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Liquid fuel-based power proves costly

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Since 1998, cost of power generation from plants based on liquid fuels, namely, naphtha, fuel oil/LSHS has increased by more than 100 per cent.

For instance, at Dabhol project, Phase-I based on naphtha, this has gone up from Rs 2.2 per KWH to Rs 5.5 per KWH. Under the power purchase agreement (PPA), entire increase is passed on to the concerned SEB by way of higher tariff.

The SEBs do not even have the option of reducing offtake from the IPP (independent power producer). This is because of the "take or pay" clause under which irrespective of whether supplies are actually drawn or not, payments will still have to be made for the committed quantities.

The SEBs have two broad category of consumers, i.e., agriculture/households on one hand and industries/business establishments on the other. Even as power is supplied to the former at subsidised rates, that is, below the cost of generation and distribution, to the latter it is charged at exorbitant rates.

While charging more from farmers is politically difficult (in fact, a number of states are yet to implement NDC's decision to charge a minimum of 50 paise per KWH), it is virtually impossible to recover extra payments to IPP from industrial consumers. In turn, this would lead to further deterioration in the financial health of SEBs which are already in dire straits.

The above has serious implications for overall power scenario in the country. First, there is the danger of losing a large chunk of capacity in existing stations — under SEBs — which are old and are in dire need of revamp and modernisation; but, there is no money to implement these projects.

Second, SEBs owe thousands of crores to public undertakings; dues to NTPC alone are a staggering Rs 15,000 crore. The situation will aggravate as more of SEBs revenue is used for paying to IPPs leaving less for the likes of NTPC. This, in turn, could affect latter's balance-sheet and seriously hamper its plan to augment capacity.

Majority of projects currently under implementation are stuck up because FIs are apprehensive about the ability of IPPs to service the loans. The root cause for this, in turn, is poor health of SEBs. This will get aggravated due to higher payments to existing plants on liquid fuel and thus, jeopardise addition to capacity in the private sector as well.

Clearly, the policy of encouraging power generation based on liquid fuels has boomeranged. In official circles, it is said that steep increase in the price of liquid fuels was not anticipated. This is misleading. The increase is the inevitable outcome of a preplanned move to dismantle APR for these fuels and switch-over to market based pricing since April 1998.

The use of liquid fuels involves heavy dependence on imports direct or indirect (by way of crude imports for processing in refineries). Moreover, fuels like naphtha have enormous chemical value, which is wasted when used for power generation. Thus, there is no valid justification for using these fuels for power.

The government has not even spared natural gas which is superior to naphtha. In 1984, when, there was surplus domestic gas, COS had recommended its use in power. By early 90s, the scenario had already changed to one of shortage. But, its indiscriminate use in power continued to be encouraged. Currently, it accounts for about 40 per cent of total gas consumption.

Until mid 90s, gas was priced low. However, with linkage of its price to international price of a basket of internationally traded fuel oils since 1 October 1997, this has increased substantially. Further, in view of impending removal of cap on its basic price and linkage to 100 per cent fuel parity (up from existing 75 per cent), this will zoom. Even imported LNG is expected to be no less costly.

The government should see the writing on the wall. It should completely abandon the current approach of setting up of power projects based on liquid fuels or gas. This is a high cost and unsustainable route specially in view of heavy dependence on imports. Instead, attention should be focussed primarily on encouraging power generation based on use of coal which is available in abundance and is priced low.

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