

# Standing Committee Report Summary

## Stressed/Non-Performing Assets in Gas based Power Plants

- The Standing Committee on Energy (Chair: Dr. Kambhampati Haribabu) submitted its report on ‘Stressed/Non-Performing Assets in Gas based Power Plants’ on January 4, 2019. Key observations and recommendations of the Committee include:
- **Stranded gas based capacity:** Currently, out of the total installed capacity of about 345 GW, 24.9 MW (7%) comes from gas based power plants. However, 14.30 GW (57%) of this gas based capacity is stranded due to shortage of domestic gas supply and competitive tariff scenario. There are 31 stranded gas based power plants of which one belongs to central government, six to the state governments, and 24 to the private sector. All these power plants were planned based on the expectation of increase in domestic gas production, particularly from the Krishna Godavari Dhirubhai 6 (KG-D6) field. However, the production from KG D6 field has reduced drastically to zero since March 2013. The Committee noted that since these gas based power plants were set up on the basis of the government’s assurance regarding supply of gas, it is the responsibility of the government to help them come out of stress.
- Rs 65,000 crore has been invested into the stranded capacity, out of which about Rs 50,000 crore (77%) has been funded by banks. The Committee noted that since this is a significant amount of public money, it can not be allowed to become junk. It recommended that the government should provide these stranded gas based power plants with requisite support to help them come out of stress.
- **Gas production:** The Committee observed that from 2011-12 to 2016-17, domestic gas production has been declining, with a slight increase in 2017-18. The import of Regasified Liquefied Natural Gas (RLNG) has increased by 41% between 2014 and 2017. Currently, about 50% of the country’s requirement of gas is being met by imported gas. Further, the domestic gas allocated to power projects fell short by 70% of the allocated amount. Due to such shortage, the plant load factor (or efficiency) of gas based power plants has come down from 67% in 2009-10 to 24% currently. The Committee recommended that the Ministry of Petroleum and Natural Gas should be cautious in making future projections regarding availability of natural gas.
- **Allocation of natural gas:** The Committee noted that several policy flip-flops have resulted in gas based power plants becoming stranded. For example, as per guidelines issued by the government in 2010, gas based power plants were put above the city gas distribution systems for domestic and transport requirements in order of priority for the allocation of domestic natural gas. However, as per guidelines issued later in 2013 and 2014, gas allocation to the city distribution systems was given higher priority than the power sector. The Committee noted that such policy shifts have proven detrimental to the power sector. These gas based plants are now unable to service their debt obligations and are on the verge of becoming non-performing assets (NPAs). It recommended that the government should avoid such erratic policy shifts in the future. Further, any policy or guidelines regarding the change in allocation of gas should be prospective and it should not impact the existing users.
- **Pricing of natural gas:** The Committee noted that the government is considering free-market pricing for natural gas produced from all fields. It noted that because of shortage in the availability of gas and demand being much higher than supply, free-market pricing will result in exorbitant prices. While free market pricing may be beneficial to the producers of natural gas, this will be detrimental to the power sector which is regulated, and where more than 50% of the gas based capacity is already stranded. Further, the Ministry has proposed removal of power sector from the priority allocation. The Committee noted that power being a regulated Sector needs domestic gas allocation more than any other sector. This may make even operational gas based plants stranded. It recommended that the government should reconsider both these proposals.
- **Balancing the grid:** The Committee observed that gas based capacity can be utilised for peak energy demand due to its higher ramp up rate and quick start time. These plants can help balance the grid by maintaining uninterrupted electricity supply, especially when solar plants shut down in the evenings and coal based plants take time to ramp up. Therefore, it recommended that such gas based plants can be operated as peaking plants, as they can switch on quickly when there is high demand. Running these plants as peaking plants will also optimize the use of scarcely available domestic natural gas.

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