)PC-MSEB slugfest

Needed, a conciliatory approach

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THE ROW between Dabhol Power . Corporation (DPC) and the MSEB/ aharashtra Government/Union Gov- nment has reached a flashpoint. At a C board meeting in London, the Ma- ging Director and President/CEO re authorised to take a decision to nd up the project at an "appropriate ne". Though the DPC team agreed to et the Godbole Committee on re-ne- tiating the terms of the Power Pur- ase Agreement (PPA), things are far m clear.

The project's termination will place ge payment liabilities on the MSEB/ tharashtra Government/Centre by y of compensation claims (running o several thousand crore rupees), the gravation of the power deficit in the ite, increased NPAs in financial in- tutions, adverse impact on compa- s/units with business links with DPC, s of employment and attendant so- l problems.

t may be recalled that DPC was the ly project, among the eight fast track 's that has seen the light of day. If this also wound up, it will have a debilitat- effect on foreign direct investment)I) which has already suffered on ac- int of policies and delays in various provals/clearances.

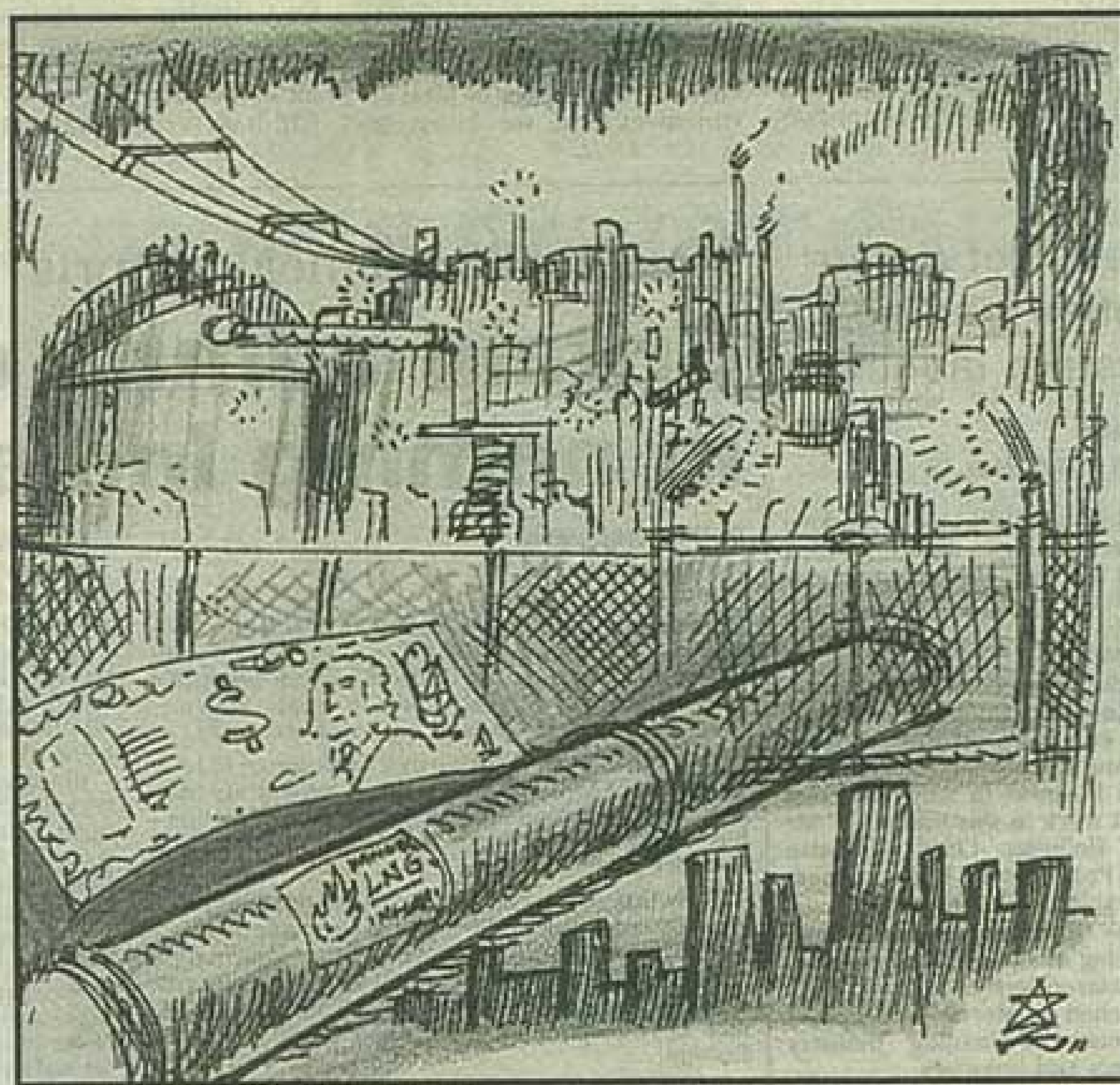
Enron is currently implementing an bitious project to set up a terminal handling imported LNG. Apart from lacing naphtha in DPC-I, this will be d as fuel in phase II which is likely to commissioned next year. The project olves import of 5 million tonnes of G, 2 million tonnes of which will be d by DPC I and II and the remainder l be made available to other projects, luding the fertiliser sector.

Due to a severe shortage of domestic s and the exorbitant cost of other ls such as naphtha, imported LNG is avourite considering its low cost. In fertiliser sector, the ERC has recom- nded that all naphtha and fuel-oil- sed plants switch to imported LNG to prove cost-competitiveness in the erging liberalised environment. LNG l also help gas-based units feeling pinch of short supply domestically.

Against this backdrop, if the DPC wer project is terminated, a major rce of guaranteed offtake of LNG on ng-term basis will disappear from scene. For, it is not likely that the G project will be taken up. This will ect the overall availability of LNG, ting the fortunes of industries such fertilisers and power.

The genesis of the present crisis lies the high cost of power supplied by C and the MSEB's inability to pay its s. It is the inevitable outcome of a t plus system of power tariff — both h respect to the fixed and the var- le component — incorporated in the . The MSEB/Maharashtra Govern- nt signed the deal with eyes open l the Centre also provided a counter- rantee!

Having consciously become a party to deal, things need to be taken in de. It would be imprudent, at this stage, to lay the blame for the conse- quential problems on DPC/Enron. Un- fortunately, our side has adopted a confrontationist attitude, amply reflect- ed in the MSEB's decision to lodge a claim for Rs 401 crore with DPC be- cause the latter could not supply elec- tricity for a couple of hours in January.



Considering that the termination of the Dabhol project will be detrimental to Indian interests, a conciliatory atmo- sphere should replace the present mood of mutual bitterness. The setting up of a committee on re-negotiating terms with DPC is a good thing. But there is also the need to avoid frequent outbursts, charges/accusations and so on.

In the circumstances, the vexatious problem of high cost power should be approached in two parts. First, we need to carefully assess the role of the MSEB/ Maharashtra. Second, the need for nec- essary adjustment/changes in various charges to reduce the tariff should be impressed upon DPC. Needless to say, both parties should take that action concurrently in a spirit of mutual ac- commodation.

We need to clearly understand that under the PPA, the fixed charges have to be necessarily paid irrespective of the quantum of power drawn by the MSEB. For DPC Phase-I, these are Rs 1,050 crore per annum or Rs 87.5 crore a month. After the commissioning of Phase-II, the charges will be Rs 3,500 crore per annum or Rs 292 crore a month.

Depending on the quantum of the power drawn, the incidence per unit basis will vary. Thus, at 80 per cent generation capacity of DPC-I, or 5,186 million units per annum, the fixed charges will be Rs 2.02 per kWh. For both DPC-I and II, at 80 per cent load, or 15,067 million units per annum, these will work out to Rs 2.32 per kWh.

If, on the other hand, the offtake of power is only a third of the generation capacity, or 2,139 million units on an annualised basis, then for DPC-I the fixed charges would be Rs 4.91 per kWh. Under a similar scenario, with the operation of Phase-II, the per unit in- cidence would be Rs 5.63 per kWh.

DPC-I now uses naphtha as fuel. On the basis of its prevailing price, the var- iable cost component works out to about Rs 2.2 per kWh. Together with fixed charges corresponding to drawal at 80 per cent load, the total cost to the MSEB is Rs 4.2 per kWh. However, if the offtake is restricted to a third, the cost would zoom to Rs 7.1 per kWh.

From next year on, the entire project would operate on imported LNG. This being cheaper ($3.75 per million BTU against about $6 per million BTU for naphtha), the variable cost will go down to Rs 1.3 per kWh. Together with fixed charges at 80 per cent, the total cost of power will be Rs 3.62 per kWh. In the event only a third of the capacity is drawn, the cost will zoom to Rs 6.93 per kWh.

Clearly, it is possible to contain the cost of power supplied by Dabhol at Rs 3.5-4 per kWh if, the MSEB draws the optimum load. There seems to be no other way of bringing about a meaningful reduction in cost, other than a signifi- cant increase in the offtake of electricity by the MSEB from the present low level.

The demand-supply sce- nario for power in Maha- rashtra justifies the accommodation of entire supplies from DPC at opti- mum load. For 2001-02, the total requirement is es- timated at 70,127 million units. Supply from MSEB's own generating stations and sources other than DPC being about 57,000 million units, there will still be an uncovered gap of 13,127 million units, which is higher than the supply from DPC-I at 80 per cent load.

Notwithstanding the above, if the MSEB is not able to lift power at the op- timum load, it is because its precarious financial health limits its ability to make payments. This, in turn, is because of supply of elec- tricity to agriculture and households at subsidised rates and high transmis- sion and distribution losses (power theft). Without tackling these two problems on a war footing, we can- not easily come out of the Dabhol im- broglio.

Besides yielding benefits by signifi- cantly lowering per unit cost, the above steps will also help build confidence with DPC, especially considering its consequential ability to optimally utilise generating capacity. The negotiating committee can then leverage this to seek from DPC a meaningful reduction, particularly in the fixed charges.

Under the PPA, all liabilities towards foreign capital — servicing of loans and return on equity — are denominated in dollars/forex. In the event of the rupee's depreciation, this automatically results in the increased burden on the MSEB. This is contrary to established business practices the worldover and needs to be rectified by freezing all foreign curren- cy liabilities with reference to the ex- change rate prevailing at the time of commissioning of the project.

Likewise, with fuel cost, efforts should be made to protect the variable component of tariff from the rupee's de- preciation. The DPC should be in a posi- tion to absorb its effect especially considering that the actual fuel con- sumption is lower than the norm used for arriving at variable cost.

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