

Third Party Evaluator's Opinion on Kothagudem "A" Thermal Power Station Rehabilitation Project

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Relevance

Capacity shortages are so acute in India's power sector that any addition to generating capacity is beneficial to the system and the economy that it serves. There are two factors that further enhance the relevance of the project under review. At the time of the rehabilitation, the units were thirty years old and the plant would have suffered further scaling down of capacity, even outright scrapping in a few years' time. By restoring the units to nearly the original designed capacity and extending their life by 15 years at a cost of Rs. 1.848 billion, the project has effectively postponed investment in new plant of 240 MW that, on current costs would have consumed an outlay in excess of Rs. 10 billion. Also, the net addition of 40 MW capacity has been achieved within an implementation period of 33 months (Feb. 1998 to October 2000), approximately half the time that a green field project would have entailed, in Indian conditions.

The second factor of relevance relates to the changes that have occurred in India's, and specifically Andhra Pradesh State's, power sector after this project was taken up for implementation. The State power sector is now overseen by an independent regulator who has promoted several reforms, one of them the introduction of merit order dispatch of plants, in their order of variable cost of generation. The plant under review is operating at better than the planned efficiency levels, which should guarantee a good ranking in this system of dispatch and hence continued high plant utilisation.

Sustainability

The high operation indicators registered by this plant attest both to the managerial skills of the executing agency and to the enlightened regulatory practices just referred to. Andhra Pradesh has consistently achieved the best Plant Load Factors among all public sector thermal plants – State as well as Central – in India for the last six years.

AP Genco's operational and implementation strengths could be put to gainful use to the national power sector, especially in the sector's newly liberalized structure. The generation segment is now opened up to free entry; phased introduction of competition is envisaged also for the distribution segment. As an instance of well-implemented plant rehabilitation, the project under review could serve as model to several other aging units that are marked out for renovation across India's power sector. The current Tenth Five-Year Plan (2002-'07) identifies 106 thermal units (total capacity 10,413 MW) for 'Renovation and Modernization' (R&M), to be taken up based on plant-specific 'residual life assessment studies'. Ambitious targets set for R&M in recent Five-Year Plans have remained under-fulfilled, chiefly owing to institutional and financing constraints. With the flexibility allowed by the new dispensation, the rehabilitated units can now be spun off to operate as Independent Power Projects that could cater to bulk or retail distributors and compete on cost and reliability parameters. This opens up scope for public: private partnerships in diverse forms. Under the new law, AP Genco itself could promote or partner such ventures not only in Andhra Pradesh but also beyond the State boundaries.