Et tu, Tata Power?

Tata Power has sought CERC's permission to increase its tariffs

Close on the heels of its path-breaking order in the case of Adani Power, the Central Electricity Regulatory Commission (CERC) adjudicated identically in the case of Tata Power last fortnight. It held that the company be compensated for the increased costs of its coal imports for its 4,000 MW Ultra Mega Power Project (UMPP) in Mundra, in Gujarat's Kutch region.

Tata Power had petitioned the CERC for permitting restructure of the tariff rates of the UMPP in accordance with the inflated fuel costs, without which it contended the project would become unviable. India's first UMPP to go on stream, the ₹17,000 crore thermal power station, comprising five 800 MW units, is operated by wholly owned Tata Power subsidiary Coastal Gujarat Power Ltd (CGPL).

Tata Power had won the Mundra tender in 2006 by quoting a 25-year levelised tariff of ₹2.26 per kWh for the supply of electricity to Maharashtra, Gujarat, Haryana, Punjab and Rajasthan. The company had worked out the tariff on the basis of the cost of Indonesian coal at the time of signing the long-term coal off-take agreement. In September 2011, however, Jakarta benchmarked the costs of its coal exports to international rates. It besides stipulated that these prices be adjusted every 12 months under long-term contracts, disabling Indian power companies from importing its coal on fixed price and fixed escalation structure envisaged at the time of bidding. Previously, there had been no restriction on bilateral negotiation of coal prices and parties were free to decide the price escalation mechanism mutually, without linking them to international prices.

Tata Power thus prayed before the CERC for renegotiation of its Power Purchase Agreements (PPAs) with the distribution companies (discoms) of these five states for tariff revision of 65 paise per unit to help CGPL generate reasonable returns. This would effectively increase the tariff to ₹2.91 per kWh.

Terms of compensation

The regulator had on 2 April issued a similar order allowing Adani Power to pass through the escalated costs to the Gujarat and Haryana discoms. In each instance, the CERC has ordered empanelment of a committee comprising company, discom and lender representatives and a financial analyst to work out the terms of compensation that will be enforced until the time the fuel import situation stabilises. The commission is currently seized of a similar petition from Reliance Power for its 3,960 MW UMPP coming up in Krishnapatnam in Andhra Pradesh.

Tata Power said it was on account of provisioning of impairment costs of ₹600 crore for the Mundra project that led to its net loss of ₹329 crore for Q3 2012-13 (₹297.95 crore net profit in Q3 2011-12), as also lower realisation from its Indonesian mines, following a fall in international coal prices.

A Tata Power executive maintains that CGPL will still undergo losses, if the compensation package does not amount to a tariff revision of 65 paise per unit. "The problem has been compounded by changes also by Australia and African countries, the other thermal coal exporters, rendering it impossible to source discounted coal from anywhere," he explains. "Mundra, which is operating at full capacity and meets 2 per cent of India's power demand, has the most competitive capacity charge globally amongst any stations of its timeframe." He recalls that, while structuring its bid, the company had been guided by the cost projections of CERC of a 3.46 per cent yearly increase in coal cost. By this estimate, imported coal prices would have escalated 17 per cent between 2007 and 2011 but, by 2011, prices had actually surged 150 per cent, to $120, from $49.50 at the time of bidding, he adds.

Asked why his company is unable to capitalise on supplies from its own coal mines in Indonesia to contain costs, the executive says that while coal mines do earn more due to higher coal prices, Tata Power earns 30 per cent from its coal mines, but encounters 100 per cent increased costs at the Mundra end. "Further, at the mines end, there is an advent to 45 per cent corporate income tax, 13 per cent royalty, 10 per cent withholding tax, and whatever income is brought in is taxed 15 per cent for dividend tax," he indicates. "Thus the resultant gains at the mines end are taxed about 85 per cent or withheld by government agencies."

Welcoming the CERC order, Tata Power managing director Anil Sardanha deems it an important step in resolving the major impasse affecting developers burdened by extraneous factors beyond their control.

The company executive points out that if the compensatory tariff issue as directed by the CERC is not settled urgently, the Mundra UMPP can become unviable to the extent of shutting down.

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