limitations. Therefore, in the long term too, thermal plants will continue to meet a greater part of the demand in the country. While there have been a few success stories in the development of the power sector over the past four to five years, particularly with the tremendous spurt in investments in conventional generation and renewables, a huge gap still exists between what the sector is expected to deliver to consumers and the economy. A key issue that the sector is still grappling with are fiscal and deliverable inconsistencies in power distribution.

What were the key drivers for the company in acquiring Ideal Energy Projects Limited? How does the company view the prospects for mergers and acquisitions in the sector?

In December 2014, the company entered into a share purchase agreement to acquire 100 per cent stake in Ideal Energy Projects, which owns rights for a 540 MW thermal power project in Nagpur, Maharashtra. The project is based on domestic coal and is partially operational with 270 MW commissioned in May 2013. This is a strategic move to focus on projects based on domestic coal and get access to competitive power. Access to domestic coal will help Tata Power bring down production costs and, subsequently, the average power purchase cost. This will result in decreased tariffs for consumers in the long run. Tata Power's total generation capacity, which now stands at 8,750 MW, will increase to 8,885 MW, taking it

an inch closer to reaching its target of 18,000 MW by 2022. The company is looking at various other stranded projects too and, depending on risk-reward analyses, will pursue options at the appropriate time.

Do you think the government's scheme for LNG supply to gas-based power projects through e-auctions adequately addresses developer concerns?

India has a gas-based generation capacity of 24,150 MW, of which 14,305 MW of projects worth Rs 600 billion do not have domestic gas supply and are stranded. The remaining 9,845 MW of projects, involving an investment of Rs 400 billion, are working at low and unviable plant load factors due to limited domestic gas supply. The government's recent bailout plan for 15 projects will be a great relief to developers. However, this is only a short-term solution. Also, considering the prevailing conditions of the discoms, it would be a challenge for gas-based projects to sell their expensive power. Therefore, we need to focus on long-term fuel security across all fuels, which will also include improving gas availability, so that all regulators enforce bulk purchases through a guided portfolio and, subsequently, only capacities with different fuels are bought by discoms.

What are the company's focus areas for the distribution business?

Tata Power is present across all three models in the distribution segment: private, public-private partnership (PPP) and franchise. The company has grown its Mumbai distribution network infrastructure manyfold in order to serve its growing consumer base. Its key focus is to reach out to the city's larger population with its competitive tariffs. Having successfully implemented its "islanding system" in Mumbai and Jamshedpur to protect customers and equipped them

with reliable, uninterrupted power, the company has now extended this concept to Haldia as well.

Consumer convenience is our top priority and we are committed to providing the city of Mumbai 24x7 quality power. Since we started this journey, the company has transformed the distribution landscape by offering a plethora of choices to consumers. We have always enabled the people of Mumbai with the "right to choose" their preferred power supplier and have allowed consumers to benefit from the most competitive prices being offered by different service providers. Tata Power delivers excellent customer service at par with international benchmarks. Its services include online bill payments, ITZ Cash card payments, advance bill payment options and e-bills.

In Delhi, the company has made tremendous progress through its subsidiary, Tata Power Delhi Distribution Limited, which currently serves around 6 million people. Its turnaround is a great success story of the PPP model in India. Since its formation in 2002, the company has launched a series of technological improvements for upgrading reliability and other customer services, and for servicing the network using geographic information systems, document management systems and order management systems, which are key features that are rare in India. Measures like energy audits, the replacement of old meters with theft-proof electronic meters, automated meter reading, aggressive enforcement and public awareness drives have reduced the current aggregate technical and commercial losses to well below the target loss level percentage that has been committed to the regulatory authorities.

After winning the distribution franchise bid for the Jamshedpur circle, Tata Power formed a special purpose company (SPC), TP Jharkhand Distribution Limited, and signed a distribution franchise agreement with the Jharkhand State Electricity Board in December 2012. The company is still waiting for the handing over of the distribution circle.

The SPC will be responsible for the operations and maintenance of the distribution network in the Jamshedpur circle, besides managing billing and collection.

Tata Power has always been interested in pursuing the distribution reform business. We are behind the success story in distribution privatisation in spite of several challenges. We are willing to pursue the PPP model as well as test the franchise model, which is yet to prove itself fully.

The company has successful PPPs in India in generation, transmission and distribution – North Delhi Power Limited with the Delhi Vidyut Board for power distribution in North Delhi, Powerlinks Transmission Limited with Power Grid Corporation of India Limited for power evacuation from the Tala hydro plant in Bhutan to Delhi, and Maithon Power Limited with the Damodar Valley Corporation for a 1,050 MW mega power project in Jharkhand. These three partnerships are examples of successful PPPs steered by Tata Power and are benchmarks in the sector today. We look at opportunities, particularly in states that are well-covered, where there are proper regulatory processes, and law and order is not a big challenge.

What are the key challenges that the company faces and how are these being addressed?

Imported fuels, both coal and gas, pose a challenge for the company. Its largest asset, the Mundra plant, is reeling from tremendous under-recovery of fuel costs. One of the major challenges encountered by the Mundra ultra mega power project (UMPP) was the unprecedented and unanticipated rise in imported fuel prices, which is an issue of major concern for the power sector as a whole. The change in the Indonesian law led to a hike of over 150 per cent in imported coal tariffs which has not only affected our Mundra project but all imported coal-based projects. Moreover, Tata Power had contracted coal from Indonesia on terms that mirrored the Coastal Gujarat

Power Limited tariff for coal. However, since the Indonesian government changed the export norms for coal, Tata Power couldn't get imported coal based on contracted terms. The problem got compounded as Australia and some African countries also made changes, which did not allow any discounted coal price possibility. Thus, while Tata Power is open to new projects, it will need some form of guarantee for fuel supply along with a mechanism to offset the impact of fuel price fluctuation, in case the situation demands it.

We believe that large format efficient plants like UMPPs are going to be the future. We also look forward to investing in large format projects. As the case is already under trial at APTEL, the company awaits a quick resolution of this issue through the required judicial process. The Mundra project has been delivering competitive power across the five beneficiary states despite the under-recovery of fuel charges. We will do our best to continue buying coal and honour the commitment to the nation's energy security by providing reliable and competitive power supply through the project and hope for a quick resolution of the issues. In addition, Tata Power's 650 MW worth of assets at Trombay have become stranded as there is no domestic gas availability and the units cannot be run on oil, which is also prohibitive.

With reference to new projects in India, the key challenges are not having fuel linkages or clarity on how assets will be serviced on the fuel side, the credit-worthiness of discoms, and land and clearances. After the Supreme Court verdict on de-allocating coal blocks, investors will need guarantees because they feel that even sovereign backing is not enough. In India, we need to wait for a Delhi-like situation to occur, where people compelled reforms in the distribution sector to trigger corrective actions. Till then, it all looks to be the ease of adding capacities in the four walls of a generating plant, which seems to be the favourite buzzword of policy planners and developers. ■