



C. V. J. Varma
Hon. President, ICOLD
Hon. Member, CIGRE
President, AESIEAP
President, CPU

Council Of Power Utilities
A-2/158, Janakpuri, New Delhi-110058
Tele: 91-11-25618472, 32997232,55455626
Fax: 91-11-25611622
E.mail: cvjvarma@indiapower.org
Website: www.india-power.org
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Shri Alok Kumar
Director
Ministry of Power
Shram Shakti Bhavan
New Delhi-110001
Tel: 23714000
Fax: 23717519
Email: alokkumar@nic.in

**Sub: Record Note of the Discussions of the First Meeting of the Sub Group-4 on
“Legislative & Policy Issues” held on 20.6.06**

Dear Shri Kumar,

Please refer to your Email dated 26th June 2006 enclosing Record Note of the Sub Group-4 meeting held on 20.6.2006.

We are enclosing our suggestions for discussion in the next meeting of Sub Group-4, as requested in the Records Note of the discussions.

Thanking you,

Yours sincerely,

C.V.J.Varma

Encl: As above



Suggestions for discussion in the next meeting of Sub Group-4

1. Regulatory Authoritys for Coal, Gas and Rlys Sectors

In a National Conference on the need for reforms in Coal, Gas and Rail Sectors for Power reforms to be meaningful and the Imperatives and opportunities under Electricity Act, 2003 held on 19th & 20th July 2003 the Recommendation made in the conference are enclosed as Annex.

It is suggested that these recommendations may kindly be considered at the time of formulating the proposal of the group.

2. Ground Water Level Depletion:

Ground water levels are rapidly falling to very low level. This causes considerable damage to the health of people, both in India and in other developing countries. This is due to indiscriminate pumping of ground water for use.

Council of Power Utilities (CPU) has been advocating use of surface water for irrigation and drinking purpose, because in our country 40-45% of total electrical energy of about 500 TWH sold annually is utilized for pumping irrigation and drinking water. If surface water is used for this purpose, the energy consumed could be diverted for development of other infrastructure. Also this will reduce the depletion of ground water level.

3. Subsidy burden on State Power utilities:

Gross Subsidy on energy sales has been increasing over the years because of the policy of the some of the states to provide electricity at subsidized rates to agriculture and domestic consumers. While some State Governments partly compensate the SEBs for the subsidized sales of electricity to agricultural and domestic sectors, others do not provide any compensation at all. The SEBs make an effort to recover the losses due to the subsidization of power supply to domestic and agriculture consumers by way of cross subsidization mainly to the industrial and commercial consumers. Section 65 of the Electricity Act 2003 stipulates that if the State Government requires the grant of any subsidy to any consumer or class of consumers in the tariff determined by the State Commission under section 62, the State Government shall notwithstanding any direction which may be given under section 108, pay, in advance and in such manner as may be specified, the amount to compensate the person affected by the grant of subsidy in the manner the State Commission may

direct, as a condition for the licence or any other person concerned to implement the subsidy provided for the State Government.

Provided that no such direction of the State Government shall be operative if the payment is not made in accordance with the provisions contained in this

section and the tariff fixed by the State Commission shall be applicable from the date of issue of orders by Commission in this regard.

It is suggested that the power supply utilities may be relieved of the burden of providing heavily subsidized power to any category of consumers. Instead the Dept concerned e.g. irrigation and welfare may give such subsidy to the consumers or compensate the power supply utilities for such supply.

4. Import Duty on non-coking Coal

It is understood that reintroduction of import duty on non-coking coal which was reduced to zero early this year is being considered now. In this connection CPU has the following observation to make: -

With the promulgation of notification for use of coal with not more than 34% ash in the first phase for those power stations which are over 1000 Km, from mine head (Source of supply) or are urban based, a scheme of blending coal was necessitated in order to restrict ash content to 34% for those designated power station. It has been found that the availability of higher quality of coal required for blending, with lower grades are not available. Because the availability of non coking coal in the country is predominately in lower grades, the distribution being 18% in grades A, B, C, and 82% in grades D, E, F, G. Thus sufficient quantity in higher grades is not available to blend grades F&G (partly E) to bring the ash content to 34%. This leads to a position of 'Must Import' of some quantity of higher-grade coal for blending. The position therefore is similar to that of coking coal.

It is therefore suggested that import duty on non-coking coal may be retained at zero level.

5. Need for long term agreement for Import of Coal

Ministry of Power has drawn up plan for addition of 100,000 MW generation capacity by 2012. Out of this total capacity, substantial portion is for coal based thermal generation. Coal requirement for this additional capacity will have to be met by indigenous supply or by import.

As it stands today Coal India is not in a position to meet the entire requirement of coal with not more than 34% ash from indigenous sources. The import element of the coal requirement will therefore increase when new capacity is added. It is therefore essential that a firm indication of the quantum of coal that can be supplied by them is given so that import arrangement for the remaining quantity can be made. It may not be out of place to mention that the demand for coal world wide for power generation is increasing. It is

therefore necessary to permit a policy of long term agreements for import of coal. Already the price of coal is increasing. Unless long term agreements for supply of coal are made with the foreign suppliers our coal consuming utilities may have to settle with agreements for supply of costly coal from the foreign sources.

It will therefore be necessary for the Ministry of Coal/ Coal India Ltd. to give an indication of coal availability up to 2012 and beyond against the requirement to achieve the installation target indicated above, so that action for import of the balance quantity can be taken.

6. Levies/Duties

Royalty: - This is fixed on grades and two grades are clubbed for this purpose, e.g. A & B, D & E, F&G. This works out more as percentage of price for lower grades. This should be fixed in descending order for grades A to G and be broadly a percentage constant of the price of coal.

Annexure:

Recommendation made in the National Conference on the need for reforms in Coal, Gas and Rail Sectors for Power reforms to be meaningful and the Imperatives and opportunities under Electricity Act, 2003 held on 19th & 20th July 2003 at Bangalore.

Role of utilities:

- There are limits to which the power utilities can reduce cost, improve efficiencies and productivity. Since 50-70% of the input cost is outside the pale of a regulatory framework this limits the scope for further cost reduction. The regulatory commissions have to appreciate this vital aspect in arriving at the technical parameters and cost for performance.
- The utilities therefore seek the cooperation and support of the regulatory commissions to overcome the existing deficiencies in the areas of fuels and transportation in national interest because of the criticality of the thermal sector to the economy besides the need for transparent functioning and accountability of the ultimate paying consumers.
- The concept of regulatory commissions/authorities to ensure transparency and accountability in the power utilities, telecom, insurance, roads, ports and other service providers is an acceptable mechanism to ensure the interests of all stakeholders in the respective sectors and for protecting the ultimate consumer.

Need for Reforms in coal Sector.

- Setting up power plants near the coal mines is more economical if the distance of the load center is more than 1000 km; provided the transmission utility levies a reasonable wheeling charge (without excessive rate of return). In any case whether at pithead or load center, dedicated coal blocks need to be allotted to power utilities/private entrepreneurs to bring down the cost of coal through efficient mining and higher productivity. Cost Ministry shall endeavour to ensure speedy clearances to utilities seeking coal blocks in a specified time frame. Further, the utilities should also be given choice to select coal blocks; if more number of aspirants are there for the same block, a transparent competitive process may be introduced.
- Coal supplier will have to assume responsibility for quality of coal supplied and agree for both end sampling. Suppliers would need to modernize their coal sampling facilities and also support coal washeries being established on a BOO basis by private operators if they do not intend to make investments in washeries (though it is the primary responsibility of the collieries to supply coal with ash content of less than 34%)

- An independent regulatory framework needs to be in place to look into the efficiency of operation of coal sector and fixing of price including captive mining.

Need for Reforms in Railway Sector:

- i) Power sector shall be accorded the most favoured customer status. A more customer-friendly mechanism need to be put in place for ensuring a commercial and non discriminatory approach to issues of the sector.
- ii) As there is scope for considerable reduction in the cost, a regulatory framework would facilitate a progressive approach in this directions
- iii) Rationalisation of tariff shall be such so as to make the pricing non-discriminatory
- iv) As all thermal power plants are impacted by bunching of rakes by the railways for their operational reasons, free time should be increased suitably
- v) For new projects/projects having BOBR facility, transportation only through BOBR shall be sanctioned as it would be economical, involve less man power and be more facile enabling low cost power to the consumer

Need for Reforms in Gas Sector:

- i) A Regulatory framework may be constituted to ensure non discriminatory access to gas sources and pipelines for power and other sectors while promoting market forces
- ii) A hydro carbon highway shall be formed in consultation with state governments by the Government of India with the Oil companies to ensure right of use of gas pipeline on the lines of open access in the power sector.
- iii) Vibrant National Energy Council may be constituted for discussion of problems of common interest and resolve issues.

Need for Representation of CPU in various Fora dealing with the above issues at the Government of India.

CPU shall take up with the Ministries of Coal, Railway, Petroleum and Natural Gas for representation in important Policy making and executive forums/mechanisms like the standing linkage committee in the Coal so as to ensure the views & the interests of the power utilities.



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Dear Shri Kumar,

The revised suggestions for discussions in the next meeting of Sub Group-4 are enclosed.
This supercedes our early suggestions sent on 11.7.06 by email.

Thanking you,

Yours sincerely,

C.V.J.Varma

Encl: As above