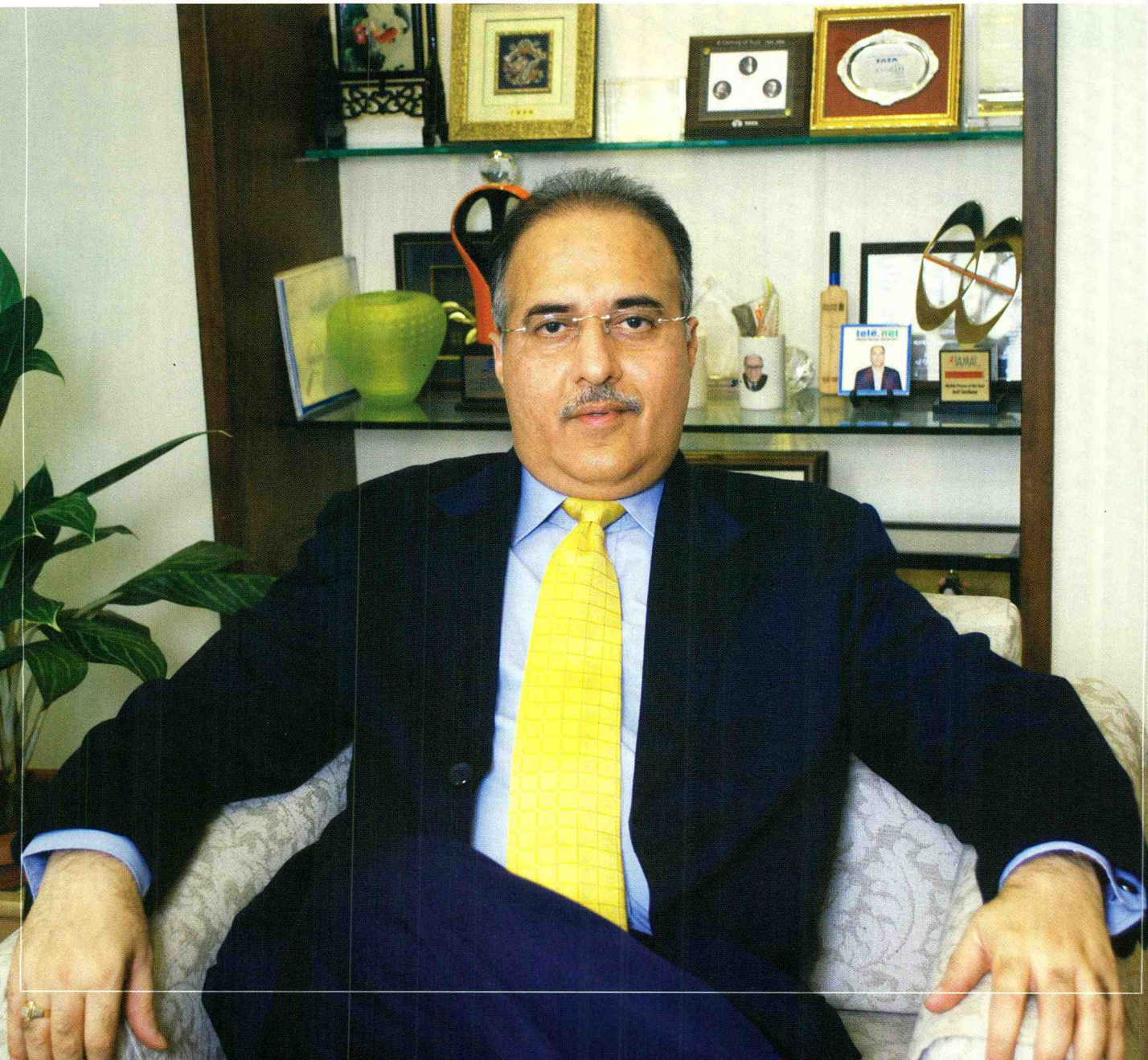


‘Share of renewable energy in our generation capacity will only grow bigger’

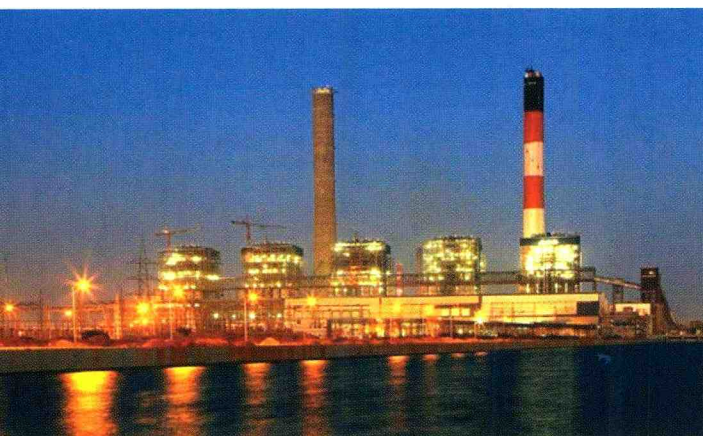
After incurring huge losses in the Mundra UMPP, Tata Power has apparently turned cautious about committing further investments in mega coal-fired projects in India. The leading private player has instead turned attention to overseas markets with attractive growth opportunities. **ANIL SARDANA**, Managing Director and CEO, Tata Power, shares his company’s future business plans with EPC World. Excerpts:



Has long-drawn-out litigation over compensatory tariff for the Mundra UMPP affected your company's investment plans?

The losses at Mundra have eroded nearly ₹ 3800 crore of Tata Power's net worth in the past three years. While there has been a considerable decline in the coal prices in international market in the recent times, the plant continues to post losses due to under-recoveries on account of cost of coal (about 58 USD FOB), which is still higher than the cost of coal (USD 34 FOB) prevalent at the time of bidding.

However, in its judgment dated April 7, 2016, the Appellate Tribunal for Electricity (APTEL) has said that while CERC has no regulatory powers under the Electricity Act to change Tariff determined by competitive bidding process, in case "Force majeure" or "Change in Law" is made out, relief can be granted to



Generating Companies under the Power Purchase Agreement (PPA) under the adjudicatory power of the Regulator. Accordingly, APTEL has remanded back the matter to CERC to consider the relief to be granted to CGPL for Force Majeure event. CERC has also been directed to conclude the exercise as expeditiously as possible, but certainly before July 7, 2016. We now look forward to the calculations being done by CERC in line with the APTEL order.

As global public opinion turns against coal-fired generation, do you have any alternate plan in place to ensure Tata Power's growth prospects do not suffer in such a scenario?

Tata Power has a robust portfolio through both conventional and non-conventional energy sources. The company is evaluating various opportunities to grow globally both in conventional as well non-conventional energy space. At present, Tata Power is evaluating new

opportunities and it is looking at opportunities to grow both organically and inorganically. Besides conventional energy, the company is also heavily vested in renewable energy and, over the next 10 years, the share of renewable energy in Tata Power's overall generation capacity will only grow bigger.

How do you see your renewable portfolio growing in the medium term?

Tata Power, together with its subsidiaries and jointly controlled entities, has an installed gross generation capacity of 9,183 MW, of which clean energy portfolio is 1,749 MW, making it one of the largest non-fossil based energy players in India. The company itself and through its 100% subsidiary, Tata Power Renewable Energy Limited (TPREL), has upwards of 620 MW of operating wind assets. TPREL also has another 500 MW of wind capacity under construction in the states of Gujarat, Andhra Pradesh, Madhya Pradesh and Karnataka.

Reiterating its commitment to clean energy, Tata Power has recently announced to increase share of non-fossil fuel energy output to 30-40 per cent by 2025, a move that is in line with the government's commitment made in Paris. Though solar is a very small part in our total portfolio, it will increase significantly over the period as the government is expected to bid out large scale projects to meet its target.

For wind, on the other hand, we will continue to look at opportunities as and when they come. We are exploring multiple options, both Greenfield and acquisitions, to be able to capture the market for solar, wind and hydro based generation. The company is also in the process of acquiring suitable land parcels in the states of Maharashtra, Rajasthan, Gujarat, Andhra Pradesh and Karnataka to develop solar and wind projects.

How far has UDAY improved your confidence in power sector?

UDAY is a very promising initiative. UDAY provides an enabling environment and assures the rise of vibrant and efficient state discoms through a permanent resolution of past as well as potential future issues of the sector. It empowers discoms with the opportunity to break even in the next few years. A critical element of UDAY is that states will take over the future losses of discoms in graded manner. Thus starting from 2017-18, the loss that a discom may incur will be considered for the state's fiscal deficit FRBM targets.

In 2017-18, 5 per cent of the previous year's losses would be taken over; in 2018-19, 10 per cent; 2019-20, 25 percent; and by 2020-21, 50 per cent will have to be

taken into the state's FRBM fiscal deficit targets. This implies that unlike previous bailout schemes, states will be responsible for any discom losses under UDAY. This puts the onus on the state discoms and state governments to ensure sustainable long-term solutions.

The UDAY scheme can be a torch-bearer for the governments agenda "Power for All by 2019" provided states accept the scheme through a tripartite agreement between Power Ministry, Government of India, State Governments and Discoms as part of bailout plan and work towards reduction of AT&C losses and thereby make them financially viable.

Would your company like to participate in bidding for more UMPPs?

We will consider new UMPPs if the final bid documents addresses all risks that a developer has to deal with. One of the risks relate to exchange rate fluctuations as developers cannot entirely depend on local banks for funding these projects. I am sure the government would want to address these issues. If done, we will look at new projects in a positive way.

The Power Ministry has revised bidding guidelines for power projects? Do you think revised guidelines are adequate to insulate the sector against the kind of shock it got when Indonesia raised coal price in 2012?

The new bidding document has taken care of many aspects. But there are still many issues to be sorted out. Indian institutions are very small in size, and none of them has grown into levels in which you will find the European utilities or the US utilities. If you don't have deeper pockets to address these risks, one risk hits you and your entire effort is gone. The government has to understand that if they are able to persuade the foreign investors to come and participate in UMPPs, it is fine. But where is the appetite for foreigners to come and bid for coal based plants? For example, if Mundra UMPP issues don't get resolved, a 100-year utility has the risk of collapsing under its own weight.

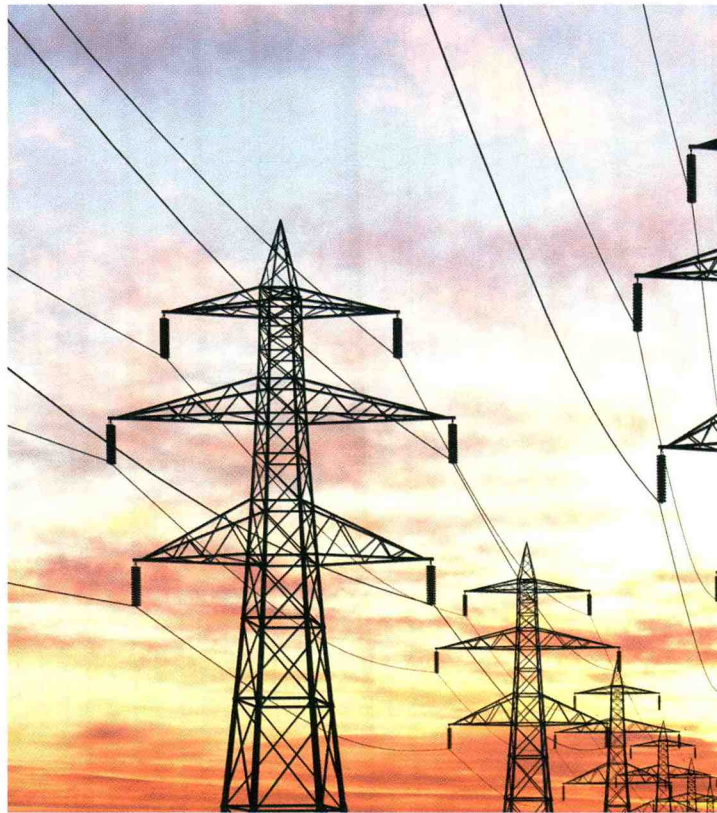
What are your company's medium-term investment plans? What kind of support you would expect from policymakers and regulator?

Tata Power has always considered four geographical verticals as its investment areas and equal opportunity zones - Africa; Middle East and Turkey; India & SAARC and South East Asia. These four verticals compete and whosoever brings the proposal, where the risks are mitigated, rewards are shown and get the investment.

Tata Power hasn't taken any decision of investment in

India. All decisions have gone to the other three verticals for the simple reason that the opportunities there fructified and got converted. We found that the rewards were more and risks were mitigated. The only investment that has really gone well in India is the renewables. In the last five years, we have invested heavily in renewable projects here. We have one of the largest operating wind portfolios, and we are now growing faster in solar. We have a solar manufacturing plant under Tata Power.

There are several challenges in the UMPP segment which needs changes. Firstly, the availability which is integrated at around 90%, which is very tough to assume over the life period. The number two part is that the



exchange rate is to the developer account, which is very tough, particularly knowing what is happening to the Indian currency. You can't get the entire funding for the ultra-mega projects from your local banks; you need a funding, so it's very difficult. The third issue is that there is a 70-30 proportion of coal, in terms of the fact that 70 per cent will be passed through and 30 per cent will be linked to, for which you have to take a punt. So, the risk should be mitigated.

What are Tata Power's investments plans for overseas expansion? Which are the geographical areas, countries where you see opportunities in coming days?

The company is looking to increase its global presence. In addition to fuel and logistics, we are focusing on setting up power plants outside India. Tata Power is evaluating various opportunities to grow globally, both in conventional as well non-conventional energy space. The company has prioritised seven countries in four geographies for international play. These include South Africa and other sub-Saharan African countries, Indonesia, Vietnam, Turkey and Middle East. The company is also in the process of deploying resources in these geographies to understand the market dynamics and scout for opportunities. The company is currently evaluating market dynamics in these regions and scouting



for opportunities.

Tata Power has commissioned two units of 60 MW each of its 120 MW Itezhi Tezhi (ITT) hydro Power Project in Zambia. The project is a first of its kind public private partnership in the power sector in Zambia, and is currently owned by Tata Power and ZESCO, a Zambian power utility, on a 50:50 basis on a 25 year Build-Own-Operate-Transfer concession term. ZESCO is the sole off-taker of power from the ITT power plant. The 187MW hydro project in Georgia achieved financial closure with \$400 million, the largest-ever private hydropower investment in Georgia. The project is the first hydropower project in Georgia certified by the

United Nations Framework Convention on Climate Change for carbon emission reductions. It is expected to produce about 450 gigawatt hours of power annually and reduce greenhouse gas emissions by more than 200,000 tons per year.

Tata Power's other strategic investments include 30 per cent stake in leading coal company PT Kaltim Prima Coal in Indonesia. Tata Power's JV Cennergi in South Africa of 134.4 MW Amakhala Emoyeni Wind Farm and 95.3 MW Tsitsikamma Community Wind Farm is progressing on schedule. In Australia, the company has investments in clean coal technologies and in Bhutan through 126MW Dagachhu Hydro Project in partnership with the Royal Government of Bhutan.

While Indian market continues to remain the primary focus of business for Tata Power, it has also dawned on us that due to fuel shortages, land-availability issues and delays in various clearances, the pace of opportunities in India may move to fruition slowly. The company thus started making investments into projects in select international geographies to strengthen and diversify its portfolio and for greater impetus for growth.

Is there any change in your capacity addition plans for overseas growth in the face of rising global concern over emissions?

Tata Power is committed to contribute to the ecological betterment of the surroundings by optimising the resource allocation and opting for low GHG (Green House Gases) and low-carbon emission technologies. We undertake "terrestrial sequestration" through reforestation programme in all our projects. Special variety of plants are also planted that captures maximum carbon.

With regard to the overseas projects, Tata Power has mainly invested in clean energy projects. In line with this commitment to reduce our carbon footprints, we have self-committed to generate 30-40 per cent contribution in Energy generated at all times from "clean power sources", which will include a mix of Hydro, Solar, Wind, Geothermal and Waste Gas generation.

The 187 MW hydro project in Georgia is the first hydropower project in Georgia certified by the United Nations Framework Convention on Climate Change for carbon emission reductions. Tata Power has made significant commitments to reduce the carbon impact at its thermal units. It is in close touch with large global utility companies such as American Electric Power, Tokyo Electric and Vattenfall, who are evaluating clean coal technologies such as integrated gasification combined cycle plants, and testing CO2 Capture and Sequestration (CCS) processes.