

APP

Annual Report 2015-16

(Presented during the 7th AGM on 10th May 2016)

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1. Working of the Association

The Association ended the previous year 2014-15 with 31 members. Three members withdrew their subscription for 2015-16 (KSK Mahanadi, Monnet Power and Welspun). However there was also an addition of 2 new members to the Association during 2015-16 – JP Power and ACB India. With this, the total strength of APP was 30 at the end of 2015-16.

During the AGM of the Association held on 12th May 2015, the Chairman for the previous year, Shri K. Rajagopal stepped down and was succeeded by Shri Vneet Jaain (CEO, Adani Power) who had given his consent for the post of Chairman. For the post of Vice Chairman, there was only one nomination and accordingly Shri Ashis Basu (GMR Energy) was nominated as Vice Chairman till the next AGM

Following consultations between the Chairman, Vice Chairman and DG, it was decided that the following members (representatives at the level of CEO/Whole time Director) would be a part of APP's Managing Committee for 2015-16

- Shri Vneet Jaain, Chairman APP)
- Shri Ashis Basu, Vice Chairman APP)
- Shri K. Rajagopal, Lanco Power
- Shri Lalit Jalan, Reliance Power
- Shri Sanjay Sagar, JSW Energy
- Shri Bernard Esselinckx, Meenakshi Energy
- Shri Anil Sardana, Tata Power

The Budget sub-committee was constituted with the following members:

- GMR Energy (Shri Ashis Basu, Vice Chairman APP)
- Lanco Power (Shri K. Rajagopal)
- GDF Suez-MEPL (nomination awaited - CEO/whole time Director)

2. Key activities/critical issues undertaken by the Association in 2015-16

Carrying on from the efforts of the previous year, the Government continued to make significant improvements in the coal supply and availability scenario in 2015-16. Annual coal production grew at a record pace of 9% and coal inventory at power plants stayed at comfortable levels throughout the year.

However, despite power generation increasing by 11% during the year on the back of capacity addition of about 24 GW, the power offtake scenario has not shown much improvement – evidenced by the fact that average PLF during 2015-16 at 62% has been even lower than the previous year (64%). The subdued demand situation led to Coal India mine pithead stockpiles rising to a record high of 58 MT.

APP efforts during the year were focused on policy issues pertaining to coal supply and allocation, grade slippage and 3rd party sampling regulatory issues such as transmission planning and relinquishment of Long Term Access charges, bidding documents for the UMPPs and Case 1 projects, operational matters concerning quality and logistics of coal supplies, analysis of impact of new emission and water consumption norms and other miscellaneous matters.

A meeting held with the Power Minister on stressed assets in July provided us with a lot of hope for early resolution of some critical issues such as clarity on the new coal linkage allocation framework, allowing coal supply under FSA for medium term PPAs, amendment in the mega power policy to remove difficulties being faced by projects with host State power supply obligations and fast tracking of disputes related to tariff adjustment and regulatory jurisdiction.

These issues were again discussed with the new Secretary, Shri P.K. Pujari on multiple occasions since he took office in June 2015. However despite the Ministry of Power's assurances of early action, most of these issues dragged on throughout the year and many of them still remain pending for resolution.

Despite several requests made to the Government to expedite the future coal linkage allocation policy and to provide clarity on supplies of coal to the plants which either have valid linkages but have faced slippages in commissioning, plants which earlier had tapering linkages but lost their mines due to Supreme Court order or those which have PPAs but no linkages, the policy has yet not seen the light of day. Despite MoP's support for allowing FSA coal supplies under medium term PPAs, it took almost the entire year for MoC to finally agree to the proposal and there still has not been any official intimation of this decision. Despite clear cut recommendations in the Tariff Policy regarding the need for keeping 15% power untied even for projects with host State power supply obligations, required amendment in the mega power policy has not yet been affected. Even in the case of operational issues with coal supply, meetings were held with JS MoC and a co-ordination committee was formed at the level of CIL but actual action on the ground has been very slow.

However, going forward, the positive lining is that many of the above mentioned issues are expected to be resolved soon. Further, the Government's efforts in making the UDAY scheme a success with regular monitoring of State performance is likely to help improve the demand scenario and we are hopeful that with the improved coal availability, average power plant PLFs may finally see an improvement.

Key issues taken up by APP during the course of the year are detailed below.

- **Coal related issues**

- i. Prospective coal linkage allocation framework**

An Inter-Ministerial Committee was constituted in January 2015 under the chairmanship of Additional Secretary, MoC to consider the possibility of auction of coal linkages, study the various possible models of implementation and recommend the optimal structure that would meet the requirement of all stakeholders.

In our many representations to the Government on this issue, we had categorically outlined that any new linkage auction framework should be prospective in its application and not impair earlier commitments made by the Government. Our considered view was that the requirements of the following categories of projects would need to be accommodated first before introducing the auction process - projects already granted long term linkages/LoAs, CCEA approved capacity of 4,660 MW and other similarly placed projects, projects with concluded PPAs and the projects which were earlier allotted coal mines and unable to secure mines in the recent coal block auctions.

In the fifth meeting of the IMC, an Approach Paper circulated to the Committee recommended that coal linkages could be granted through earmarking of linkages to the States/DISCOMS who would then assign the linkages to successful bidders in tariff based bidding processes. While APP was broadly in agreement with this principle and felt that the shift in allocation of linkages from Supplier to Procurer would eliminate the issue being faced currently wherein plants with valid linkages have remained stranded for want of PPAs after commissioning due to the lack of Case 1 bidding opportunities in the market, we again highlighted the need to account separately for the above mentioned category of projects with prior commitment from the Government. Regarding the allocation of linkages to projects with already concluded PPAs, we have represented to the Government that the Regulator may be given the freedom to allow the pass through of fuel cost on actuals without any restrictions.

However, there has been significant delay in announcing the final policy due to difference in opinion between MoP and MoC on the treatment to be accorded to linkage based projects beyond the 78,000 MW list and the CCEA approved category of 4,660 MW and other similarly placed projects.

Due to the delay in announcing the new linkage allocation policy, many plants have faced severe uncertainty regarding continuity or availability of coal supplies to their projects. Further, linkage based projects belonging to the CCEA approved 78,000 MW category but which have been commissioned in 2015-16 have not started receiving coal supplies due to delay in approaching the Cabinet for approval (since the earlier CCEA decision for signing of FSAs was limited to projects from the 78,000 MW list commissioning before March 2015).

Similarly in the case of CCEA approved 4,660 MW and other similarly placed projects which have been getting coal supplies on MoU/best effort basis, there was no clarity on their coal supplies after March 2016, and only recently they have been given a 3 month extension till the end of June 2016.

APP has pointed out to MoC and MoP that it usually takes about 2-3 years for commencement of power supply after a bid process is initiated, and it is therefore crucial to provide coal supplies to the above categories of plants in the interim to ensure that the planned generation program stays on track.

ii. Third Party Sampling

As per the decision taken during the meeting with the Power Minister in June 2014, the CEA Committee constituted to make necessary amendments to the Standard Operating Procedure for 3rd party sampling submitted its final recommendations. However Coal India was not agreeable to sampling and analysis being performed by third party agency selected by the power utilities and notwithstanding the recommendations of the CEA Committee, Coal India went ahead and made consequential changes in the FSA based on the earlier unilateral modification made by the CIL Board in May 2015 to the SOP for 3rd party sampling. APP wrote to the Minister on 01st October asking for his personal intervention in the matter.

A review meeting was taken by the Minister in October wherein he expressed strong displeasure over CIL's handling of the 3rd party sampling procedure. After detailed discussions, it was decided that a single and neutral third party agency (CIMFR, who could appoint Technical Service Providers as per requirement) would be appointed by both seller and purchaser on a 50-50 cost sharing basis. Four samples would be taken - for analysis by CIMFR, one each for seller and purchaser and final as referee sample. It was also decided that the referee sample would be kept by the 3rd party under joint seal of the seller and purchaser.

A Committee was constituted under the co-chairmanship of Director (Operations), NTPC and Director (Marketing) CIL with representatives from CEA, CIL, DVC, APP, State Gencos (Gujarat, Rajasthan, Haryana, MP, Karnataka) and Railways to facilitate the operationalization of the Third Party Sampling process for coal supplies to power plants including e-auction. Five meetings of the Committee were held over the course of the year (on 1st Dec 2015, 17th Dec 2015, 4th Jan 2016 and 10th March 2016) and various modalities related to the role of CIMFR, roadmap for the 3rd party sampling, augur sampling, referee analysis laboratories, involvement of Railways to ensure transportation of coal as per billed quantity etc were discussed and recommendations finalized.

Subsequently, in an order dated 25th Jan 2016, CERC specified that measurement of GCV of coal on 'as received' basis from the loaded wagons at the generating stations is the most appropriate method for computation of energy charge. It was felt that engaging CIMFR for sampling and analysis at the unloading end might lead to reduced instances of disputes such as the recently filed petition by TPDDL against NTPC wherein it has been alleged that the coal received at NTPC stations is as much as 9 bands lower than the invoiced coal quality. However this option of 3rd party

sampling and analysis at the unloading end has been left completely optional at the instance of the generator.

Accordingly, a trilateral MoU was finalized which would be signed between CIL, power utilities and CIMFR. A bilateral MoU is also being prepared which may be signed between the power utilities (who wish to go in for 3rd party sampling by CIMFR at unloading end) and CIMFR. While the MoUs are likely to be finalized within one month, MoC appears to have some reluctance regarding sampling and analysis at the receiving end. In the meantime, CIMFR has issued tender documents for selection of Technical Service Providers

iii. Operational issues with coal supplies

A meeting was arranged with the Coal India CMD in October to discuss various operational issues with coal supplies that had been affecting the power producers. One of the long pending issues which APP had highlighted many times in the past was regarding the lapsing of coal quantity that remained unlifted beyond a month. CIL agreed that any loss arising out of lapse in rail programme could be made good within 90 days by offering coal through road mode to interested power consumers. Other issues raised were - levy of washery recovery charges for supply of unwashed coal, restriction in coal supplies to power sector from SECL sidings in Korba, penalty for overloading of rakes having to be borne by power utilities despite no fault of theirs, charging of performance incentive on additional coal bought to compensate for grade slippages, redundancy of site inspection by coal subsidiaries before commencement of coal supply under FSA, sizing of coal etc.

Coal India Chairman assured the delegation that these concerns would be examined by CIL. Subsequently a Committee was constituted comprising members from CIL, APP and CCAI. The first meeting of the Committee was held on 28th Jan where all the above points were again discussed and CIL again informed that they would examine the issues.

These operational issues were also discussed with Shri R.K. Sinha (JS Coal) on 4th December and a detailed note forwarded to MoC for necessary action. Despite reminder requests for intimation of any action or decisions taken, there has been no response from MoC and a follow up meeting may be required again.

iv. Allowing coal supply under FSA for Medium term PPAs

This has been a long standing request of APP. It may be recalled that the retrospective restriction of allowing FSA coal supplies only under long term PPAs was imposed in 2013 to tide over the coal shortfall situation persisting at that time. Highlighting that the medium term power procurement also takes place under competitive bidding which ensures that lower cost of notified coal is passed on to consumers and that the Discoms too need to rely on medium term PPAs for proper load management, we had requested that medium term PPAs be allowed for coal supply under FSA especially since the coal availability scenario has improved considerably at present.

While MoP was in agreement with the request and had also recommended to MoC that this may be considered, MoC had refrained from taking action on this matter for

a long time. Our request was also made separately on the PMG portal, and during a review meeting held by the PMG in February, we were informed by MoC that our request has been accepted internally. However this decision needs to be ratified by the CCEA since the CCEA decision in 2013 had limited FSA supplies to long term PPAs. MoC mentioned that this would be done within a maximum timeframe of 2 months.

v. Coal transportation

Due to declining coal movement caused by the slowdown in electricity demand, Railways called an APP delegation along with coal companies for a joint meeting with Member Traffic on 12th January to discuss ideas for overall railway traffic growth. It was suggested that a joint task force comprising of railways, coal companies and power generators (both IPPs and State/Central generators) can help in better planning for coal production and movement. APP also took the opportunity to suggest that a Transport Service Agreement may be signed with the generators to ensure minimum commitments on both sides. Other issues such as lapsing of rakes and according higher transport priority to coal auction supplies were also discussed. Member Traffic assured the delegation that such interactive meetings would be held regularly going forward. A comprehensive note outlining all the transportation related issues was sent to the Railways and MoC subsequently.

vi. Special e-auction for power sector

Pursuant to MoC's OM dated 30th June which announced a separate e-auction for power sector, MoC issued broad guidelines for the special e-auction on 21st Aug. This was followed up by CIL's notice issued on 4th Sep which highlighted the salient features of the scheme. APP subsequently requested MOC to resolve some operational issues related to the special e-auction related to registration (on plant basis instead of units), relaxing requirement of CTO as well as certification requirements, validity period for lifting of coal etc. APP also requested for the 20% price premium to be removed in order to improve participation. Coal India subsequently reduced the premium to 10% in light of poor response in the first two rounds.

• New emission norms for coal based power plants

New emission norms for coal based power plants were proposed by MoEF in May 2015. Plants were categorized into 3 categories on the basis of year of commissioning and emission and water consumption levels were specified for these categories. An Inter-Ministerial Committee was set up by MoP to discuss the proposed norms and both CEA and APP submitted similar views opposing the retrospective implementation of norms without any corresponding cost benefit analysis. Various practical difficulties in implementation were highlighted by the stakeholders and even by the IMC constituted by MoP. However MoEF went ahead and notified the norms without taking into account the realistic and pragmatic ground realities.

In a detailed note submitted to CEA and MoP, APP outlined the implications of compliance with the new norms with regard to technological, operational, financial and regulatory concerns. APP has suggested that aging plants where the cost of retrofitting cannot be recovered without a significant hike in tariff may be exempted

or gradually phased out. We have also made clear that the water consumption norms cannot be met by installing cooling towers for coastal plants based on once through cooling. As a way forward, it has been suggested that implementation should be taken up in phases in order to minimize the impact of plant shutdowns on the grid and also to provide time to the domestic equipment manufacturers to augment their technology and capacity.

As the regulators will have an important role to play in ensuring pass through of additional expenditure and increased operating expenses, APP made a presentation to the Forum of Regulators to sensitize them of the matter. The Regulators were in agreement with the assessment that the proposed 2 year timeline for compliance is far too less and they informed that they would deliberate further regarding any possible framework for quick regulatory approvals for the modifications/expenditure required.

- **Charges for relinquishment of LTA**

It may be recalled that the issue of stranded capacity upon relinquishment of LTA and the corresponding compensation amount was analysed by the CERC in its order dated 16th Feb 2015. The Commission had directed CEA to suggest a methodology to work out stranded capacity and the formula for calculating corresponding relinquishment charges of LTA keeping in view the load generation scenario and power flows considered at the time of planning and changes subsequent to proposed relinquishment. However, as CEA could not submit specific recommendations, the Commission constituted a Committee comprising of representatives from CTU, CEA, POSOCO, APP and the CERC staff to go into all aspects of stranded capacity, relinquishment charges and suggest a way forward.

Over four meetings during the course of year, the Committee deliberated regarding the calculation of exact quantum of stranded capacity (if any). While CTU initially insisted that it was not possible to determine the extent to which a transmission element can get stranded in a meshed network, a sub group comprising of CEA, CTU and POSOCO representatives were asked to carry out system studies to determine the quantum of stranded capacity.

However the system studies conducted by the sub-group were contested and some members of the Committee felt that not only was it impossible to have any 'stranded capacity' in a meshed network but the studies themselves were flawed technically. APP also highlighted that such system studies were based on many assumptions and approximations, and asking generators to pay compensation based on such approximations may not hold up to legal scrutiny. At the same time, many other members of the Committee tried to justify the imposition of relinquishment charges based on the calculation proposed by CTU.

APP's views on this issue were firmed up after discussing the issue internally within a sub-committee and then finalizing it in the APP meeting held on 9th Feb. APP has taken a stance that no relinquishment charges should be applicable for any request for change of region or where no system strengthening has been completed or where there are pending LTA applications to the same region. In case of delays in generation project due to factors beyond control, we have suggested that the generator may be

allowed to postpone LTA rights in commensuration with commissioning of generation project subject to payment of transmission charges net of revenues obtained through MTOA/STOA.

The Committee report is presently in the process of being finalized.

- **Amendments to the Tariff Policy**

In May 2015, MoP invited comments on the proposed amendments to the Tariff Policy as uploaded on their site. APP provided many suggestions on important issues related to the Tariff Policy to resolve the many ongoing disputes and protect the private investments in the sector. Some of the key suggestions of APP which were highlighted by APP during the Minister's meeting in June and subsequently sent to MoP as a written representation and were reflected in the revised Tariff Policy notified by the Government in Jan 2016 were:

- While the suggestion that both routes of power procurement (under Section 62 and 63 of the Act) may be kept open was not considered; our request for allowing one time expansion by private developers of up to 100% of existing capacity under Section 62 was accepted (against the previous proposal of allowing up to 50% expansion).
- Clarity was provided for projects which are obliged to sell power to the host States on regulated tariff basis that such power to be sold to the States would be limited to 35% of installed capacity and would not be included in the 15% capacity allowed to be kept outside long term PPA by the National Electricity Policy.
- Regarding the pass through of cost of deficit coal to meet any shortage in coal supplies from CIL under their obligation under LoA/FSA, our request to link the coal shortfall amount to the assured quantity as indicated in the LoA/FSA instead of a notional assured quantity of 85% was accepted.
- Keeping in mind the various disputes regarding the pass through of any changes in domestic taxes and duties, we had asked for automatic pass through of such changes in tariff. Our request was considered to the extent that the revised Tariff Policy specified such changes in domestic taxes, duties and other levies to be events of 'change in law' which would be pass through in tariff after Regulatory approval.

- **Mega Power Policy**

APP had highlighted on numerous occasions the difficulty being faced by projects with host State power sale obligations to tie up 100% of their installed capacity in order to avail of benefits under the Mega Power Policy. This issue inched towards resolution with the revised Tariff Policy which clearly specified that up to 35% of the installed capacity can be tied up with the host State at regulated tariff and 15% of the installed capacity should be left untied. Thus, for a project which supplies 35% of its

capacity to the host State, the revised Tariff Policy clearly provides for a balance maximum of 50% of installed capacity which is to be tied up under competitive bidding basis. We have requested MoP to make this necessary amendment in the Mega Power Policy and we have also requested for extension in the permissible timelines for signing of PPA by another 36 months in view of the lack of adequate bidding opportunities.

Recognizing that the issue is genuine, the matter has been referred to the Expert Committee headed by Shri Pratyush Sinha for further study.

- **State specific issues**

During the year APP took up a number of State specific issues such as the demand for concessional power in lieu of coal consumed from the mines in the State and the levy of Energy Duty on the power consumed by the auxiliaries of the power plant in the process of generating power. Some of the APP members volunteered to fix up and coordinate meetings with senior officials in the States of Madhya Pradesh, Odisha, Chattisgarh and Jharkhand. A meeting was eventually fixed with the Principal Secretary (Energy) of Madhya Pradesh in May 2015. The Principal Secretary was informed about the change in ground realities such as reverse bidding for coal auctions leading to significantly higher revenue to the States and imposition of various retrospective restrictions on usage of linkage coal, due to which the earlier rationale of providing concessional power to the State did not exist anymore.

The issue of charging Electricity Duty and Energy Development Cess from the IPPs located in Madhya Pradesh was highlighted and it was pointed out that such discriminatory levies would discourage further investments in the State. State Government support was also requested for treating generation of power as an Industry under the State's Industrial Promotion Policy which would lead to the benefit of Entry Tax exemption to be applicable to power projects. The delegation also pointed out the high water charges and requested that water charges may be waived in instances where the developers have had to incur significant capital investment in making barrages themselves.

While the Principal Secretary (Energy) asked for some additional details on the above issues and assured the delegation that the concerns raised would be duly considered, soon after our meeting we received intimation that our request for exemption on payment of Electricity Duty on auxiliary consumption was not accepted.

The issue of free/concessional power to the States was also raised during the July meeting on stressed assets with the Power Minister. While he agreed with the need for doing away with such requirements, his view was that the Centre had limited scope in this aspect considering the federal structure of the sector. However the Government took the positive step of clearly specifying in the revised Tariff Policy issued in Jan 2016 that the tariff for any power to be procured by the State (limited to 35% of installed capacity) will be determined under Section 62 of the Electricity Act.

- **Writ Petition against CERC Tariff Regulations 2014-19 in Delhi High Court**

In the previous year FY15, CERC had provided a written response to APP's presentation made to the Commission and also filed a counter affidavit rejecting all the prayers made by APP. While APP and NTPC again filed rejoinders on the main issues in the petition, a sur-rejoinder filed by CERC contended that GCV 'as received' would mean 'as received at the stage of unloading' instead of the stand taken by CERC earlier that it would mean 'after the secondary crusher and before stacking'.

APP took the stand that there are difficulties with measuring the GCV at the point of unloading and that measurement of GCV should be done after the secondary crusher as samples taken of the crushed coal is a better representative of the sample as a whole. The High Court subsequently granted liberty to the petitioners to approach the CERC on the issue of interpretation of the term 'as received' and directed CERC to decide the matter within a period of 4 weeks. APP subsequently filed written submissions to CERC wherein it provided details of number of generating companies which had secondary crushers installed on the project site as desired by CERC.

Subsequently, in its order dated 25th Jan 2016, the Commission has specified that measurement of GCV of coal on 'as received' basis from the loaded wagons at the generating stations is the most appropriate method for computation of energy charges.

- **Stalled projects and cost overrun funding**

Through circular dated 14th August 2014, RBI had allowed banks to fund project cost overruns without treating the loan as a 'restructured asset' as long as the delay is within specified timelines. However such funding of cost overruns (excluding IDC) was only limited to 10% of the original project cost, and APP requested the RBI for increasing the limit from 10% to at least 20% in order to expedite the implementation of the projects facing delays. APP also brought to the notice of the Ministry of Finance and the PMO regarding the difficulties being faced by the developers in concluding cost overrun funding through their lender consortiums. A meeting was held with Shri Nripendra Mishra, PS to PM where his support was requested to ensure that all consortium members adhere to the Joint Lenders Forum decisions with regard to cost overrun funding and for uniform adoption of terms and principles among the consortium members. Action in this regard is awaited.

- **Standard Bidding Documents**

- i. **Case 1 (DBFOO)**

Based on views expressed by the industry earlier, MoP made some amendments to the bidding documents and the guidelines on 5th May 2015. The requirement of seeking approval of Central Government for any deviations in the SBDs was modified to the extent that such approval would be required from the Appropriate Commission (in line with the old bidding documents). The restriction of shortlisting maximum seven bidders for the RFP stage was removed. The requirement of seeking approval of Procurers for expansion and creation of Additional Capacity was also removed.

However many other critical concerns with the DBFOO document remained unchanged with this amendment. Consequently APP again requested the Ministry to consider our requests for removal of open capacity, allowing bids from multiple power plants of same bidder, removal of condition requiring other bidders to match L1 bid etc. Clause wise changes required were also sent to MoP.

In the meantime, some States such as Andhra Pradesh initiated power procurement bids under Case 1 based on the DBFOO documents. Unfortunately, the stringent SHR requirements under the DBFOO documents were adopted by the States thereby making participation difficult for the projects which had placed BTG orders before the notification of the DBFOO documents. While MoP had initially agreed to issue a clarification that the SHR requirement may be in line with the existing CERC Regulations at the time of bid process initiation, MoP later took a stand that the developers need to approach the respective States and get the bidding documents modified as necessary.

ii. UMPP bidding documents

MoP entrusted an Expert Committee headed by Shri Pratyush Sinha to finalize bidding documents for imported coal and captive coal based UMPPs. While these bidding documents took care of the earlier misadventure of 'open capacity' and also removed the earlier caps and arbitrary benchmarks on variable charges, they introduced new risk factors related to land acquisition, clearances and operational difficulties associated with a two SPV model.

By segregating the power station land into two components, one critical and the other non-critical (as to be decided by the Procurer), and leaving the responsibility of procuring the non-critical land on the Seller, the model greatly differed from the 'plug and play' framework. In the case of UMPPs based on captive mines, coal block land sufficient for only first 5 years of operation would be handed over to the developer and the responsibility of remaining land acquisition and clearances was kept with the developer. These provisions also added to the commercial risk as the developer was not adequately safeguarded in the case of subsequent increase in land acquisition cost. APP highlighted these concerns along with other critical ones through presentations made to the Expert Committee and written submissions to the Ministry wherein it also stressed upon the need for introducing review mechanisms in the contracts for unforeseeable circumstances, in line with the recommendations of the Kelkar Committee and also the need for covering change in law in coal source countries. As per recent media reports, the Ministry has sent the domestic coal block based UMPP bidding documents to the Cabinet for approval.

During the APP meeting held on 14th Jan 2015, some key concerns related to the standard auction documents were discussed among members, and APP agreed to make a representation to MoP and MoC requesting for removal of condition of allowing only top 50% of initial price offers to be qualified to submit final price offer and seeking clarification on issues such as process of review of energy charge under PPA, factoring of upfront payment in energy charge and treatment of transportation cost as the bidding documents do not provide option for quoting separate

transportation cost for captive mines. Subsequent to the first two rounds of auctions, APP requested MoP to evolve a framework to ensure adequate opportunities to the winning bidders to conclude PPAs at the earliest.

- **Scheme for utilization of gas based plants through auction for PSDF support**

During the year MoP operationalized the scheme envisaged for supply of imported spot RLNG to the stranded gas based plants who were selected through a reverse bidding process for the lowest amount of subsidy required to generate additional power up to the target PLF. Based on the experiences of the bidders during the first two rounds of the auction process held during the year, APP collected suggestions from its members and sent multiple representations to MOP on changes required to improve the auction process.

A major issue which impacted the availability of gas to the successful bidders situated in the eastern state of Andhra Pradesh was the delay in issuing clarification by the Department of Revenue regarding the issue of swapping and comingling of gas. This was required to avoid double taxation which would be levied on the plants in AP as these plants were not physically connected to the pipeline and hence would not be able to use the imported RLNG directly (imported through terminals situated on the west coast) and would instead need to swap domestic KGD6 gas with fertilizer plants situated in western states. There was also delay by the States in amending their State VAT acts in line with the provisions laid out in the OM issued by MoP regarding this e-bid RLNG scheme.

Despite multiple representations from APP to the Centre and the States, action was slow on this front. Eventually, AP issued an order regarding exemption of VAT but it was applicable only on the sales of 'e-bid RLNG' which made the order ineffective for the gas based power plants in AP as they would be utilizing domestic KGD6 gas through the swapping arrangement. Efforts are on to amend the existing State VAT Government Order and issue an order under Section 76 (2) of the AP VAT Act 2005 to operationalize the exemption of VAT.

- **Other issues**

- **Award of transmission projects** - Through letter sent to the Minister in September, APP highlighted that despite the recommendations of the Suresh Prabhu Committee that all transmission projects should be awarded on competitive bidding basis, almost Rs 30,000-50,000 crores worth of transmission projects linked to solar parks have been identified for awarding on nomination basis. We requested MoP to reconsider their stand and award all future transmission projects on competitive basis. It is learnt that subsequently an inter-departmental meeting on Phase II of the Green Corridor project has recommended that the evacuation system for future solar parks would be constructed through tariff based competitive bidding.
- **Regulatory Approvals** - In June 2015, the Government constituted an Expert Committee under the Chairmanship of Shri Ajay Shankar to examine the

possibility of replacing multiple prior permissions with a pre-existing regulatory mechanism with safeguards. Based on inputs received from members, previous representations sent to MoP committee on Ease of Doing Business and High Level Committee constituted by MoEF regarding clearances and approvals, APP compiled comments and sent it to the Expert Committee on 10th Sep. A meeting was held with the Expert Committee on 2nd Nov. DG APP explained the rationale behind APP's suggestions related to thermal, hydro, transmission and renewable projects. The final report of the Expert Committee was released in Feb 2016.

- **Escalation factor for rail transportation** – Vide its notification dated 7th April 2015, CERC had issued the escalation rates for inland transportation charges for coal for the period between 1st April 2015 to 30th September 2015. However it was noticed that while CERC had accounted for the increase in minimum distance for freight charges from 100 kms to 125 kms as per Railway Board notification dated 20th June 2014, CERC changed the first slab to 125 kms even for the months before June 2014 (before the implementation of the revised minimum distance for freight rates). This led to an anomaly in the computation of inland transportation escalation charges for a power plant with coal source within the range of 100 kms. DG APP highlighted this matter to Chairperson CERC in April in his capacity as Member, Central Advisory Committee of CERC. CERC subsequently issued a corrigendum in September based on APP's representation.