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Let there be light

CLP India is betting big on India's power sector

PHOTOS: SANJAY BORADE

Mishra: paucity of good opportunities

Unclear policies and tortuous fuel supplies in the power sector have been deterring foreign investors, despite energy-hungry India's plans for massive capacity additions in generation, transmission and distribution (T&D). However, bucking the trend has been a power major from Hong Kong with an over century-long history. CLP India, draws its name from China Light & Power Co Syndicate, incorporated in 1901 and now listed on the Hong Kong Stock Exchange as CLP group. CLP is betting big on India's power sector.

The company's entry into India in 1994 was as ill-starred as the others', but it persevered. It came up trumps with the 2002 acquisition of a majority stake in Gujarat Paguthan Energy Corp (GPEC) at Paguthan, near Bharuch, now rechristened CLP India Pvt Ltd (CLPIPL). It assumed full ownership of the business in 2003 and the 655 MW gas-fired plant, in operation since 1998, is now CLP's flagship power plant in India.

The initial debacle had been with a proposed $1.3 billion, 1013 MW, thermal power project in Mangalore, the deal on which had been signed with the Karnataka government in 1992 by the US's Cogentrix Energy. The company inducted CLP as an equity partner in 1994.

The project hit a roadblock due to corruption charges against the companies, which were eventually absolved by the Indian Supreme Court. Cogentrix exited India after divesting its stake to CLP and Tata Electric companies, but the project continued to be plagued by financial difficulties. The deal-breaker was the denial of escrow by the distribution company. CLP ultimately remained the sole promoter of the venture that till today has remained on paper and is now with the official liquidator.

Undeterred, CLP India pressed ahead. Its investments in the country today exceed ₹12,000 crore, spread across a diversified portfolio that spans generation fired by gas and supercritical coal as also renewable energy, together totalling 2,696.8 MW.

Both the units of the company's 1,320 MW supercritical coal-fired power plant in Jhajjar, in Haryana, have been successfully synchronised and the first 660 MW unit was commissioned in April. It is also bidding for the ultra mega power projects (UMPPs) proposed in Orissa and Chhattisgarh, though it may withdraw from the second if it bags one of them.

Optimistic outlook

Sir Michael Kadoorie, chairman, CLP Holdings (*see box*), exults that his company has gained considerable experience in the Indian market over the past decade, whilst other foreign energy players have withdrawn or stayed away. "India continues to present significant long-term development opportunities aligned with the overall upward trajectory of social and economic development," he maintains. "Our existing gas-fired power station at GPEC, the progress of our greenfield coal-fired power station project in Jhajjar and the growth of our wind energy portfolio mean that CLP has a broad presence in the Indian power sector and the capabilities to catch opportunities as they arise."

Clearly, he is encouraged by the XIIth Five Year Plan (1 April 2012 to 31 March 2017) that targets a capacity addition of 103,300 MW. With T&D expenditure, total planned investment will exceed $220 billion. The country is thus seeking to add within five years half the installed generation capacity of 201,617 MW created in the 65 years since Independence.

Rajiv Ranjan Mishra, managing director, CLP India, is unapologetic about his Mumbai-headquartered company's installation of 2,700 MW of capacities over the 10 years that it has been in India. He says that as a group, CLP finds it far more important to do the right business than to ramp up megawatts. Indicating that his company has never aspired to be the largest, though it would like to be the best, he notes that its capacities have nevertheless quadrupled from the 655 MW until 2005. "We have invested over ₹12,000 crore till now, not an amount to be sneezed at," he observes. "We have also not been restricted by any paucity of

Munjal: needs assurance on gas availability

'We have the skills'

Rajiv Ranjan Mishra, managing director, CLP India, talks about umpps and power plant problems

Is CLP India bidding for the proposed UMPPs in Orissa and Chhattisgarh?
UMPPs offer a risk reward matrix that CLP is comfortable with. (The government hands over the UMPP site to the winning bidder only after tying up land acquisition and fuel and water supplies.) The one risk we cannot take is the fuel price risk. We will obviously not be bidding for any other UMPP, if we are working on one we have won. It takes a year or more, and a huge effort for signing contracts, securing the finance and approvals, having the land transferred, putting together the team, importing requirements, putting logistics in place, and starting construction.

How is your 2x660 MW coal-fired power plant in Jhajjar, Haryana, faring?
Immense problems actually, owing to erratic coal supplies. The company has invested ₹6,000 crore in the project, which we won in international competitive bidding in 2008. The first 660 MW unit was ready by 12 January, but generation started only on 29 March. After generating for a few days, it had to be shut down and resumed only on 22 April. Power projects in this country are required to fulfil certain criteria that include executing a letter of assurance (LoA) with state-owned Coal India Ltd (CIL) or its subsidiary.

This LoA is a contract that commits us to reach financial closure in 'x' months, build the power plant up to 'n' per cent in 'y' months and guarantee power supply, while CIL is obliged to make the coal available. The LoA is followed by a binding Fuel Supply Agreement (FSA). While this system worked for projects commissioned until 31 March 2009, the rate of growth of coal mined by CIL has since sagged and remained flat. Simultaneously, over 60,000 MW was commissioned over the XIth Five Year Plan (2007-12), more than twice the rate under any previous Plan.

Thus, while demand for coal rose over twofold, the monopoly coal supplier has had flat growth. CIL hence declined signing FSAs for any projects commissioned after March 2009. Supply so far to these projects, including ours, has been through MoUs, which are *ad hoc* and the quantities uncertain, rendering many commissioned projects idle. We have to sign MoUs virtually on a monthly basis. Though CIL has been directed by the Prime Minister's Office to execute agreements with all power plants, including those to be commissioned by March 2015, this was thwarted by protests by CIL's minority shareholders.

The CIL board has now approved a draft FSA that has no penalty for the supplier and is riddled with loopholes. We managed to commission the second 660 MW unit in April, 3.5 months ahead of schedule. We are grateful that the PMO has been engaged with this lack of hydrocarbon fuels, which, to my mind, is the single largest problem this country faces. We nevertheless have to be realistic that nothing is possible overnight, though there certainly is the tendency to wait until a problem becomes a crisis before we go about solving it.

Is CLP keen on participating in the transmission segment in India?
We lost the bid for the Western Grid Transmission Scheme, the first privatised transmission project, as we were L2 (second lowest tender offer). We have subsequently bid for a few others, but without success. The answer to your question is that we are interested and we have the skills. •

Dexter: belief in steady growth

capital, but by only a paucity of good opportunities."

Explaining that megawatts are the outcome of the risks one wants to take, Mishra says that, if CLP India had bid by taking a risk on importing Indonesian coal, the price of which has risen drastically of late, it may have been double its size by now. "But what good is size, if it results in defaults?" he mentions. "This is not to criticise those who have taken the risk, but our company has survived 111 years when most others were not even born, and there are certain risks we will take and certain we won't."

Kameswara Rao, leader, energy, utilities and mining, PwC India, Hyderabad, says that an India-tailored strategy and approach have been the key to CLP's successes. "CLP has stayed consistently engaged in India in conventional power and renewable energy over the years, moving across to states that offer a more progressive investment outlook, and this focus has helped it maintain its growth," he notes. "It has also been able to leverage its existing investments to build its future business."

He avers that the challenge for energy companies in India has been is understanding the complex policy and regulatory framework, which differs at state-level and by asset-class. "To achieve an above-market internal rate of return (IRR), investors in the power sector here need to fully ascertain the opportunities, which not all are able to, and so they stay away," he observes. "Besides, deregulation and changes in their domestic markets, such as those driven by environment and fuel issues, have preoccupied overseas energy companies over the last 10-12 years, confining them largely close to home or at best looking at surrounding jurisdictions."

Coal concerns

Indian IPPs have had better insight into local opportunities and have aggressively pursued them as long as capital has been available. The situation has changed now with competitive bidding, which favours those with better technology, business model and cheaper capital, Rao points out. Standard bidding documents are being revised to incorporate new issues that have cropped up and qualifying requirements are proposed to be raised. He thus anticipates the improving transparency and the possibility of a more robust regulatory framework to raise the interest of overseas utilities and FDI consequently returning to the sector.

Daniel Dexter, COO and director, technical, CLP India, believes the Kadoorie family's historical ties with India are a pointer to the company's long-term strategy for the country. "CLP has stayed the course for over a century by managing risks and owing to its belief in slow steady growth, and that's the same approach one must take in India," he asserts.

He says that not only was sorting out fuel supply contracts a big challenge that followed the acquisition of the gas-fired Paguthan plant, even the coal-fuelled Jhajjar plant, established under linkage rules that minimised fuel risks, suffered from the surge in imported coal prices and tenuous domestic coal supplies.

Dexter mentions that with Coal India Ltd (CIL) unable to meet CLP India's coal requirements despite the linkage supply mandated under the project bidding document, the company will import the shortfall, estimated at 1 million of the total need for 5.2 million tonnes. For this, CLP will need to secure approval from its offtakers - Haryana discoms Dakshin Haryana Bijli Vitran Nigam (DHBVN) and Uttar Haryana Bijli Vitran Nigam (UHBVN) – because fuel is a pass-through cost under these projects. A pass-through cost is a cost charged to the energy supplier, but then 'passed through' directly to the consumer. Indeed, concerned by the deteriorating finances of its two electricity discoms, the Haryana government is now considering

Largest wind portfolio

In line with the CLP group's commitment to develop 30 per cent of its generating capacity from non-carbon emitting energy sources such as renewable energy and nuclear power by 2020, CLP India already has the largest wind energy portfolio in the country. It has over 740 MW of committed wind projects, more than 400 MW of this capacity being already commissioned and the rest in various stages of development. Nine such wind projects are spread across Gujarat, Karnataka, Maharashtra, Rajasthan and Tamil Nadu. The company has committed to grow this portfolio by 200-300 MW every year.

CLP India CFO Samir Astha notes that the wind energy investments booked ₹13 crore profits in 2011-12 compared to ₹6 crore in 2010-11.

Mahesh Makhija, director, business development (renewables), CLP India, says his company sees renewable business in India as a huge area of growth and attractive business. "But we are India's largest wind power investor not only because we want to reduce our carbon dioxide emission intensity, but more importantly because wind energy is our mainstream power business and just happens to be one that is clean and good," he mentions.

• SAROSH BANA

merging the agencies to improve their functioning.

The Jhajjar plant's boilers are designed to burn domestic coal. They can be tuned to burn blending of 20 per cent imported coal, but a higher proportion could cause operational or efficiency problems. The overseas coal supplier will be selected through international bidding.

The coal ministry has projected domestic coal output of 584 million tonnes for 2012-13, against a demand for 776 million tonnes. This shortfall will constrain generation significantly. India's largest generator, the state-owned NTPC, has announced that it will cut its expansion plan from 25,000 MW capacities to 14,500 MW.

Naveen Munjal, director, business development (conventional), CLP India, terms the GPEC gas-fired plant an "amazingly good asset", describing it as amongst the best and cleanest in the world. He adds, however, that the truncated gas supply from Reliance Industries' Krishna Godavari gasfields has halved its plant load factor (PLF). "We can make up through short-term and spot gas purchases, which are exorbitant, but our off-taker, Gujarat Urja Vikas Nigam Ltd (GUVNL), deems this avoidable as it is against passing on the escalated costs to its customers," he explains. "The variable charge of the Reliance gas is ₹2 per unit, whereas that on the spot market costs upwards of ₹6."

Because of these problems, CLP has withheld plant expansion for the time being. "We had progressed quite substantially on equipment sourcing and financing, and then suddenly the gas market changed, making us put the whole project on the back burner," mentions Munjal. "We will be unable to revive it till there is assurance on gas availability."

Govindan and Ashta: worker safety is paramount

GUVNL is also battling CLP India in the Supreme Court over payment when its GPEC plant operates on naphtha rather than gas. Constrained spot gas availability in 2011 forced GPEC to use naphtha as a back-up fuel. This resulted in an increase of over ₹2 crore in the disputed deemed generation incentive payment. It has revised its total claim with respect to this incentive, added with interest and tax, to ₹854 crore.

Future funding

GPEC is yet profitable, though the Jhajjar plant has shown losses. Jhajjar's losses – up ₹134 crore in 2011-12 from ₹63 crore in 2010-11 – offset GPEC's increased earnings from ₹145 crore to ₹235 crore over these two years to peg CLP India's operating earnings in 2011-12 to ₹92crore, compared to ₹83 crore in 2010-11.

Samir Astha, director, finance & chief financial officer, CLP India, attributes GPEC's performance to the effects of the foreign exchange protection provision under its PPA and lower maintenance expenses. Jhajjar's losses were caused largely by start-up costs, exchange loss on the translation of euro and dollar retention payables of construction work at the closing rate, and forward contracts relating to dollar loans.

Credit rating agency CRISIL notes that CLPIPL's sound operating profile, and the take-or-pay nature of its PPA with its Gujarat offtaker GUVNL are partially offset by the revenue concentration risks faced by the company and its large debt-funded capex plans in wind power. In 2010-11, the CLP group completed restructuring of its entire operations in India, with CLP Holdings consolidating all the Indian entities under CLPIPL.

Gopinath Govindan, director, human resources, CLP India, says worker safety is paramount for his company. Towards this end, the company has striven to strengthen site supervision, create additional safety leadership, construction safety and induction training, extra safety reviews, and launch initiatives to motivate the workers to work safely.

Asked if CLP India is considering listing itself, Mishra explains that, as CLP's model is to have self-financing subsidiaries, CLP India is looking to get to a stage where it no longer depends on the parent for growth capital. "An IPO is meant to raise capital for new growth," he says. "If we win the next UMPP which, I don't think, will be any sooner than the next one year, given the bid dates, then that will be the time we may start considering an IPO."

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Makhija: big on renewable energy

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