

**CONFERENCE ON DEVELOPMENT OF MERCHANT POWER PLANTS WITH
DEVELOPERS/INVESTORS**

ON

16TH Jan 2007 (1100 Hrs) AT JACARANDA HALL INDIA HABITAT CENTRE, NEW DELHI

In order to facilitate the development of electricity market, the Ministry of Power has issued the approach and the guidelines on development of Merchant Power Plants, for which coal linkage/captive coal blocks allotment would be available. Unlike traditional utilities, merchant power plants compete for customers and absorb the full market risk. There are no guarantees that they have a minimum off-take of their output. Typically the risk of a merchant power plant is carried on the balance sheet of the promoter. Merchant power plants can provide the additional generating reserves that India needs now and will need in the future.

Merchant power plants are a product of the restructuring of the electricity industry. They cater to different niches in the market; some provide steady supplies to the grid, while others fire up only when demand is highest and meet peak loads. They operate competitively and help assure that power is produced with efficiency and supplied to locations where it is needed most.

Considering the redundancies that are being provided in the grid to promote open access in transmission and in distribution in coming years, it would be reasonable to expect that merchant power plants each of a capacity of about 1,000 MW or below could be accommodated through the available open access in transmission for wheeling of power to customers who are generally not predetermined. Merchant power plants would be expected to have dedicated lines upto the nearest regional/National grid system.

Merchant power plants upto a capacity of about 1000 MW would be provided coal linkage and captive coal blocks may also be provided to Merchant Power Plants with capacities in the range of 500 - 1000 MW.

Ministry of Power in consultation with Ministry of Coal has identified 15 Coal Blocks with estimated reserves of about 3.6 Billion tones for allocation to merchant and captive power plants through the screening committee route. Out of these blocks, coal blocks of aggregate reserves of about 2.4 Billion tonnes are

expected to be considered for merchant power plants. To ensure transparent and timely development of these projects the following principles would need to be adopted:

- It would be essential that certain normative criteria are laid down for eligibility for coal block allotment, particularly to merchant plants. These criteria could relate to net worth of the parent company on whose balance sheet the merchant power plant is proposed to be set up, its internal resource generation and annual turn over. Some of the suggested financial parameters on the lines of the Ultra Mega Power Projects could be
 - **Internal Resource Generation:** Rs. 0.30 Crore per MW equivalent of coal Block capacity applied for, computed as five times the maximum internal resources generated during any of the last five years business operations;
 - **Networth:** Rs. 0.50 Crore per MW equivalent of coal Block capacity applied for. The above computation shall be derived from any of the past three years annual accounts.
 - **Annual Turnover:** Rs. 1.20 Crore per MW equivalent of coal Block capacity applied for. The above computation shall be derived from any of the past three years annual accounts
- The agencies being allotted the coal blocks, may also be required to put in place bank guarantee of a reasonable amount which should be liable to be encashed if important milestones for development of coal mines are not achieved. The amount should be adequate enough to discourage agencies which are not serious enough for development of coal mines and power projects.
- The inter-mediate milestones may include not only in relation to development of coal mines, but also with reference to the power projects, such as award of EPC contracts, commencement of construction etc.

In order to ensure facilitation of merchant power plants and their development in a time bound manner including allocations of captive coal Blocks to them in a transparent manner, Power Finance Corporation (PFC) would be hosting a conference with the potential developers for inviting suggestions on the modalities of development of the Merchant Power Plants on 16.1.2007 at 11 AM at Jacaranda Hall in India Habitat Centre, New Delhi 110001