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Date: 16/2/09.

To

S. Parkash Singh Badal

Hon'ble Chief Minister, Punjab

Subject: EXECUTION OF 2X 660 MW THERMAL PLANT AT RAJPURA UNDER STATE SECTOR

Sir

This is in continuation to our earlier communication dated 8.1.2009 wherein Association highlighted the pitfalls in the policy of state government to plan execution of all its future capacity addition entirely through private developers (copy enclosed). ***It is our considered view that State cannot become power surplus without investing a penny in the future planned projects.***

Out of the four thermal plants planned, two i.e 540MW Goindwal Sahib and 1980MW Talwandi Sabo projects have already been awarded to private players but actual work has yet to start. For 2640 MW Gidderbaha plant, various tie ups viz coal linkage etc are still be finalized and may take time. For 1320 MW Rajpura Plant, ways and means are being explored to award project to the lone bidder. It learnt that issue has been referred to the cabinet for decision. In order to facilitate the cabinet to take appropriate decision after taking cognizance of various aspects of the issue, we take this opportunity to bring following points in your kind notice:

A) COMPETITIVE BIDDING-THE SPIRIT

Promotion of competition is one of the key objectives of the Electricity Act 2003 and the spirit of the guidelines issued by Government of India under section 63 of the Act is to ensure competitive procurement of electricity by utilities. Under these guidelines, the scrutiny of tariff etc has been taken out of the preview of

Appropriate Commission since the project is awarded on the basis of tariff based competitive bidding to lowest bidder. However this aspect has been ignored while processing the case of Rajpura Thermal project as explained below

- For the 1320 MW Rajpura project only one bidder i.e M/s Lanco infratech Ltd. participated. So there was no competition amongst bidders and price quoted cannot be termed as competitive or lowest.
- Central Government while awarding Ultra Mega Projects under the same guidelines extended the dates many times both at the RFQ and RFP stages to ensure fierce competition amongst bidders although sufficient number of developers participated in the initial stage itself.
- In case of Rajpura thermal plant, date for submission of price bid was not extended even once although it was clear to everybody that response would be lukewarm due to adverse market conditions.
- It is learnt that even private developers made the suggestion to Nabha Power Ltd. (the SPV constituted for the project) authorities to extend the date to allow the market conditions to stabilize but in their over enthusiasm to award the project before the stipulated date, the pleas were ignored.
- ***No sincere efforts were made by the SPV to generate competitive environment before using the last resort of processing the case on the basis of single bid under clause 5.7 of the guidelines.***

All the above is against the spirit of the Act and the statutory guidelines dated 19.1.2005 issued by Ministry of Power, GOI.

TRACK RECORD OF LANCO INFRATECH LTD.

PSEB and the State government has decided to negotiate the price with the company. **First of all**, negotiations are against the spirit of the competition. Negotiated tariff is subjected to criticism in future, as there are huge implications involved. Even a variation of 1 paise/unit has implication of Rs. 10 crore per year and Rs. 300 crore for full life of the plant.

Secondly, while **negotiating** the price with the lone bidder, it is equally important to examine microscopically the past track record of the bidder since we are going to risk the future of the state's economy on the commitments

likely to be made by the developer. Sir, we place some facts on record to help the state government to assess the track record of the company with respect to the commitments made in the past by this developer with other state governments and power utilities.

1. Lanco submitted price bid for supply of power to Haryana (Case 1) @2.35 /unit – and after award of contract Lanco backed out, refused to give the power and Haryana forfeited the bank guarantee of Rs 12 Cr. Detailed feedback may be obtained from Haryana Power Generation Corp. Ltd.
2. For the 300 MW Amarkantak unit 2 of Lanco, a PPA was signed between Lanco and PTC / Haryana. This is also under dispute before HERC. Detailed feedback may be obtained from PTC and Haryana
3. The Lanco had signed PPA with PTC and PTC had signed back to back PPA with Madhya Pradesh for 300 MW Amarkantak unit 1 of Lanco.. This case is also under dispute. Ref. Appellate tribunal judgment of 17-11-2008 This case is now pending before Supreme Court. Detailed feedback may be obtained form MP Trade Co. (MPSEB) and from PTC.
4. Lanco was awarded the 1000 MW Anpara 'C' project in September 06 where the bid rate is stated as 1.91 /Unit. Subsequently Lanco changed the project size from 1000 MW to 1200 MW which has been objected to by UP Electricity Regulatory Commission (UPERC). Detailed feedback may be obtained form UP Power Corporation and UPERC.
6. Lanco is setting up a coastal power project at Udupi (Karnataka) of 1015 MW with 90% power contracted to Karnataka and 10% to Punjab at CERC rate. In the construction of this project, Lanco has allegedly committed two irregularities.
 - (a) While getting the project cost approved by CERC (Petition 40/2005, dated of order 25-10-2005) Lanco stated that EPC contract was to BHEL. However, after approval by CERC of project cost at Rs. 4299 Cr, Lanco cancelled this BHEL EPC and placed it on Dongfang China, where the rates are lower.
 - (b) Lanco placed order for 2X600 MW i.e. 1200 MW instead of 1015 MW originally stated. A situation similar to Anpara C has arisen. Details may be obtained from CERC and Lanco and Karnataka Power Corporation.

Thirdly, the capacity to execute this project in view of the investments already committed by the company for other projects awarded viz-a-viz its financial strength has not been examined. According to report appearing in Business Standard, more than 10,000 MW of projects have already been committed by the company which will roughly cost Rs. 45000 Cr. and even a 20% equity translate into a direct investment of over Rs. 9000 Cr. by the company. ***The networth of the company and its balance sheet was required to be examined by the SPV/PSEB/State Government and commented upon before referring the matter to the cabinet.*** It should also be kept in view that most of the Hyderabad based companies including Lanco are reported to have been audited by Price Waterhouse whose role as auditor is already under scanner.

ARE RATES QUOTED/NEGOTIATED JUSTIFIED ?

- Lanco's bid at 338 paise/unit is 52 paise/ unit higher than the Talwandi Sabo. Moreover ***there is huge difference in the fixed cost quoted by Sterlite for Talwandi Sabo and that quoted by Lanco for Rajpura plant.*** The reported difference is about 70 paise/unit. This aspect needs to be examined.
- The negotiated rate is being justified on the plea that market conditions have changed resulting in increase in higher capital cost. ***However the fixed cost of 190 paise per unit quoted by Lanco is even more than the levelised tariff of 177 paise per unit (fixed plus variable cost) of recently awarded Taliya UMPP.*** Secondly, if tariff of 330 paise/unit or so is justified than how Sterlite can set up the Talwandi Sabo plant with tariff of 286 paise/unit since the company has neither placed orders for equipment nor has tied up funds for the project. Justifying price of Lanco means an admission that Talwandi project will not come up in near future.
- The tariff quoted is the highest amongst all the power projects awarded so far in the country under competitive tariff bidding route (Case II) till date

	Capacity MW	levelised Tariff p/unit	Executing agency
Thermal stations			
Mundra UMPP	4000	226	Tata Power
Sasan UMPP	4000	119	Reliance
Krishnapatam UMPP	4000	235	Reliance
Jajar Haryana	1320	299	Chinese electric
Karchana UP	1320	297	JP Group
Talwandi Sabo	1980	286	Sterlite
Taliya UMPP	4000	177	Reliance

WAY FORWARD

Under the present circumstance, there are only two alternatives, one is to re bid the project and second is to execute it in the state sector. Re-bidding is a long drawn process with uncertain future since market conditions are not expected to improve in the near future. On the other hand in case State govt. decide to take up the plant with state funding, the plant will be commissioned in less than 42 months. ***In the present scenario the best alternative is to execute Rajpura Plant through state funding.*** All clearances have been obtained and the project is ready to take off. PSEB/State Govt. has to arrange at the most 20 % equity which will not be more than Rs. 300 Cr. per year during the execution of the project and the remaining amount can be arranged through loans. However, Govt will have to stand guarantee for the loans. PSEB has got all its man power in place and the first unit can be easily commissioned in 42 months from the date of go ahead.

Any delay in project commissioning would result in PSEB having to purchase the power from the market / grid at rates which may be as high as Rs 7 to Rs 10 per unit, the cost implication of delayed project commissioning itself would be enormous. A 1000 MW project can give 7000 MU/year. If power from market has to be purchased at Rs 3 to 4 / unit higher (due to delay in commissioning), the cost implication works out to Rs 2100-2800 Cr/year.

Another advantage of State owned project is that the following two components of tariff are not paid in cash to any outside agency but are retained


within the State / PSEB. These components are Depreciation and Return on Equity which have to be paid in cash (through tariff) to IPP but in case of State project, both these components would be retained within the State /PSEB.

Secondly, for the efficient and economical management of the power system adequate own generating capacity is essential because the sudden variation in demand can mainly be met through OWN GENERATION. Total installed capacity of PSEB as on today is 3627 MW and with all the future generating capacity of 6480 MW planned in private sector, the balance between own generation and generation from other sources would get distorted. The demand during a single day in Punjab may vary by 2000-3000MW and the dominance of private generation vis-a vis own generation would adversely affect our system operations.

If there is one plant which is best suited for execution under state sector, it is undoubtedly 1320MW Rajpura thermal plant. In case the state missed this opportunity and wasted its time and energy to find suitable private developer for execution of this project, it will only be repeating the blunder committed by the Central govt. in early 1990's, Madhya Pradesh and Maharashtra in late 1990's by ignoring the role of State sector in power generation and depending on private developers to tackle power shortages. All the states are setting up their own power plants by investing 20% equity as already explained in detail in our previous letter dated 8.1.2009. Sir we are hopeful that under your astute leadership, the state government would decide the issue in the long term interest of the state and give a green signal to PSEB for execution of Rajpura thermal plant in State Sector.

Yours Sincerely


(Er. Bhupinder Singh)
General Secretary


(Er.H.S.Bedi)
President

CC:

- 1) **Chief Secretary, Govt. of Punjab, Chandigarh**
- 2) **Principal Secretary/Power, Govt. of Punjab, Chandigarh**
- 3) **Chairman & Members of the Board**