Issues with Ultra mega power projects

Why in news?

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The Gujarat government has recently asked its power distribution companies (discoms) to approach the Central Electricity Regulatory Commission (CERC) to get approval for a tariff hike.

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What is the background of the issue?

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- The central government framed a mega power policy for developing coal-based power projects, with a capacity of 1000 MW and more, in 1995.
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- Under that, it decided to set up ultra mega power projects (UMPPs) and has invited bids for setting up coastal UMPPs.
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- The UMPP's are run by the Tata group, the Adani group and the Essar group in Gujarat.
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- However, they can run only on imported coal and have a combined generation capacity of around 10,000 megawatts.
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- They sign power purchase agreements with distribution companies of various state governments and their projects run on coal from Indonesia.
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Where does the problem arise?

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- In 2010, Indonesia issued regulations that changed the coal mining and pricing framework.
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- This had severe financial ramifications for Indian power plants that were

designed to sustain on affordable Indonesian coal.
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- Imported coal-based power plants across India face financial ramifications but cannot raise tariff without approval of CERC.
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- Also, the Supreme Court ruled that change in Indonesian pricing regime cannot be construed as a change in law.
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- Hence, CERC refuses relief to Adani group and Tata group on basis of “change of law” in Indonesia.
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- This has made the three plants unable to pass the uncontrollable increase in the fuel prices on the procurers (discoms) under the Power purchase agreements.
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- Lenders of these projects stated that the net worth is already wiped out for these projects, and these projects are surviving on additional fund infusion by promoter groups.
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- There is also a likelihood of further erosion in the credit worthiness of the generators resulting in the creation of non-performing assets.
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- Also a tariff hike would affect consumers of various states, including Maharashtra, Rajasthan, Punjab, Gujarat and Haryana.
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- Each of these states has signed a power purchase agreement (PPA) with the three power plants that run on imported coal.
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- Thus, a high-powered committee (HPC) was set up this year by the Gujarat government acknowledging the issue.
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What are the recommendations of HPC?

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- The three projects should be permitted to pass on the impact of the high fuel costs equitably to consumers, lenders and other stakeholders.
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- Banks would have to take a haircut of more than Rs 10,000 crore.
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- The lenders could reduce the interest rate also on the debt of these three projects.

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- The HPC recommends partial pass-through of high coal prices to consumers, along with a commercial restructuring plan for these plants.
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What is the present status?

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- Supreme Court says its previous order won’t come in the way of measures suggested by HPC.
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- Currently, the state government has focused its attention on pass-through of only the fuel cost.
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- Since only the CERC can approve an increase in power tariffs, the government has asked its discoms to get this approval.
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Source: The Indian Express

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