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STANDING COMMITTEE ON ENERGY (1996-97)

ELEVENTH LOK SABHA

MINISTRY OF POWER

DEMANDS FOR GRANTS (1996-97)

[Action Taken by the Government on the Recommendations contained in the Fourth Report of the Standing Committee on Energy (Eleventh Lok Sabha)]

TWELFTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

April, 1997/Chaitra, 1919 (Saka)

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Presented to Lok Sabha on..........22 APR 1997
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INTRODUCTION

I, the Chairman, Standing Committee on Energy having been authorised by the Committee to present the Report on their behalf, present this Twelfth Report (Eleventh Lok Sabha) on the Action Taken by the Government on the recommendations contained in the Fourth Report of the Standing Committee on Energy (Eleventh Lok Sabha) on Demands for Grants (1996-97) of Ministry of Power.

2. The Fourth Report (Eleventh Lok Sabha) of Standing Committee on Energy was presented to Lok Sabha on 3rd September, 1996. Replies of the Government to the recommendations contained in the Report were received on 13th December, 1996. The Standing Committee on Energy considered and adopted this report at their sitting held on 17th March, 1997.

3. An analysis of the action taken by the Government on the recommendations contained in the Fourth Report of the Committee is given in Appendix II.

NEW DELHI;
April 4, 1997
Chaitra 14, 1919 (Saka)

JAGMOHAN,
Chairman,
Standing Committee on Energy.

CHAPTER I

REPORT

The Report of the Committee deals with Action Taken by the Government on the recommendations contained in the Fourth Report (Eleventh Lok Sabha) of the Standing Committee on Energy on "Demands for Grants (1996-97) of Ministry of Power" which was presented to Lok Sabha on 3rd September, 1996.

2. Action Taken Notes have been received from the Government in respect of all the 9 recommendations contained in the Report. These have been categorised as follows :—

(i) Recommendations/Observations that have been accepted by the Government : Sl. Nos. 1, 3, 5, 7, 8 and 9

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies : Nil.

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee : Sl. No. 2

(iv) Recommendations/Observations in respect of which final replies of the Government are still awaited : Sl. Nos. 4 and 6.

3. The Committee require that final replies in respect of the recommendations for which only interim replies have been given by the Government ought to be furnished to the Committee at the earliest.

4. The Committee will now deal with the Action Taken by the Government on some of their recommendations :—

A. Capacity Addition during Eighth Plan

Recommendation (Sl. No. 2)

5. The Committee had expressed their concern over the shortfall of achievement in the capacity addition during the 8th Plan period.

The achievement was only 14799 MW which was only 58% of the target of 30537.7 MW. The Ministry had attributed this failure to the resource crunch and to the attitude of the State Governments, who, thinking that investment in this sector would be forthcoming from the private sector, had not allocated sufficient funds on their own generation of electricity.

6. The Committee were of the opinion that the Ministry should have kept the situation under review and should have taken corrective measures at the time of mid-term appraisal of Eighth Five year plan. It should have persuaded State Governments and the Planning Commission to provide adequate funds instead of pinning their hopes on private sector during the four years of Eighth Plan period.

7. The Committee regret to note that instead of admitting the lapse on their part in persuading Planning Commission and State Governments for allocating necessary funds for generation of electricity, the Ministry have only resubmitted their earlier statement that State Governments, anticipating private investment in a big way in the generation area, did not invest and diverted the funds towards transmission and distribution. The Committee note that Ministry had not taken any step during the eighth plan period to ensure flow of funds for generation of power. The Committee reiterate their earlier recommendation that Ministry should have persuaded the Planning Commission and State Governments for allocating adequate funds for generation of electricity.

B. Comprehensive Fuel Policy

Recommendation (Sl. No. 4)

8. The Committee had *inter-alia* noted that policy launched in 1991 had failed to sort out the problems relating to legally enforceable fuel supply/transport agreements. In this context, the committee had drawn the attention of the Ministry to the recommendation made by the Committee in their Twenty-Sixth Report (Tenth Lok Sabha) where they had recommended for drawing up of a comprehensive fuel policy and to take into consideration fuel supply/transport agreements while finalising a project.

9. In this regard, the Ministry have stated that the Government have engaged International Consultants through a process of competitive bidding for preparation of model fuel supply and

transportation agreements. The Consultants were expected to submit the draft principles of fuel supply and transportation agreements, by January, 1997.

10. The Government have also stated that an Energy Policy Committee under the Chairmanship of Member (Energy), Planning Commission to develop comprehensive energy policy has separately been constituted. The report of the Committee is awaited.

11. The Ministry have also informed that after the announcement of the Private power policy, many State Governments have opted for power plants based on liquid fuels in order to meet the demand-supply gap in a short term. Requests have been received from the States to determine norms and parameters for liquid fuel based power plants. Considering these requests, Government of India have examined the feasibility of setting up such plants and after inter-ministerial discussions with Ministry of Petroleum & Natural Gas, Oil Coordination Committee and the Planning Commission, a restrictive policy on such power plants have been announced in November, 1995. It was recognised that, given the limited availability of such fuels in the domestic market and constraints on imports, only a limited capacity could come up based on such liquid fuels. Principles of allocation of liquid fuels between different projects/states, were under finalisation.

12. The Committee in their Twenty-Sixth Report (Tenth Lok Sabha) had desired that a comprehensive fuel policy should be laid down. Though this Report was presented to Parliament on 31st May, 1995, the Committee regret to note that Ministry have failed to frame a comprehensive fuel policy as yet. The Committee find that in the absence of a fuel policy, State Governments are individually approaching the Centre to determine norms and parameters for liquid fuel based power plants. The Committee therefore, desire that draft principles for fuel supply and transport agreement and a comprehensive energy policy should be finalised on priority basis. The Committee will await the reply of the Government in this regard.

C. *Rural Electrification Corporation*

Recommendation (Sl. No. 6)

13. Rural Electrification Corporation is an organisation which is involved in a vital sector of development and has a role to play in every nook and corner of the country. The Committee were distressed

to note that the financial matters pertaining to this Corporation were not being managed properly. The Committee had observed that the loan agreements between Government of India and OECF, Japan was signed on 23.1.1991. There was a dispute between OECF and Government of India over the appointment of the foreign consultant. The consultant was appointed in December, 1993. The Committee were constrained to note that this disagreement dragged on for over three years before it was settled. The Committee had expected that the Government/REC should have been aware of the procedure followed by the OECF. All the terms and conditions should have been settled amicably before the acceptance of the loan amount. The Committee were of the opinion that, while expertise was available with SEBs, the loan from OECF was received with a string attached i.e. the appointment of a consultant. Keeping in view the availability of expertise in the SEBs, the Ministry should have found a way out for its utilisation. If foreign consultants had to be appointed, there should not have been such a long delay in doing so.

14. The Committee had also observed that the present system of distribution of loans by REC was unsound and required to be examined. Short-term loans at high rates of interest cannot answer the need of the situation. They prevent Rural Electrification Corporation from achieving its goals. The Committee had desired a review of the present financial pattern.

15. The Committee regret that Ministry have not explained the reasons for the delay of 3 years in appointing a foreign consultant and the compulsions for accepting appointment of a consultant. The Ministry should apprise the Committee about the need and delay in appointment of consultant.

16. In the context of reviewing the present financing pattern to REC, the Ministry have stated that Rural Electrification Corporation (REC) sanctions loans to State Electricity Boards (SEBs) and Rural Electric Cooperative Societies for implementation of various RE programmes for village electrification, pumpset energisation, System Improvement, Rural Electric Cooperatives, Dalit Bastis on varying rates of interest for different categories of loans taking into account relevant factors including returns on investments, exposure risks, cross susbsidisation and administrative cost etc. Government of India extends loans to REC at 12% per annum which in turn are passed on to various SEBs with varying rate of interest to ensure a minimum spread for REC. The loans for Dalit Bastis schemes is given at 7% concessional

rate and for the Minimum Needs programme (MNP) at 12.5%. It varies from 13.5 to 16.00% for other programmes which take into account relevant factors like gestation period, return on investment, spread of interest etc.

17. In regard to OECF loan, the Ministry have stated that OECF sanctioned a loan in "Yen" to Government of India at the interest rate of 2.5% per annum to be repaid in 30 years with 10 years moratorium. Government of India which have to repay the loan by assuming all foreign exchange and other risks of this long term loan have made available this loan to REC in Rupees at 12% rate of interest per annum to be repaid in 15 years with a moratorium of 5 years. In turn, REC provides the loans to projects financed by it under Conservation of Energy category of schemes for which an interest rate of 16% is charged and loan has to be repaid in 7 years with 2 years moratorium. The small hydro projects of OECF are comparable with REC SP-DGs category of schemes and on the same analogy an interest rate of 14% is charged and loan has to be repaid in 8 years with a moratorium of 2 years.

18. The Ministry of Power stated to have taken up the matter with the Ministry of Finance for reducing the interest rate on OECF loan. The Ministry have also approached both Planning Commission and Ministry of Finance for extending loans at relatively low rates of interest or as a Mix of grants and loan which would be helpful and motivate some of the SEBs to take up the programme of villages electrification which is normally unremunerative and needs to be subsidised by the State Government.

19. The Committee had observed that existing loan distribution system of REC was not conducive to its goal and had suggested review of present financial pattern. However, the Committee are unhappy to note that the Ministry of Power have only taken up the matter with Ministry of Finance for reducing the interest rate on OECF loan and approached both Planning Commission and Ministry of Finance for extending loans at relatively low rates of interest or as a Mix of grants and loan. The Committee stress that Ministry should vigorously pursue the matter with Planning Commission and Ministry of Finance so as to lower the rate of interest and to provide grants for rural electrification programmes. The Committee desire that Ministry should inform the Committee about the action taken by Ministry of Finance and Planning Commission in this regard.

D. Transmission and Distribution

Recommendation (Sl. No. 9)

20. The Committee were of the view that Transmission and Distribution losses due to non-technical factors like pilferage of energy, defective meters and unmetered supply can be reduced with minimum investments.

21. The Ministry in their reply have stated that the suggestion of the Committee would be a step in the right direction. However, the Ministry have not spelt out any concrete step to solve the problem.

22. So far as technical losses are concerned the Committee had desired the Ministry to identify the system elements responsible for such losses and formulate system improvement schemes for strengthening and improvement of Sub-Transmission and Distribution System.

23. In this context the Ministry have stated that the suggestion of the Committee regarding system improvement schemes would also contribute to reduction in T&D losses. In this connection, the Ministry have informed that Central Electricity Authority (CEA) had issued "Guidelines for Reduction in T&D losses" in February, 1986 and subsequently revised in July, 1991. In the guidelines, the utilities were advised to conduct pilot studies to evolve optimum parameters for loading of different sizes of conductor, length of lines, distribution transformation capacities. They were also advised to formulate system improvement schemes based on these studies. "Guidelines for conducting energy Audit" were issued to SEBs/EDs in April, 1991 and were revised in May, 1992 wherein the usefulness and desirability of conducting Energy Audit in the power system to identify areas of higher losses was clearly brought out.

24. The Ministry have also mentioned that the power distribution falls within the purview of the State Governments and SEBs/EDs are responsible for taking necessary steps for reduction of losses. The system improvement schemes generally cost less than Rs. 100 crores and do not require to be referred to CEA for techno-economic clearance.

25. The Ministry have further mentioned that since most of the State Electricity Boards are in a poor financial assistance from Power Finance Corporation/Rural Electrification Programme, their investments

in system improvement schemes have been rather tardy. The Ministry of Power have stated that the State Governments would be requested to earmark funds for implementation of system improvement schemes which would enable the implementation of system improvement schemes and help in reducing transmission and distribution losses.

26. The Committee note that though Ministry have agreed to their suggestions regarding the losses due to non-technical and technical factors, yet they have neither taken nor suggested any concrete step which can reduce transmission and distribution losses. The Committee are aware of the "Guidelines for Reduction in T&D losses" issued by CEA and "Guidelines for conducting energy Audit" issued to SEBs/EDs in April, 1991. However, Committee feel that inspite of all these guidelines the result on this account is not encouraging. Moreover, the SEBs, as admitted by the Ministry, due to poor financial assistance from PFC/REC programmes are not able to take up system improvement programme in right earnest. The Committee stress that Ministry should take adquate steps to ensure SEBs in getting adequate funds through all possible sources so that they can implement system improvement schemes expeditiously and, if necessary, bring out suitable modifications in the above mentioned guidelines for checking T&D losses.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Serial No. 1, Paragraph No. 4 and 6)

The Committee note that as per budgetary plan allocation 1996-97 the amount is Rs. 2572.81 crores. The budgetary plan support has increased from 1992-93 to 1994-95 but in the subsequent years 1995-96 and 1996-97 the budgetary support has decreased. The Committee are, therefore, not convinced by the contention of the Ministry that budgetary plan support has gradually been increasing on the whole.

The Committee observe that in the case of generation of thermal and hydel sectors and in the case of system improvement the budgetary support has been reduced. The Committee are deeply concerned about the current power crisis and its impact on all the sectors of economy. In the year 1995-96 also the achievement fell far short of the target and the Ministry should have tried to make up the shortfall in the year 1996-97. The budgetary support ought to have been increased substantially. The Committee are constrained to note that the budget outlay in crucial areas has been reduced without considering the aforesaid factors.

Reply of the Government

The Plan allocation for the Central Sector in the 8th Five Year Plan is Rs. 25,920 crores as against an allocation of Rs. 8842 crores in the 7th Five Year Plan. This higher allocation was made despite the Government having announced in November, 1991 its policy to invite private participation in the Power Sector i.e. before the beginning of the 8th Five Year Plan in April, 1992. Taking the overall position i.e. allocation for both the Central and State Sector, it is observed that allocation for the Power Sector in the country as a whole has been increased to Rs. 79,589.32 crores in the 8th Five Year Plan as against Rs. 34,273.46 crores in the 7th Plan.

Out of Rs. 25,920 crores, Rs. 17,979 crores is to be arranged through Internal and Extra Budgetary Resources (IEBR) which works out to

69.36% of the total 8th Plan outlay allocation for Ministry of Power. The balance amount of Rs. 7941 crores is provided as Gross Budgetary Support consisting of External Assistance through Budget amounting to Rs. 5441 crores and net Budgetary Support of Rs. 2500 crores.

The CPSUs of the Ministry of Power have been able to raise substantial resources by way of internal resources, bonds as well as through obtaining direct foreign assistance particularly by way of suppliers' credit from overseas. During the first four years of the 8th plan, the CPSUs have generated Rs. 4324.31 crores from 'Internal Resources', Rs. 2985.34 crores through 'Bond' and Rs. 3564.17 crores through 'Direct Foreign Assistance' outside the budget. It may be seen from the details given below the against the (GBS) allocation of Rs. 7941 crores in the 8th Plan, the Planning Commission has increased the gross budgetary support on the basis of the projection received from the Ministry as well as the guidelines issued by Ministry of Finance to let CPSUs avail of bilateral/multilateral assistance directly rather than receive it through budget :

(Rs. in crores)

8th Plan allocation			Gross Budgetary Support		
IEBR	GBS	TOTAL	EAB	NBS	TOTAL
17979	7941	25920	5441	2500	7941

Gross Budgetary Support

YEAR	BE			ACTUAL		
	EAB	NBS	TOTAL	EAB	NBS	TOTAL
1992-93	1425.00	660.00	2085.00	1426.00	529.59	1955.59
1993-94	1567.50	926.00	2493.50	1964.79	1090.26	3055.05
1994-95	2247.00	956.10	3203.10	1930.79	912.73	2843.52
1995-96	1907.61	1037.00	2944.61	1541.16	973.13	2514.29
1996-97	1505.30	1067.51	2572.81			
Total :	8652.41	4646.61	13299.02			

It may be seen from the above details that gross budgetary support to the Ministry of Power during 1995-96 and 1996-97 has decreased as compared to the allocation made in 1994-95. The allocation for EAB for 1995-96 was Rs. 1907.61 crore as compared to Rs. 2247.00 crores during 1994-95. This has been further reduced to Rs. 1505.30 crores in BE 1996-97. As regards Net Budgetary Support, there has been a slight increase both in BE 1995-96 and BE 1996-97 as compared to the allocation for BE 1994-95. The reduction in budgetary support (EAB portion) in 1995-96 *vis-a-vis* 1994-95 is primarily on account of the practice introduced by the Ministry of Finance in April, 1993 to let CPSUs avail of bilateral/multilateral assistance directly rather than receive it through the budget. The Time Slice loan from World Bank of US $ 400 million is being availed of by NTPC directly and consequently the disbursement during the year is reflected in the Internal & Extra Budgetary Resources as the "Direct Foreign Assistance" (DFA) component instead of the earlier practice of passing it to the Company as 'External assistance Through Budget' (EAB) which is a component of the Gross Budgetary Support (GBS). The position is similar with respect to Power Grid which is receiving the Power Grid System Development Project Loan of US $ 350 million directly from the World Bank. Further, Power Grid is also receiving loans in various currencies for the Chanderpura HVDC Back to Back Project directly from various Donor/commercial agencies. In fact, with the completion of on going projects in the power sector, the Gross Budgetary Support (EAB) portion would get reduced considerably and the IEBR portion will proportionally become larger.

[Ministry of Power, O.M. No. G-20020/3/96-Bud., dated 11.12.1996]

Recommendation (Serial No. 3, Paragraph No. 24)

The Committee note that the target for capacity addition in the Ministry's Performance Budget (1996-97) is on higher side *i.e.* 833.50 MW for central sector and 2200.00 MW for State sector. When the Committee specifically enquired about high target set for the year 1996-97 the Ministry clarified that the discrepancy has arisen mainly due to mis-classification of certain central and private sector projects as state sector projects and later on furnished a revised statement. The Committee expects the Ministry to be more careful in the preparation of Performance Budget which is presented to the Parliament.

Reply of the Government

The observations of the Committee regarding target for Capacity Addition has been noted. It would be ensured that there are no discrepancies arising out of misclassification of certain Central and Private Sector Projects as State Sector Projects and the concerned administrative wings have been directed to ensure that their material does not contain any such discrepancies in future.

[Ministry of Power (O.M. No. G-20020/3/96-Bud., dated 11.12.1996]

Recommendation (Serial No. 5, Paragraph Nos. 42, 43 and 44)

The Committee note that for decades the share of hydel power had been going down. The required hydro-thermal mix for providing peak support and preventing sub-optimal level operation of thermal plants is 40 : 60 whereas the present ratio is 26 : 74. The Committee note that due to lack of funds in the State sector, the Centre has created a large number of hydel corporations like NHPC and NEEPCO to implement Hydel Projects, but some of them like NHPC are facing severe resource crunch. The Government should therefore, ensure allocation of adequate funds and uninterrupted cash flow to prime public sector undertakings like NHPC, NEEPCO etc.

The Committee would also like the Ministry to take initiative in formulating detailed guidelines for land acquisition and rehabilitation.

Regarding Koel Karo Project, the Government may reapa-prise/ review it and provide adequate resource. It should also evolve a mechanism for speedy environmental and forest clearance and thus prioritise the hydel projects for execution by both the public and private sector.

Reply of the Government

Hydel-Thermal Mix

The installed capacity of hydel was 35% at the end of the First Plan and it reached its peak at the end of the Third Plan when the contribution of the hydel power generation in the overall power generation was 46%. Subsequently, it started declining primarily for the following reasons:—

(i) Greater thrust on setting up of large sized thermal projects at coal pitheads in the 1970's which resulted in faster increase of thermal capacity *vis-a-vis* hydro capacity.

(ii) Hydro power projects have slowed down because of problem relating to Relief and Rehabilitation, forests and land submergence, *e.g.* Sardar Sarovar, Tehri, etc.

(iii) The law and order difficulties have also resulted in slowing down of hydro development, *e.g.* Dulhasti and Uri in J&K and Doyang in Nagaland.

(iv) Lack of good contractors to construct hydro stations.

(v) Delays in equipment supply by manufacturers

(vi) Contractual difficulties have also come in the way in speedy project implementation of hydro stations.

(vii) The longer gestation period of hydro stations (6 to 8 years) as compared to the shorter period of thermal stations (2 to 5 years) has also resulted in greater emphasis being given to Thermal Stations, particularly gas based stations as there has been a tremendous power shortage and therefore a great need to meet it as quickly as possible.

In an effort to attract greater investment for hydel-sector, the Government of India had in January, 1995 allowed additional incentives for hydel projects. The main features of the incentives are:—

(i) Incentives on higher availability of machine and for generation of secondary energy.

(ii) Hydrology protection for initial seven years.

(iii) Higher operation and maintenance provision to meet insurance liability.

(iv) Mechanism to meet debt service requirement of the promoter in form of 'Advance Against Depreciation'.

(v) This Notification is to be applied to those hydro projects which are to be commissioned on or after 1.1.1997.

The Government of India on its part has placed emphasis on increasing hydro-electric generation and financial support to public sector undertakings involved in hydel sector have been increased significantly.

Financial Support to Hydel Generation

Over the plans, the allocation, in absolute terms, for hydro power generation has been increasing significantly, as per the Table below:—

Allocation for hydro Project

Rs. in Crores

VI Plan (1980-85)	3166.60
VII Plan (1985-90)	7008.49
VIII Plan (1992-97)	19105.26

Not only has the plan allocation has been raised for hydro projects but also the pattern of funding has been made favourable and hydro schemes are being accorded higher Net Budgetary Support. The net budgetary allocation for the hydro projects in the Central Sector in the four years of the VIII Plan has been going up as may be seen from the table given below:—

Net Budgetary Support to PSU's Under Ministry of Power

Rs. in Crores

Year	Total	Hydro	%age
1992-93 (Actual)	400.00	209.25	52.31
1993-94 (Actual)	640.00	395.00	61.72
1994-95 (Actual)	640.10	419.69	65.57
1995-96 (Actual)	689.00	472.17*	68.53
1996-97 (BE)	719.51	533.17	74.10

*Provisional

Ministry of Rural Development has been made the nodal Ministry for preparation of draft National Policy on Rehabilitation and resettlement of persons on account of acquisition of land for developmental projects and other public purpose. This policy is under preparation in consultation with the State Government.

The Koel Karo Project was entrusted to NHPC for execution. However, because of problems associated with rehabilitation, the project could not take off. The matter was also taken to the Supreme Court by interested groups seeking greater incentives to the people affected by the project and the Supreme Court had laid down certain guidelines for proper rehabilitation of the project oustees. The NHPC was also affected by severe resource crunch and even though the project was to be executed through domestic funds to be raised by NHPC, the poor state of the financial market did not allow NHPC to raise bonds to finance the project. At the same time, the Dulhasti and Uri hydro-electric projects were delayed due to insurgency in J&K and as a result increased investments were required for these projects. The Government of India's contribution towards the equity capital of NHPC was also not possible because of the authorised capital being fully subscribed and the net-budgetary support available to NHPC has gone down in real terms. In the circumstances NHPC has not been able to provide finance for beginning works on the project.

The Government of Bihar had, therefore, been requested to consider the possibility of taking up the project in the private sector but the State Governments reaction was not positive. The Government of India made efforts towards getting financing from OECF, Japan but the OECF did into take up the project for funding. The NHPC can therefore consider starting works on this project only after the financing has been fully tied up.

In so far as evolving a mechanism for E&F clearance is concerned, the Ministry of Environment & Forests follows two stage clearance system. The first stage clearance is site clearance which facilitates survey and investigations of the hydel projects and in the second stage detailed project report in regard to environmental safeguards and compensatory afforestation is considered before the project is accorded clearance. Part of the delay in E&F clearance lies on the project authorities which do not prepare a detailed report in regard to the environmental and forest aspects of the project.

[Ministry of Power, O.M. No. G-20020/3/96-Bud., dated 11.12.1996]

Recommendations (Sl. No. 7, Para Nos. 63 and 64)

The Committee note that in the Performance Budget (1995-96) the target was set to electrify 925 Tribal Villages and 3400 Harijan Bastis. However, Performance Budget (1996-97) is silent about the achievements in this regard. The Committee are unable to appreciate why the number of Tribal Villages and Harijan Bastis were not given in the Performance Budget. The Committee desire that the Performance budget should reflect the precise and up-to-date position of the programme.

The Committee also regret to note that there are discrepancies in the figures of targets relating to some States and that these have been furished without correcting them.

Reply of the Government

As clarified in Para 60 of the Fourth Report of the Standing Committee on Energy on Demand for Grant (1996-97) of Ministry of Power at the time of printing of the Performance Budget of the Ministry of Power for the year 1995-96, Annual Plan for Rural Electrification was not finalised and only tentative figures were indicated in the Performance Budget. Subsequently after discussion with the State Government, Planning Commission gave their approval for earmarking separate funds amounting to Rs. 127.20 crores (Rs. 42.40 crores for electrification of 884 villages under Tribal Sub-Plan and Rs. 84.80 crores for electrification of 2784 Harijan Bastis). Against this target, SEBs have reported electrification of 1050 Tribal Villages and 596 Harijan Bastis.

Statewise physical and financial targets are fixed by the Planning Commission after discussing the proposal in the working group and followed by meetings of the Chief Ministers with Chairman of the Planning Commission. This process takes considerable time as all the States have to be consulted. The final figures are not, therefore, available at the time of preparing the performance budget and only provisional figures are indicated. However, as recommended by the Hon. Committee Planning Commission will also be requested to expedite the finalisation of Rural Electrification programme before the Budget is prepared.

[Ministry of Power, O.M. No. G-20020/3/96-Bud., dated 11.12.1996]

Recommendation (Sl. No. 8, Para Nos. 71 and 72)

The Committee have expressed grave concern in their Twentieth Report (Tenth Lok Sabha) regarding the fact that the funds borrowed from external sources remain unutilised. The commitment charges on unutilised funds amount to Rs. 97 crores. The Committee are disappointed to note that their earlier recommendations in this regard have not been followed by the Government, and now multilateral agencies are threatening to stop assistance.

The Committee are of the opinion that the government should not draw comport from the fact that the Central Sector has utilised the funds received as loan. The Ministry must take the power sector as a whole and monitor all the externally aided projects whether in the Central or State Sector. The Committee would like firm advice to be given to all State/SEBs to utilise all the required funds in order to avoid cut in the external assistance.

Reply of the Government

Project Monitoring Cell has been set-up in the Ministry of Power for regular review of disbursement of external loan/grants.

To expedite the utilisation of external funds, Secretary (Power) has recently written to the Chief Secretaries of the States/UTs, the Chairmen of State Electricity Boards and the Chairmen & Managing Directors of all Central Public Sector Undertakings expressing grave concern regarding slow utilisation of external funds. Ministry of Power has further requested them to set-up Cells to monitor the progress and utilisation of the funds in externally aided projects and report on monthly basis to this Ministry.

Project Monitoring Cell of Ministry of Power will now be regularly reviewing the utilisation of funds in externally aided projects and with the coordinated efforts of SEBs, PSUs and Ministry of Power, it is expected that the disbursement position will improve.

[Ministry of Power, O.M. No. G-20020/3/96-Bud., dated 11.12.1996]

Comments of the Committee

Recommendation (Serial No. 9, Paragraph No. 82)

The Committee are of the view that Transmission and Distribution losses which can be reduced with minimum investment are losses due to non-technical factors like pilferage of energy, defective meters and unmetered supply. These losses can be brought under control by taking strong administrative measures. The financial position of SEBs will improve with the reduction in the non-technical losses. So far as technical losses are concerned the Committee desires the Ministry to identify the system elements responsible for such losses and formulate system improvement schemes for strengthening and improvement of Sub-Transmission and Distribution System. These schemes should be implemented expeditiously.

Reply of the Government

The suggestion of the Standing Committee on Energy for taking strong administrative measures to bring down the commercial losses (losses due to non-technical factors) in the T&D systems would be a step in the right direction. This would also contribute to improving the financial position of SEBs.

The suggestion of the Committee regarding system improvement schemes would also contribute to reduction in T&D losses. In this connections, Central Electricity Authority has issued "Guidelines for Reduction in T&D losses" in February, 1986 and subsequently revised in July, 1991. In guidelines, the utilities were advised to conduct pilot studies to evolve optimum parameters for loading of different sizes of conductor, length of lines, distribution transformation capacities. They were also advised to formulate system improvement schemes based on these studies. "Guidelines for conducting energy Audit" were issued to SEBs/EDs in April, 1991 and were revised in May, 1992 wherein the usefulness and desirability of conducting Energy Audit in the power systems to identify areas of higher losses was celarly brought out.

Power distribution falls within the purview of the State Government and SEBs/EDs are responsible for taking necessary steps for reduction of losses. The system improvement schemes generally cost less than Rs. 100 crores and do not require to be referred to CEA for techno-economic clearance.

Since most of the State Electricity Boards are in a poor financial assistance from Power Finance Corporation/Rural Electrification

Programme, their investments in system improvement schemes have been rather tardy. The State Government will be requested to earmark funds for implementation of system improvement schemes. This will enable the implementation of system improvement schemes and help in reducing transmission and distribution losses.

[Ministry of Power O.M. No. G-20020/3/96-Bud. Dated 11.12.1996]

Comments of the Committee

(Please *see* para 26 of Chapter I of the Report)

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

—NIL—

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Serial No. 2, Paragraph Nos. 16, 17 and 18)

The Committee are concerned about the failure to achieve the approved target capacity addition during the Eighth Five Year Plan period. The achievement in the last four years of plan period was only 14799 MW, and the total achievement is expected to be below 18000 MW. This is only about 58 percent of the Eighth Five year Plan target of 30537.7 MW. The Ministry attributed this failure to the resource crunch and to the attitude of most of the State Governments who, thinking that investment in this sector, would be forth coming from the private sector, did not allocate sufficient funds of their own for generation of electricity. But the high expectations from the private sector, did not materialse and the plan programme was adversely affected.

The Committee are of the opinion that the Ministry, instead of keeping the situation under review and taking corrective measures particularly at the time of mid-term appraisal of Eighth Five Year Plan, and persuading the State Governments and the Planning Commission to provide adequate funds, continued to pin its hopes on the private sector during the four years of the Eighth Five Year Plan. Obviously, this hope was misplaced.

The position in the last four years was that capacity addition in the central Sector was 7334 MW against the target of 12858 MW, and in the State sector 6287 MW against the target of 14869.7 MW. The Committee, therefore, expect the Ministry to ensure financing of Public Sector Undertakings by Budgetary support as well as external assistance so that the public sector undertakings, like NTPC, NHPC etc. are able to realise the targets set out in the plan. The Committee further desire that in order to assess the actual achievement in capacity addition, the performance Budget should also indicate the number and full particulars of projects that have been declared commercially open.

Reply of the Government

As deposed before the Committee, most of the State Governments, anticipating private investment in a big way in the generation area, felt that they need not invest to such an extent and that they could divert the funds towards transmission and distribution. Reasons for the shortfall in the area of private sector have already been submitted to the Committee as brought out in para 29 of the report.

It is the constant endeavour of this Ministry to ensure that financing of Public Sector Undertakings under its administrative control receives the necessary budgetary support as well as external assistance so that they are able to realise targets set out in the Plan. In the 9th Five year Plan efforts would be made to setup the plan allocation for the power sector. As desired by the Committee regarding the details on the number and full particulars of the projects that have been declared commercially open would also be included in the Performance Budget.

[Ministry of Power O.M. No. G-20020/3/96-Bud. Dated 11.12.1996]

Comments of the Committee

(Please *see* para 7 of Chapter I of the Report)

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

Recommendation Serial No. 4 (Paragraph Nos. 31, 32, 33 and 34)

The policy of private sector participation in power sector was launched in 1991. The Committee note that while the number of proposals received from private entrepreneurs has been considerable, their materialisation and implementation has not been so. Some of them have been called for re-examination with the change in the Government.

During the Eighth Five year Plan, the Ministry have set a target of 2830 MW for capacity addition and in the first four years of plan 1257.5 MW has been added to the generating capacity by the private sector. Another 799.5 MW is expected to be added in the year 1996-97. Thus, a capacity of 2057 MW will be added in the private sector against a target of 2830 MW. A gap of about 773 MW will thus remain at the end of the Eighth Five Year Plan.

Regarding the progress of the eight fast track projects the Committee observe that though the Ministry is taking action to Clear the pending five fast rack projects there is as yet substantial shortfall in the Eighth Five Year Plan target for the private sector. The fast track power projects have not made the expected headway. The Committee stress the need for expeditious action and for formulation of a sound, integrated and transparent policy which can inspire public confidence and also tackle effectively the various difficulties that arise from time to time.

The Committee also noted that policy launched in 1991 has failed to sort out the problems relating to legally enforceable fuel supply/transport agreements. In the Twenty Sixth Report (Tenth Lok Sabha) also, the Committee had recommended that the comprehensive fuel policy should be drawn up and at the time of finalisation of the project fuel supply/transport agreements should be taken into consideration. The Committee would again draw Ministry's attention to this recommendation.

Reply of the Government

Reasons for the shortfall in the area of private sector have already been submitted to the Committee as brought out in para 29 of the report. Apart from this, power projects have to obtain a large number of clearances both at the State as well as Central level and also to arrange for financing for the project. While some of the inputs/ clearances can be obtained simultaneously, other inputs/clearances are supplementary to one another, i.e. they are pre-requisites for seeking other clearances. Ministry of Power has taken a number of initiatives to streamline the process of obtaining the clearances and accelerating the pace of capacity addition through the private sector, which are briefly stated below :

1. The R&M policy has been announced by the Government which outlines some of the options available for encouraging private investment in this vital area. It has also been clarified to the States that R&M schemes involving an estimated expenditure of upto Rs. 100 crores do not require the techno-economic appraisal of the CEA.

2. Government has permitted setting up of power plants based on liquid fuels to the extent available mainly considering the fact that such plants have low gestation periods as compared to coal based projects.

3. The mega power policy announced by Ministry of Power creates an administrative structure to facilitate setting up of such multi-state plants in the private sector having a cpacity of Rs. 1000 crores and above and supplying/selling power to more than one state.

4. The project cost limit required to be appraised by CEA had been raised from the earlier Rs. 100 crores to Rs. 400 crores in respect of generation projects awarded through competitive bidding. This limit in respect of projects awarded through bidding has further been raised to Rs. 1000 crores vide notification dated 13.9.1996.

5. The number of clearances required to be obtained for the purpose of appraisal of the private power projects by CEA has been substantially reduced.

6. To set a dead-line for a 'serious' expression of interest on part of the IPPs and the State Governments/SEBs/UTs, a deadline had been set for projects on the MoU/LOI, etc. route for obtaining 'in-principle' clearance of CEA by 31.03.96. These projects have further been given a deadline for submission of DPRs to CEA for Techno-economic appraisal latest by 31.1.1997.

7. Efforts are continuing to provide full support to State Governments and SEBs by way of making available information and guidelines in handling private power proposals. Model/reference documents for PPAs/RFPs/RFQs and other security packages have been made available to SEBs. Model Fuel Supply Agreement is also being developed with the help of international consultants. With the availability of these model documents it is expected that it would be possible to shorten the project approval process.

8. Ministry of Power has suggested to the States for encouraging setting up of captive/co-generation plants by industries with a provision for sale of excess power to the grid as per mutually agreed rates, access to transmission grid of the State on payment of wheeling charges, third party access for direct sale of power etc. It has also been clarified that captive plants would not require the techno-economic appraisal of the CEA.

Reasons for the shortfall in the area of private sector have already been submitted to the Committee as brought out in para 29 of the report. It may also be mentioned that against the likely capacity addition of 799.5 MW during 1996-97 earlier submitted to the Committee, only around 389.5 MW addition from the following projects is likely to be achieved :

Hazira CCGT	:	185 MW
Jegurupadu CCGT		133 MW (92 MW already commissioned)
Godavari CCGT		47 MW
Adamtilla TPS		9 MW
Banskandi TPS	:	15.5 MW
Total	:	389.5 MW

There is likely to be slippage in the commissioning of the 500 MW Budge-Budge TPS due to delay in completion of works at the project site.

Out of the 8 fast track power projects, we have already realised 92 MW capacity addition from Jegurupadu CCGT (216 MW). Additionally, around 88 MW is expected during 1996-97 from Jegurupadu (41MW) and Godavari (47 MW) projects. It is expected that both these projects would be commissioned completely by 1997-98. Paguthan CCGT (655 MW) is also likely to make headway within next two years.

But for cancellation/repudiation by the State Government in August, 1995 and subsequent revival in February, 1996, the Dabhol Power Project (Phase-1) would have made substantial progress. A clear picture about commissioning of the project would emerge only after the project achieves financial closure again. In case of Ib-valley TPS (Units 3&4), the protracted renegotiation of the Power Project Appraisal (PPA) even after issue of the counter guarantee in January, 1995, is delaying the project. The Government of Orissa has been prevailed upon from time to time to expedite renegotiation. It is understood that the renegotiation of the PPA would be concluded soon.

In the case of Managalore TPS, the constructions is expected to commence as soon as the counter guarantee is issued and financial closure is achieved, which is expected shortly.

For Visakhapatnam and Bhadrawati power projects, the PPA examination is underway and is likely to be completed in a time bound manner. After the PPA is finalised, the counter guarantees would be issued enabling the projects to achieve financial closure and commence construction.

Regarding NLC Zero Unit project, the PPA has been finalised and State Guarantee documents are awaited. Immediately on receipt of the documents, the same would be forwarded to the Ministry of Finance for issue of counter guarantee. Construction is expected to commence within 6 months of issue of counter guarantee and the promoter achieving financial closure.

. 1. The Government have engaged international Consultants through a process of competitive bidding for preparation of model fuel supply and transportation agreements. The Consultants are expected to submit the draft principles of fuel supply and transportation agreements, by January, 1997.

2. The Government have also separately constituted an Energy Policy Committee under the Chairmanship of Member (Energy), Planning Commission to develop a comprehensive energy policy. The report of the Committee is awaited.

3. After the announcement of the Private Power policy, many State Governments opted for power plants based on liquid fuels in order to meet the demand-supply gap in the short term. Requests were received from the States to determine norms and parameters for liquid fuel based power plants. Considering these requests, Government of India examined the feasibility of setting up such plants and after inter-ministerial discussions with Ministry of Petroleum & Natural Gas, Oil Coordination Committee and the Planning Commission, a restrictive policy on such power plants was announced in November, 1995. It is also recognised that, given the limited availability of such fuels in the domestic market and constraints on imports, only a limited capacity could come up based on such liquid fuels. Principles of allocation of liquid fuels between different projects/States, are under finalisation.

[Ministry of Power O.M. No. G-20020/3/96-Bud. Dated 11.12.1996]

Comments of the Committee

Please *see* para 12 of Chapter I of the Report.

Recommendation (Sl. No. 6, Para Nos. 56 and 57)

Rural Electrification Corporation is an organisation which is involved in a vital sector of development and has a role to play in every nook and corner of the country. The Committee are however distressed to note that the financial matters pertaining to this corporation are not being managed properly. The Committee observe that the loan agreements between Government of India and OECF, Japan was signed on 23.1.1991. There was a dispute between OECF, and Government of India over the appointment of the foreign consultant. The consultant was appointed in December, 1993. The Committee are constrained to note that this disagreement dragged on for over three years before it was settled. The Committee expect the Government/REC to have been aware of the procedure followed by the OECF. All the terms and conditions should have been settled amicably before the acceptance of the loan amount. The Committee are of the opinion that, while expertise was available with SEBs, the loan from OECF was received with a string attached *i.e.* the appointment of a consultant. Keeping in view the availability of expertise in the SEBs, the Ministry should have found a way out for its utilisation. If foreign consultants had to be appointed, there should not have been such as long delay in doing so.

The Committee observed that the present system of giving of loans is unsound and required to be examined. Short-term loans at high rates of interest cannot answer the need of the situation. They present Rural Electrification Corporation from achieving its goals. The present financial pattern need to be reviewed.

Reply of the Government

Rural Electrification Corporation (REC) sanctions loans to State Electricity Boards (SEBs) and Rural Electric Cooperative Societies for implementation of various RE programmes for village electrification, pumpset energisation, System Improvement, Rural Electric Cooperatives, Dalit bastis on varying rates of interest for different categories of loans taking into account relevant factors including returns on investments, exposure risks, cross-subsidisation and administrative cost etc. Government of India extends loans to REC at 12% per annum which in turn are passed on to various SEBs with varying rate of interest to ensure a minimum spread for REC. The loans for Dalit Bastis schemes is given at 7% concessional rate and the Minimum Needs Programme (MNP) loans at 12.5%. It varies from 13.5 to 16.00% for other programmes which takes into account relevant factors like gestation period, return on investment, spread of interest etc.

OECF has sanctioned a loan in "Yen" to Government of India at the interest rate of 2.5% per annum of be repaid in 30 years with 10 years moratorium. Government of India which has to repay the loan by assuming all foreign exchange and other risks of this long term loan has made available this loan to REC in Rupees at 12% rate of interest per annum to be repaid in 15 years with a moratorium of 5 years. In turn, REC provides the loans to projects financed by it under Conservation of Energy category of schemes for which an interest rate of 16% is charged and loan has to be repaid in 7 years with 2 years moratorium. The small hydro projects of OECF are comparable with REC SP-DGs category of schemes and on the same analogy an interest rate of 14% is charged and loan has to be repaid in 8 years with a moratorium of 2 years.

Ministry of Power has taken up the matter with the Ministry of Finance for reducing the interest rate on OECF loan. This Ministry has also approached both Planning Commission and Ministry of Finance for extending loans at relatively low rates of interest or as a Mix of grants and loan which would be helpful and motivate some of the SEBs to take up the programme of villages electrification which is normally unremunerative and needs to be subsidised by the State Government.

[Ministry of Power O.M. No. G-20020/3/96-Bud. Dated 11.12.1996]

Comments of the Committee

Please *see* para 15 and 19 of Chapter I of the Report.

NEW DELHI;
April 4, 1997
Chaitra 14, 1919 *(Saka)*

JAGMOHAN,
Chairman,
Standing Committee on Energy.

APPENDIX I

EXTRACTS OF MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE ON ENERGY (1996-97) HELD ON MONDAY, T HE 17TH MARCH, 1997 IN COMMITTEE ROOM 'D', PARLIAMENT HOUSE ANNEXE, NEW DELHI

The Committee sat from 1630 to 1700 hours.

PRESENT

Shri Jagmohan — *Chairman*

MEMBERS

2. Prof. (Smt.) Rita Verma
3. Prof. Om Pal Singh Nidar
4. Shri Muni Lal
5. Shri Sriram Chauhan
6. Shri Sriballav Panigrahi
7. Shri Ishwar Prasanna Hazarika
8. Shri P. Kodanda Ramiah
9. Shri Anil Basu
10. Shri Haradhan Roy
11. Shri V. Ganesan
12. Shri N. Ramakrishna Reddy
13. Shri Ramendra Kumar
14. Shri Ramji Lal
15. Shri Ved Prakash Goyal
16. Shri Lakhiram Agarwal
17. Shri Dipankar Mukherjee
18. Shri Gaya Singh

SECRETARIAT

1. Smt. Roli Srivastava — *Joint Secretary*
2. Shri G.R. Juneja — *Deputy Secretary*
3. Shri A.S. Chera — *Under Secretary*

2. The Committee considered and adopted the following Draft Action Taken Reports :—

(i) ** ** **

(ii) ** ** **

(iii) ** ** **

(iv) Action Taken by the Government on the recommendations contained in the Fourth Report of the Standing Committee on Energy on Demands for Grants (1996-97) relating to the Ministry of Power.

3. The Committee also authorised the Chairman to finalise the above mentioned Reports and present the same to Parliament.

The Committee then adjourned.

** Sub paras (i), (ii) and (iii) of para 2 relating to other matters and consideration of other draft reports have not been included.

APPENDIX II

(*Vide* Para 3 of Introduction)

Analysis of Action Taken by the Government on the Recommendations contained in the Fourth Report of the Standing Committee on Energy (Eleventh Lok Sabha)

I.	Total No. of Recommendations made	9
II.	Recommendations that have been accepted by the Government (*vide* recommendations at Sl. Nos. 1, 3, 5, 7, 8 and 9)	6
	Percentage to total	66.7%
III.	Recommendations which the Committee do not desire to pursue in view of the Government's replies	Nil
	Percentage to total	0%
IV.	Recommendations in respect of which replies of the Government have not been accepted by the Committee (*vide* recommendation at Sl. No. 2)	1
	Percentage to total	11.1%
V.	Recommendations in respect of which final replies of the Government are still awaited (*vide* recommendations at Sl. Nos. 4 and 6)	2
	Percentage to total	22.2%