
Private Sector Participation

Progress So Far

As mentioned earlier, the hydropower sector was opened up for private sector participation in 1991. However, so far only about 910 MW has been commissioned, which constitutes less than 3% of the total installed hydropower capacity. The main developers were Malana Power Company (Malana – 86 MW), Jaiprakash Industries Limited (Baspa II – 300 MW), and S. Kumar Group (Maheshwar – 400 MW). The Malana project, India's first IPP, is often hailed as a success story. It was completed in a record time of 30 months at a cost of Rs350 crores. The project started operation with a 10-year power purchase agreement with the Rajasthan Spinning & Weaving Mills. The company was required to provide 12% free power to Himachal Pradesh and also pay wheeling charges to Himachal Pradesh, Rajasthan and to the Power Grid Corporation of India Limited (PGCIL), whose transmission systems were used for the power transfer. Presently it is supplying power to Haryana, availing of the trading facility.

Barriers in Private Participation

Development of hydropower projects had been impeded in the past due to a variety of reasons like (a) long gestation period; (b) capital intensive nature of projects; (c) requirements of statutory clearances; (d) geological surprises often encountered; (e) land acquisition problems; (f) law and order problems in some cases; (g) R&R problems; etc., as detailed in Section IV. In overall terms, this presented a higher level of risk, which the private sector is generally averse in taking. This often meant time and cost overruns of projects. Non-availability of long-term debt financing, creditworthiness of the utilities to whom they have to sell the power,²⁰ provision of free power, and front-ended tariffs were also factors adversely impacting the foray of the private sector into hydropower development.

The reluctance of FIs to fund hydropower projects in the private sector is also a main factor responsible for the slow development of hydro projects. This can be traced to the high levels of construction risks that hydropower projects often encounter besides general problems of IPPs like payment security, etc. The FIs had therefore, been seeking additional comforts like government guarantees, escrow accounts, etc. However, encouraged by the various provisions of the Electricity Act 2003 such as open access, recognition of power trading and setting up of regulatory commissions, the FIs are no longer looking for government guarantees and have reiterated that there would be no dearth of funds for good projects with viable tariffs promoted by credible developers.²¹

²⁰ The lenders also look forward long-term power purchase agreements.

²¹ MOP. 2005. Draft Guidelines for Development of Hydro Electric Project-Sites by Private Developers.

Review by the Standing Committee on Energy

The parliamentary committee on energy in its review of the hydropower sector had also noted with concern the poor contribution of the private sector. The committee has observed the need to generate confidence in prospective developers and offer terms and conditions which will be attractive and cover undue risks without jeopardizing consumer interests.²² The committee has also recommended that the Government should frame guidelines for development of hydropower projects on the lines prevalent in the United States, where development rights are decided mostly on the basis of qualifications and credibility of the developer. The objective is to encourage only those having experience in hydropower development and an impeccable track record.

The committee has also concluded that due to long gestation period and the many uncertainties involved, hydropower projects, especially the larger ones, may not find favor with the lenders. Accordingly, it has recommended that multi-purpose projects, those involving inter-state issues and cooperation with neighboring countries, pumped storage schemes, and projects in the NER may be continued in the public sector. The following types of projects, according to the committee, may be poised for private sector participation:

- Extension projects where dam and major structures have already been constructed and the new works proposed cover mainly powerhouse buildings and installation of generating equipment;
- Projects at the toe of existing dams; and
- Run-of-river schemes involving minimum underground works.

Government Initiatives

As mentioned earlier, the Government has taken a number of measures in recent years to accelerate hydropower development (of special relevance to private developers are the preparation of a shelf of well investigated projects, which could substantially reduce risk perceptions), streamlining of the clearance procedures, the provisions of open access and trading as per Electricity Act 2003, etc. Efforts are also being made to make long-term debt available. As mentioned in Section V, PFC is now giving loans to private sector hydropower projects for up to 70% of the project cost with a maximum repayment period of 20 years with a moratorium for construction period plus 6 months.²³

In January 2004, MOP constituted an inter-institutional group (IIG) of FIs with an objective to expedite the financial closure of private sector power generation projects and to address last-minute issues impeding project development and financing. The members of IIG are the State Bank of India (SBI), Industrial Credit and Investment Corporation of India Limited (ICICI), Industrial Development Bank of India (IDBI), Life Insurance Corporation (LIC), PFC and Infrastructure Development Finance Company (IDFC). Since its formation, 11 projects with an aggregate capacity of 4,001.8 MW have achieved financial closure. Currently, six projects with an aggregate capacity of about 7,532 MW are under IIG's consideration.

As mentioned earlier, MOP has already issued guidelines for tariff based bidding. It has also recently notified draft guidelines for the development of hydropower project sites by private developers.²⁴ The salient features of these guidelines are in Appendix 5.

²² Report of the Standing Committee on Energy, August 2005.

²³ Teesta III (1,200 MW) and Teesta VI (360 MW) promoted by Teesta Urja Limited and Lanco Energy, respectively, as joint venture projects with SPDCL in Sikkim, are under the active consideration of PFC.

²⁴ MOP. 2005. Guidelines for Development of Hydroelectric Project Sites by Private Developer.

State-level Initiatives

The hydro-rich states like Uttaranchal, Himachal Pradesh and Sikkim have taken a number of initiatives in recent years to promote a balanced growth of public and private sector projects (Appendixes 6–9). These are briefly discussed below.

Uttarakhand: The key features of the government of Uttarakhand's policy are (a) potential hydro projects identified by the government of Uttarakhand are advertised for international competitive bids; (b) bids are invited over a minimum premium, payable upfront to the government of Uttarakhand, at the rate of Rs5 crores per project; (c) projects are allocated to bidders making the highest bid over and above the upfront minimum premium; (d) projects are allocated for an initial period of 45 years on a build-own-operate-and-transfer basis; (e) the developers of the project have the right to sell the power outside the state; no agency of the state will guarantee purchase of power; and (f) 12% of electricity generated is to be made available free of cost to the state during entire life of the project.

Himachal Pradesh: The key features of the policy of Himachal Pradesh are (a) selection of developer on MOU route for projects up to 100 MW and based on international competitive bidding route for projects above 100 MW; (b) no clearances from CEA for projects selected on competitive bidding route for projects costing up to Rs2,500 crores; (c) secondary energy rate to be at par with primary energy, (d) premium on peak power, and (e) 100% foreign equity permitted on the automatic approval route provided it does not exceed Rs1,500 crores. Also for projects above 100 MW installed capacity, the government has reserved the right of equity participation up to 49% on a selective basis.

Sikkim: In order to expedite hydropower development through private sector participation in the State, the government of Sikkim has formed the Sikkim Power Development Corporation Ltd (SPDCL), to facilitate joint venture projects between a private power developer and the government. For SPDCL-promoted projects and as per the MOU signed between the Sikkim government and a private power developer, 12% free power would be made available to the State and the private power developer would be permitted to sell its entire balance power directly to needy states or through power trading agencies, whichever way they would like to sell. In all SPDCL-promoted joint venture projects, the government's equity participation ranges from a minimum of 10% to a maximum of 49%.

Looking Ahead

The above analysis shows that private sector participation in hydropower development is likely to increase appreciably in the coming years. The excellent initial response from private developers in a number of states, despite the provision for free power and upfront premium and the fact that the tariffs may eventually come under the purview of the regulator, shows that there is an appreciable reduction in their risk perceptions. Early implementation of the open access provisions, increase in trading activity and premium for peaking power (as proposed in Government policies) would further enliven the interest of the private sector. A public-private partnership approach could also contribute to this.