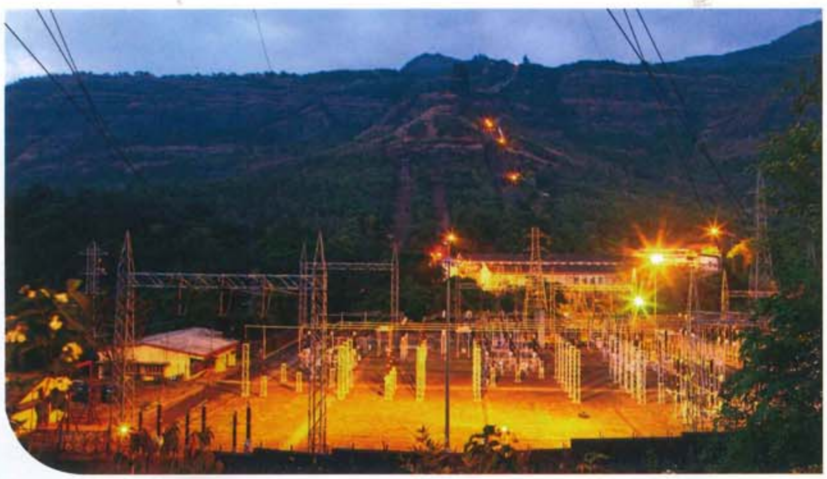
With a gross generation capacity of 8,521 MW, Tata Power Company Ltd is the largest private producer of power in India. The company generates 1,111 MW through clean sources such as hydro, wind and solar. **Rahul Shah,** in an email interview with **Renu Rajaram,** discusses critical issues in the power sector including the contribution of renewable energy technologies to electricity production.

ENERGY

'There is need for a robust energy security policy'

— **Rahul Shah,** Chief - Business Development, India Business & Renewables, Tata Power Company Ltd



Q Where does India stand today vis-à-vis production, transmission and distribution of power?

Energy is the engine that drives the pace of the economy and it is in the interest of the country's economic development that the sector is given its due importance. The sector has witnessed a steady growth through private sector participation. There is a need for concerted effort from all the stakeholders towards mitigation of some of the key obstacles hindering the growth of the sector.

Also, government would do well to divest out of power generation and distribution businesses and be the catalyst to promote investments. It should act as the custodian of customer's voice and demand performance from private utilities. One would want to see the power sector cater to customer needs in terms of quantitative and qualitative aspects, benchmarked with best of class utilities anywhere in the globe.

Q How is the global economic slowdown affecting the power sector in India?

The power sector is facing several challenges today. The key amongst them is shortage of fuel. Despite huge coal reserves in India, the domestic power sector is facing coal shortages and has resorted to imports to meet its requirements. This shortage may result in increasing non-utilisation of assets that are already built and this would also distract new capacity additions thereby targets not being reached.

At the same time, recent policy changes in Indonesia and Australia have significantly escalated the price of imported coal. Since IPPs import coal from Indonesia and Australia, the sudden spike in price has caused imported coal-based power projects to become economically unviable.

Another major challenge to the sector is the shortage of natural gas in India. This shortage has stranded gas-based power projects with a combined capacity of around 18,903.5 MW, accounting for only 9.13 per cent of the total generation capacity. There is a need to evolve a robust energy security policy for the country so that guidance is given to all state regulatory commissions to plan bulk supply procurement in line with basket of fuels that meet India's energy security needs.

Besides fuel, slow pace of distribution reforms is another key concern. Power distribution still remains a segment that needs significant reform-intervention and a combination of tariff increases, competition and open access and enforcement of the 'obligation to service' going forward. The distribution segment caters to 200 million consumers with a connected load of 400 GW, comprising one of the largest customer bases in the world. However, high financial losses and the debt burdens of the distribution companies are hampering not just the electricity distribution but is almost becoming a question mark for generation capacity addition in India.

In addition to fuel and distribution reforms, the third key impediment to growth is the commitment of states to support the developers in obtaining clearances, land free of encumbrances etc. Without states' engagement it is seen that developers have to experience a long wait before their investment can be deployed on ground.

Q What is the contribution of renewable energy technologies to electricity production in India?

India is still a developing nation and a power starved country at that. In line with the low carbon growth strategy, the Government of India is pursuing aggressive targets of generating energy from renewable sources. This has been reflected in the 12th Five-Year Plan (2012-2017) that envisaged renewable capacity addition of 18,500 MW out of which 3,800 MW will be from solar capacity sources. This presents significant opportunities for the players in the energy sector.

The Government of India should, therefore, evolve an Energy Security Policy conveying use of portfolios and basket of fuels and must issue guidelines as to how regulators must ensure that at each state level they build the tariff using bulk sourcing of power based on prudent mix of portfolio of fuels comprising both imported as well as domestic.

This is akin to CERC using guideline of percentage share of bulk sourcing from renewable sources of generation.

Q Is lack of political will and policy and reform paralysis affecting the power sector?

The power sector has gone through a lot of turbulence in the year that passed by. There were clear indications of the sector struggling with a number of factors like fuel supply shortage, unprecedented hike in coal prices in the international coal markets and the dismal financial health of the distribution sector. The worst blackout in the country's history, which occurred in the month of July last year, was a good wakeup call and highlighted the need for integrated planning.

Besides, slow pace of growth and reforms are the key reasons for the widening gap in demand and supply in infrastructure space. If we don't address the issue soon, this gap will further widen.

Despite grappling with challenges, the level of determination exhibited by the private sector to contribute to the growth of the sector needs appreciation. The private sector added around a 15,000-20,000 MW of new capacity in the past year. Tata Power itself has fully commissioned the country's first 4,000-MW UMPP project at Mundra which meets about 2 per cent of the country's energy needs.

Q Can you share your views on the state of power distribution companies?

The recently announced budget by the central government for financial year 2013-14 approved a scheme for the financial restructuring of discoms to restore the health of the power sector.

The state governments have been asked to prepare the financial restructuring plans which can be utilised at the earliest for the best advantage to the discoms. It is hoped that the discoms which happen to be the weakest link in the entire value chain will be restructured to strengthen the framework of the sector.

Steps taken on fuel price pooling, which is a short-term solution, would provide some respite to new capacity, which otherwise has the risk of being stranded.

Also, the Central Electricity Regulatory Commission's order in April 2013, which called for a variable "compensatory tariff" till the fuel situation stabilised for an imported coal-based plant, is a progressive step for the sector. This decision of the regulator was welcomed by the industry as many imported coal-based projects were either stalled or were running losses due to high imported fuel costs.

Highway sector needs thrust to surge ahead

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providing relief to the sector. As we all know, payment of premium during the construction phase causes considerable financial stress, often leading to delays or even stalling of projects during times of economic crisis. Keeping such a scenario in mind, for projects awarded beyond April 1, 2010, the premiums payable during construction phase should be back ended to the last 5 years of the concession period in a manner that the net asset value remains the same.

The multiple challenges plaguing the highway sector are, no doubt, cause for concern. Many EPC contractors who had ventured into the sector a couple of years back through the developer route are now desperately trying to sell their stake in the PPP projects. Most of the existing players are wary of taking new risks and shying away from new projects. Given these developments, it is imperative that the Centre immediately initiate concrete measures, both long and short term, to get the sector back on track and moving. At this juncture though, stress should be laid on close monitoring of ongoing projects, ensuring there are no delays due to land acquisition hurdles and held up clearances and faster dispute resolution and settlement of claims. Developers too are required to adopt precise traffic forecasting methods and focus on their pricing strategies at the time of placing bids.