CAG report dismisses govt.'s claims on Enron

By Business Times Bureau

MUMBAI: The Comptroller and Auditor General of India (CAG), in its report for the year ended March 31, 1997, has made some harsh statements on the manner in which the Maharashtra State Electricity Board (MSEB) entered into Power Purchase Agreements (PPAs) with the Dhabol Power Company (DPC), a subsidiary of the US-based Enron Corporation and Reliance Patalganga Power Private Limited (RPPPL).

The CAG report has demolished the claims by the BJP-Shiv Sena government that the re-negoitated agreement in the case of the DPC would benefit the state by Rs 1,977 crores. The CAG report agrees with the detractors of the DPC that it would be too expensive and detrimental in the long run not only for the MSEB but also for the consumers.

The DPC plant situated at Dhabol in Ratnagiri district would have a capacity of 2,184 MW, while the RPPPL Plant situated at Patalganga in Raigad district would have a capacity of 410 MW. The agreements are for a period of 20 years. The expected cost of power that would be available for sale by the MSEB is Rs 4.69/KWH for DPC and Rs 3.71/KWH respectively in March 2001 as against the expected average realisation of Rs 2.40/KWH, based on average realisation projected during 1995-96.

The PPAs stipulate a two part tariff viz. capacity charges and fuel charges. Capacity charges are payable at rates agreed to in the PPA while fuel charges are payable at actuals.

The CAG report states that the location of the RPPPL plant was changed from Nagothane to Patalganga after award of project. Though reduced completion period of 24 months as against 36 months quoted initially, was one of the reasons accorded for change in location, corresponding reduction in interest during construction was not given, resulting in undue benefit of Rs 20.90 crore per annum to RPPPL in the form of higher capacity charges.

The report also dismissed the BJP-Shiv Sena government's claim that the re-negoitated PPA with Enron led to project cost reduction and benefits to the tune of Rs 1,977 crores. The audit comments state that the benefit of Rs 1,977 crore comprises Rs 1,056 crore due to cost reduction over costs originally

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indicated, Rs 809 crore in capacity addition of 169 MW and Rs 112 crores in conversion of the plant into a multi- fuel facility.

The audit goes on to explain that the enhancement of capacity and conversion of the plant were due to change in design of the plant which were carried out prior to suspension of the project. All the benefits were agreed to be passed on to the MSEB only in Phase II. This could have been negoitated without suspending Phase I, the report observes.

It may be recalled that the original PPA for the DPC was signed in December 1993 for setting up a power plant with a capacity of 2,015 MW in two phases. The BJP-Shiv Sena government which came to power in March 1995 suspended the Phase I and cancelled Phase II on grounds of high capital cost and tariff. The agreement was amended in July 1996, after re-negoitation, for enhanced capacity of 2,184 MW with firm commitment for Phase II, even though MSEB has an option in the original PPA to cancel Phase II at its disrection, without any liability.

The government had claimed that the re-gasification facility was delinked to power cost, resulting in cost reduction of Rs 1,580 crore. The audit shrugs this off and explains that the MSEB has to pay re-gasification charges seperately. As such there would be no actual accrual of benefit from cost reduction on this account.

One of the other major claims by the government for the re-negoitated agreement was that the entire project would work at 90 per cent load factor on lower tariff. The CAG audit explains that the committment to absorb power at 90 per cent load factor is in fact detrimental to the interest of MSEB in view of anticipated surplus capacity during off-peak hours and particularly in the context of the Board's planned absorption of only 80 per cent power from independent power producers during off-peak hours.

Thus the MSEB would be paying Rs 55.96 crores per annum as capacity charges without absorbing power during off-peak hours, the report observed. The CAG report also lists several smaller cost components which were not included in the estimates. The levelised tariff did not include Rs 0.24/KWH on account of custom duty and sales tax as well as Rs 0.30/KWH on account of rupee debt service charges. In addition to this, there were the exchange rate variations increasing the tariff to Rs 1.14/KWH.