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**INDIA ENERGY UPDATE - APRIL - MAY  
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### Energy planning for India

The current ongoing negotiations between the United States and India has once again brought to the fore India's current energy profile and its implications for the future.

Going by the most optimistic projections in terms of investment, procurement and pace of construction, the nuclear component of the total power availability in 2050 will be only around 10 per cent of the planned total installed capacity of 200,000 MWs or so. This percentage too will be further reduced if the expectations of efficient follow-up action on the deal do not materialise, as is likely to be the case. For, in energy management, comprising construction, generation, transmission and distribution, slippages are more common than in any other sector due to long gestation periods, the need for heavy resource mobilisation and orchestration of complex activities against numerous imponderables.

Energy planning needs to be holistic without attention being confined to the glamorous big projects. There are immense benefits to be derived from the improvement of the functioning of the existing power stations and raising their plant load factor (PLF), plugging of transmission and distribution (T&D) losses, proper maintenance of pumpsets and industrial machinery to reduce wastage or excessive use of power and adoption of vigorous measures for conservation.

For instance, the overall PLF in India of about 69 per cent, can easily be raised by another 20 per cent by competent management. Likewise, the T&D loss of 34 per cent can be halved, if not brought down to 7 per cent as in China. On both these counts, assuming the official figures to be true (there are independent studies making out that the actual figures may be far worse), if only minimum performance parameters are enforced, the nation can get from out of the present 120,000 MWs of installed capacity the equivalent of an extra 40,000MWs of power without investing a single rupee. Because of poor maintenance of pumpsets and industrial equipment, energy consumption per unit of GDP, is perhaps the highest in India compared to other developed and developing countries (3.7 times that of Japan, 1.55 times that of the United States, 1.47 times that of

Asia and 1.5 times that of the world average.) Binging it down to world average will also add about 6000 MWs to the kitty without any extra expense.

These considerations apart, the mix of different sources of power continues to be loaded disproportionately in favour of the conventional thermal generation from coal and oil, accounting for 88 per cent. Natural gas, hydro, nuclear and non-conventional and renewable sources constitute the balance. This is a dangerous tilt that needs to be corrected.

At the present rate of utilisation (with nearly 62 percent of power generation being coal fired and 70 percent of the coal produced every year used for thermal generation), reserves of usable grade of coal may not extend beyond the middle of the next century. The situation regarding gas and oil may not be so dire, but still they are also subject to rapid depletion, especially if power generation has to keep pace with the rising demand for domestic and commercial energy for a population of two billion or more at a modest 500 kw per capita and GDP growth rate of an imperative minimum of 10 per cent.

Hydro and renewable sources thus emerge as areas of topmost priority. The North-Eastern States alone are said to hold the prospect of 60,000 MWs of hydropower, while the estimated potential of renewable sources is 6000 MWs. Energy planning should laser-like focus on these avenues to get the most out of them within the shortest time-frame possible.

### **National bio-fuels mission to focus on Jatropha plantation**

A National Mission on Bio-fuels with special focus on plantation of jatropha is on the cards. The committee on development of bio-fuels set up by the Planning Commission has recommended the launch of the mission. It would be in two phases — a demonstration phase involving plantation of jatropha in 4 lakh hectares of Government/community/panchayat wastelands and in phase II, a self-sustaining programme with plantation of jatropha in 11.2 million ha, both in Government and private lands — for production of bio-diesel to achieve a target of 20 per cent blending with petroleum-diesel, said Mr Chandrasekhar Sahu, Minister of State for Rural Development. Mr Sahu, who was in Sathyamangalam to inaugurate the bio-diesel plant established by sugar major Bannari Amman Sugars, said the Rural Development Ministry would act as the Nodal Agency for processing the recommendations and operationalising the demonstration phase.

The Bannari Amman Group Chairman, Mr S.V. Balasubramaniam, said the Group invested about Rs 2 crore for establishing the bio-diesel plant with a crushing capacity of 3,000 litres/day and will be upgraded to produce 10,000 litres/day in a phased manner.

The company, besides supplying the seeds/seedlings procured from the Tamil Nadu Agricultural University, has also entered into an agreement with farmer groups for buy back of the seed at the prevailing rates.

It is opined that in the first three years of planting, the farmer would not be able to recoup any income as the tree would start bearing fruits only from the fourth year. The yield initially would be about 1.5 tonnes/acre. As per present indications, it could rise to 3.5 tonnes/acres from the sixth year.

### **India launches Carbon Disclosure Project**

Close on the heels of the intergovernmental panel demanding immediate action on climate change, India has taken the initiative to launch the Carbon Disclosure Project (CDP), to enable companies rate their green house gas (GHG) emissions.

The initiative was mooted by CII and WWF amidst an across-the-board corporate presence where companies looked at exploring ways to deal with corporate social responsibility (CSR), profitability and feasibility of compliance with carbon emission norms. Discussions veered around the ability of companies to finance alternative technologies, develop eco-friendly methods of production, and seek ways to climb to the platform of global norms to garner carbon credits and environmentally acceptable standards.

### **Tax exemption may energise power sector for 7 more yrs**

The government may extend the deadline for availing income-tax exemption by power sector projects up to March 2017. Currently, power projects enjoy a 10-year tax holiday up to 2010. Given the slew of upcoming projects over the next five years, the government is planning to extend this fiscal benefit to encourage large-scale investments.

“I-T exemption under Section 80-IA expires on March 2010. We are considering a proposal to extend the exemption for the power sector up to 2017,” a government source said. Section 80-IA of Income-Tax Act provides for tax exemption on profits for 10 consecutive years to companies in the infrastructure sector, including power.

The exemption was introduced with a sunset clause of phasing out the same by 2010. However, even the proposed ultra mega power projects, which the government has showcased in its development programme for the 11th Plan, would miss out on the tax benefits. Extension of the deadline would come as a major incentive for all power companies.

No decision has been taken on whether the exemption would be extended only for power companies or whether the entire infrastructure sector would be able to avail of the benefit. The power sector was expecting an extension of the 10-year tax holiday till 2015 in the Budget.

The government feels it is possible to add 68,869 mw capacity during the 11th Plan, that includes 15,585 mw of hydel power, 50,124 mw of thermal power and 3,160 mw of nuclear power projects. Of the 68,896 mw, projects to generate 31,345 mw are already under construction and the balance capacity has been committed by generating companies during the 11th Plan.

With this capacity addition, it would be possible to achieve a generation growth of 9.5% per annum during the Plan period. A power generation growth of 9% is required to achieve the target of the 9% GDP growth during the 11th Five-Year Plan (2007-12). In the 10th Plan, the generation growth is expected to be around 5.1%, which is far below target. Power generation target for the 10th Plan was 41,110 mw. However, only 17,995 mw of capacity could be added at the end of December 2006.

The government is considering various proposals to introduce reforms in the power sector so the growth in generation is sustained, he said. According to a report, a GDP growth rate of 9% in the 12th Plan would mean an annual energy demand growth of 7.2%. In this scenario, the energy generation should increase to 1,470 BU by 2016-17 from 1,038 BU in 2011-12.

### **Power theft set to be a cognizable offence**

Power theft is set to be a cognizable offence, once Parliament passes the Electricity (Amendment) Bill, 2005. The Bill was taken up for consideration and passing in the Lok Sabha on Friday.

Even though a discussion on the Bill did take place, it could not be passed. It is likely to be passed in the course of the next week. With the passage of this Bill, civil disputes in the power sector will be dealt through special courts and charges for unauthorised use of power will have to be fixed within 30 days.

This amendment, a key aspect of power sector reforms, is expected to substantially improve recoveries of power distribution firms. Average power theft levels in the country are as high as 30-35%. Put simply, almost 35% of the power generated in the country is not paid for, burning holes in the pockets of power companies. This in turn is holding up fresh investment in the power sector, contributing to the growing shortage of power in the country.

Under the law, the difference between a cognizable and a non-cognizable offence is in terms of the severity of the crime and the power given to the police to act against it. In the case of a cognizable offence, the police can arrest a deemed offender without a warrant, and can register a case without permission from a magistrate. Murder, robbery, theft, rioting and counterfeiting are examples of a cognizable offence. Bail is also more difficult for cognizable offences compared to non-cognizable ones. The amendment will make it easier for power companies to book consumers who tap power illegally.

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The Firm has considerable experience in many segments of the energy industry, coupled with our attorneys' extensive regulatory work, gives us a strong position from which to facilitate energy and natural resources-related business solutions.

We welcome the opportunity to serve as your counsel. For more information, please contact: Ms. Jyotsna Talwar, Director Corporate Relations, Tel: +91 11 41032969 or at [jyotsna@ksandk.com](mailto:jyotsna@ksandk.com).

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