

## **Minutes of the Third Meeting of the State Advisory Committee held 17<sup>th</sup> June 2002 at 11.00 hours.**

The Chairman, MERC, welcomed all the distinguished Members of the SAC and requested them to initiate discussion on the Agenda items already circulated.

2. The Commission informed the SAC members about the present status of the bagasse based PPAs, which are undergoing scrutiny of the Commission. A public hearing was held on 11<sup>th</sup> June 2002, and, after taking into consideration the views expressed by the co-generators, objectors, consumer representatives, GoM / MNES /MEDA, etc., the Commission desires to send its recommendations to the Government of Maharashtra for its consideration while framing the policy guidelines. Keeping this in mind, the Members of the SAC may contribute their valuable suggestions in the matter.

3. M/s ICRA, consultant of the MERC, made a detailed presentation [copy enclosed] covering the aspects of policy parameters, GoM policy directives and issues involved. The proposed PPAs can be divided into two groups – (i) Existing: six projects whose PPAs are already in existence and as per the present policy, the purchase price, as on January 2002, would be Rs.2.60/kWh, and (ii) Advanced: nine projects where either substantial investment has been made or are in advanced stage of clearances for initiation. However, for these nine projects no PPA has been entered into. The rate is to be decided by the Commission, while approving the draft PPAs (six out of nine) surviving before the Commission at present.

4. Besides above 15 projects, the third category is of new projects (for which clearance u/s 44 by the MSEB is given) where PPAs would be entered into as per modified policy of the GoM, which is under reference to the Commission for comments and suggestions.

5. Copy of the presentation gives an overview of various issues.

6. On request of the Chairman, MERC to comment about any specific issue, which may not have been addressed in the presentation and present their views, the SAC Members continued with their opinion and comments.

### **Response from the Government of Maharashtra (GoM)**

7. The Principal Secretary (Energy), GoM stated that the draft policy guidelines has already been discussed and approved by the Cabinet and submitted before the Commission for its approval and, therefore, the Commission may take its own views in the matter. He further added that if any changes are to be made in the draft policy, the Commission may make its suggestion which will be placed for the Cabinet's approval later on.

### Maharashtra Energy Development Agency (MEDA)

8. The Director General of Maharashtra Energy Development Agency (MEDA), the nodal agency for the non-conventional energy sources in the State of Maharashtra, also expressed his views on similar lines as that of the PS (Energy). However, after hearing other members' views/suggestions, he may like to react.

### BSES Limited.

9. Shri S.S. Dua, CMD of BSES Limited stated that he may be permitted to submit his comments in writing at a later date. He further suggested that it would be better if the utilities, either individually or collectively, adopt a taluka for distribution network on a pilot basis, which can be replicated to other areas subsequently.

### Vidarbha Industries Association (VIA).

10. Shri Goenka of Vidarbha Industries Association [consumer representative u/s 26 of the ERC Act 1998] stated that:

- The GoM policy should not be limited only to **Bagasse based Co-generation Projects**, but should also include **other NRSE projects**, including Industrial Co-generation (**Waste Heat Recovery**) **projects**. It should be made applicable to the entire State and all the licensees. There should not be differentiation between the old projects and the new projects in terms of application of Tariff.
- As far as the Evacuation Arrangement is concerned, the cost should be borne by the utility itself (as provided under IE Rule 27). However, he further clarified that as per the Condition No.5(a) of Model Conditions of Supply (Rule 27 of IE Rules 1956), the Board can collect certain refundable advance from the developer. Charging the entire amount to the consumer is totally incorrect.
- Regarding the 15% Supervision Charges, Shri Goenka opined that since the developer is actually financing and executing the project upto the point of grid synchronization, only labour portion may be charged instead of charging the entire cost.
- He further added that Conventional Pass-through should be allowed after detailed deliberations.
- The Transmission charges in case of third party sale should be computed on the basis of the actual transmission losses while the wheeling charges should be a singular number not as proposed by the MSEB on slab basis.
- There should not be any unreasonable penalty for Reactive Power (RkVH) and it should be frozen at 32% (equivalent to 0.95 power factor). If the Board is unable to accept delivery of electricity from the generators due to any problem in its network, then the Board should pay deemed generation charges.
- With regard to terms of payment, he was of the opinion that the Board should pay within a period of 30 days and for any delay thereafter, interest at Bank Advancing Rate may be made applicable.

11. Another important issue he pointed out was that the Board is not empowered to issue "Conditional" NOC under Section 44 of E (S) Act, 1948. According to the provisions under the Act, the Board has to issue consent to establish a new generating station in case the generation cost of the generator is less than the Board's tariff, and, therefore, issue of conditional NOC is unjustified.

12. Shri Goenka further pointed out that with the introduction of Electricity Reform Bill 2000 in the Lok Sabha and Maharashtra Electricity Reform Bill, the present scenario of captive power generation, co-generation, sale of power to third party will undergo a radical change and , the electricity generation & distribution shall become a purely commercial activity. The State Regulatory Commission will be empowered to issue such sanctions & consents for Captive Power Plants. All the above relevant points must be kept in mind while deciding the upcoming policy formulations / guidelines.

#### **Nimbkar Agricultural Research Institute (NARI)**

13. Dr Rajvanshi of Nimbkar Agril Institute opined that there should be a common GoM policy for all NRSE projects though the tariff rate could be changed from one source to another such as bagasse, biomass, solar, wind, etc. He further suggested that the terminology should be changed from Bagasse to “Biomass” based Power Projects since Bagasse is also a biomass fuel. In the background of tremendous power shortages / power cuts of about 4-5 hours/daily in the rural areas, he felt that we should not create any stumbling block, and, therefore, with certain amount of reasonable justice the NOCs, with minimum conditions, should be cleared for all power generation projects and projects to come up in Maharashtra. The policy could be reviewed after the gestation period of say 8-10 years of the project. He commented that the aim should be self-sufficiency of Rural Areas in both the field of Electricity Generation and Distribution.

14. Shri Dua of BSES commented that idea of” Distributed Generation” must be persuaded to make rural area self sufficient in Distribution.

15. CII submitted that there is a dire need to establish a long term policy and industrial co-generation must be component of such policy due to Energy Efficiency enhancement.

#### **Mumbai Grahak Panchayat (MGP)**

16 Dr Ashok Pendse of Mumbai Grahak Panchayat stated that we could have certain common parameters with respect to banking, wheeling, third party sale, payment terms, etc., for all NRSE projects, including waste heat recovery projects, though the tariff could be different depending upon the type of project. He requested that the MSEB must submit immediately a short term (3 year) demand projection and integrated resource plan and long term (upto 2012) at a later date. This will enable to define the quota of procurement and merit order scheme.

#### **Prayas:**

17. Shri S. Dixit of Prayas, Pune stated that the main thrust could be how much renewable energy should come from different NRSE systems into the grid. If the renewable energy is costing more than the conventional energy, then certain ceiling on purchase should be imposed. He further stated that, if after

certain period, say 2-3 years, if there is no shortage, then what will be the impact of these purchases on the utility/consumers. The policy should clearly spelt out the issues of (i) captive purpose, (ii) third party sale, (iii) standby charges, (iv) wheeling charges, (v) transmission losses, (vi) banking, (vii) ceiling of rate, etc. There should be a common & comprehensive policy, which should be made applicable to all NRSE projects and all utilities / licensees in the State. He stressed the underlining importance of drawing a least cost plan based on Integrated Resource Planning (IRP) for the State failing which there is also the possibility of deemed purchase, which are not needed.

### **Energy Forum, Pune**

18. Shri D.S. Gandhe of Energy Forum stated that the evacuation charges based on distances, wheeling charges, etc., should be collected at the minimum level. There should only be one tariff rate for all NRSE projects and considering the urgency the Commission should announce the tariff structure as early as possible. He further suggested that with appropriate planning, the co-generator could collect and store its required quantity of raw material like bagasse, as they do in other field of operations. He suggested that purchase of bagasse, can be routed through a separate institutional body, which could effectively regulate the bagasse price / ton thereby controls the cost of project as well as generation cost.

### **MSEB:**

19. The Chairman stated that the Board is all along adopted the policy guidelines of the GoI / GoM in this regard. There is a wrong notion that NRSE projects will be in a position to manage the grid efficiently. In fact, the NRSE projects are of seasonal inature and, therefore, infirm. The Board cannot plan its distribution system with such an infirm / uncertain source. However, the MSEB is purchasing the power from these sources with a view to encourage them in line with the GoM / GoI policy guidelines. The Bagasse based power projects should plan their power generation on a continuous (yearly) basis and make purchases of the bagasse accordingly. Regarding the 15% supervision charges, it is even charged by other agencies like PWD, Irrigation, which is an accepted method.

20. The Chairman, MSEB further stated that the 'Captive Power', which by definition is captive in nature, must be kept separate as the conditions for such captive power plants are totally different and it will be unreasonable to include them under the present scope of policy. He also opined that the 'Power Evacuation Charges' must be levied with reasonable cost, which can be discussed. Regarding 'Conventional Fuel Pass Through', he stated that as the projects are developed on the basic principles of using NRSE fuel, no conventional fuel pass through should be allowed. On the question of 'Deemed Generation', he strongly felt that it has got a strong bearing on the supply of firm power by the generator. Therefore, for such infirm sources, considering 'deemed generation' is not appropriate. On the issue of 'Reactive Power', he stated that the suggestion made by Shri Goenka of VIA, if found technically justified, can definitely be adopted.

21. Shri Kukde, Technical Member, MSEB stated that in such cases where the MSEB is a consumer, the conditions of purchase must be feasible to the consumer alone and not otherwise. He also stated that the clause related to the Demand Charges and the Standby must be kept as proposed which is quite reasonable.

### **MERC**

22. Member (Shri Deo) observed that in Germany there is a 30% spinning reserve, and, therefore, there is opportunity for them to deal with such NRSE projects to be accommodated into their system. He further felt that choosing optimum size of the power plant for such bagasse based co-generation units as well as various data such as ratio of bagasse burnt to that of power produced shall be useful to make an informed decision.

23. Member (Dr Deo) remarked that the issue is not only limitation of fossil fuel but one must take into consideration the environmental effect, and global warming, making it necessary to use the available NRSE for power generation, which is environmental friendly. Now as the technology is developed and constantly upgraded, we are in a better position to tap these sources. He further stated that the MNES, GoI policy guidelines is also based on these principles.

### **MEDA:**

24. Shri G.M. Pillai, Director General, MEDA stated that the PLF for such co-generation projects must be calculated based on total generation and not based on exportable power which tends to mis-representing the technical figure possible. He further stated that the process of such projects may reduce in future due to various options of soft loan being proposed by STF. Further, he felt that the bagasse being an item having varied optional use, may be manipulated depending on the demand-supply situation in the market. Therefore, the user profile of bagasse and consideration of regulated bagasse market may be kept in mind while defining the policy. He further stated for the information of the Members that corporate model for distributed power for un-electrified villages is under active consideration of the Power Ministry and may soon fruitify into a model project.

25. The Chairman, MERC summed up the discussion stating that the discussion was a lively and enlightening one, with the following observation. The Commission will shortly submitting its report to the Government for consideration.

- (a) Definition of 'Co-generation'
- (b) The policy guidelines proposed shall be positively for all biomass based generation projects and power purchase plan shall aim at 7-10 years time frame.
- (c) The Commission, in the matter of PPAs before it u/s 22(1) (c) of the ERC Act, 1998, shall decide the rate.
- (d) Evacuation Cost is questionable and needs to be supported by appropriate back up reasoning.
- (e) "Conventional Fuel Pass Through" not to be allowed.

- (f) Bagasse Price to be determined by the Commission.
- (g) Co-operative Agreement – O.K.
- (h) Third Party Sale – the Commission’s philosophy should be adopted as proposed in the Reform Bill.
- (i) With the introduction of better efficient technology the aim should be to achieve ‘efficient utilisation of resources’ under co-generation projects.
- (j) Deemed Generation: In case of Deemed Generation be allowed, the promoter must commit itself to supply required firm power without which such deemed generation shall not be allowed.
- (k) Payment mechanism – as proposed by VIA.
- (l) Penalty for Non-Supply: the same will be applicable only when the confirmed power delivery is there.
- (m) Penalty for Reactive Power: The issue will be reviewed with technical justification by the MSEB to accept the VIA’s recommendation.
- (n) Wheeling & Transmission Charges: the Commission shall decide the same.
- (o) Contract Demand: The same should be de-linked from that of Captive Policy and should be spelt out exclusively for such projects.
- (p) Foreign Exchange Fluctuation: In view of adverse experience, no foreign exchange variation shall be permitted.

Sanjay Kumar  
Secretary, MERC