Executive Summary

This report provides Canadian suppliers of power equipment and services with up-to-date information (as of November, 1995) on India's electricity sector – one of the largest and fastest-growing in the world.

India's installed electric generating capacity now stands at 82,000 MW. Although its per-capita electricity consumption is low (320 kWh per year), demand is rising at 8 per cent annually. The nation-wide power shortage is 10 per cent, and the peak shortfall is 20 per cent. India's official plans call for installation of over 140,000 MW in new capacity by 2010. Conservative expectations are for the commissioning of as much as 115,000 MW in that period – more than Canada's entire installed capacity.

Electricity has been a virtual monopoly of Central and State governments since independence in 1947. Over 90 per cent of generating capacity is government-owned, 30 per cent by the Central Government, and the rest by the States. Of the total, 71 per cent is conventional thermal (mainly coal-fired), 26 per cent hydro, and 3 per cent nuclear.

India's power sector is plagued not only by inadequate generating capacity, but by outdated plant, low availability and plant load factors, erratic fuel supplies, inadequate grid structure, heavy transmission and distribution losses (23%), wasteful energy use and cross-subsidized electricity pricing, and the financial and operational weaknesses of most of the State Electricity Bureaux (SEBs).

Since 1991, with World Bank and other international support, India has launched wide-ranging reforms designed to accelerate new plant construction, rehabilitate existing facilities, rationalize power markets and strengthen the state operating agencies.

Of greatest interest to Canadians is the decision to open the sector to private investment. Private companies, foreign and domestic alike, can now build and own power facilities outright, and enjoy special incentives relating to power tariffs, tax treatment, import duties, profit repatriation, and financial security. Foreign investors are also welcome in the fast-growing power-related manufacturing and services industry, in partnership with Indian firms.

Central and State agencies have been advertising potential power projects to entrepreneurs worldwide. Indian and foreign companies (mainly American) have been quick to respond, and some have made proposals at their own initiative. Some 245 projects are now at various stages of processing.

The privatization policy is still in flux. Initially proposals were negotiated via the MOU route, using a cost-plus approach to power tariff setting. Political difficulties arose in a number of cases, where the "secrecy" of proceedings and suspicions of cost-padding led State authorities to demand renegotiation (the Enron/Dabhol project in Maharashtra, now apparently resolved, was the highest-profile case). Since early 1995 it has been Government policy to put projects out for competitive tender, based on an all-in fixed tariff offer. There will likely be no further Central Government counter-guarantees beyond those now agreed.

At the same time, many of the SEBs are undergoing radical reform. Some are turn-