GCCI
GUJARAT CHAMBER OF COMMERCE & INDUSTRY
(SINCE 1949)

11th July, 2019 **GCCI/DYSGR/ENR/2019-20/ 7681**

Shri Vijaybhai Rupani
Hon'ble Chief Minister
Floor No 3, Swarnim Sankul
Government of Gujarat
Gandhinagar

Sub: **Representation on behalf of our industry members pertaining to the Budget Proposal for the Year 2019-20 regarding increase of 15 Paisa in Electricity Duty (ED) on captive use from Captive Power Plant (CPP) - reg withdrawal of proposed increase in ED rate.**

Respected Sir,

At the outset we take this opportunity to congratulate you for presenting an inclusive budget for the state for the year 2019-20. We are sure and confident that under your dynamic leadership, Gujarat will achieve greater heights in overall growth trajectory.

Our members who have been spearheading and have been a part of Gujarat's growth story have certain observations pertaining to the budget, which we at the Chamber, felt the need to represent for kind consideration.

Background : Power sector in the country was always found lagging behind the requirements in every Five-Year Plan and had registered shortfall. Gujarat had rather better power supply situation over the competing States. This was achieved through planning by the State during the last two decades which encouraged investment and setting up of CPPs in the State by the Industries **at own cost** to meet their power requirements. The encouragement was provided by way of token ED rate on consumption from CPP.

The roadmap of investment and development of CPP in the State show that State policy on CPPs has yielded positive results in overall growth of industries in the State.

With a dynamic leadership, State Government announced Power Policy in December 1995 recognizing inadequate power supply and need to meet the industrial demand for uninterrupted and quality power without fluctuation in voltage and frequency. The main objective of the Policy was to support new investments under the respective industrial policy to explore and provide opportunity for the existing industrial units to set up their own captive power plants (base load units).

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The investment in CPPs were primarily to ensure availability of 24-hour uninterrupted quality power. Despite the high capital expenditure for the CPPs, our industry members have found it prudent to set up the plant for smooth, uninterrupted and efficient functioning of the manufacturing plants to ensure high capacity utilization. Thus, industry members could establish national power generation asset.

Sir, we would like to bring to your ready reference that our members who have established CPPs have inherent disadvantages as under:

a. The Capacity of the plant is need-based to suit immediate and future power requirement. As a result, the size and the scale of the plant are smaller. Smaller plant has disadvantage of low fuel efficiency and high O&M rates.
b. It is a defensive & long-term investment and not a core activity for the industry members. Therefore, industry members carry the risk with respect to fuel operations and maintenance. Being a defensive investment, it does not add to the revenues of the company and therefore the viability can only be achieved through the efficient generation of power and lower effective cost as compared to the Grid cost to justify the investment.

Also, Industry members have to manage a lot of risks in CPPs financially as well as operationally even in current situation:

a. **Fuel:** There is a huge risk of supply of fuel to be arranged by Industries. Supply of fuel is not only uncertain which affects the plant load factor and its operation. The fuel prices have also shot up significantly increasing the cost of power generation.

b. **Regulatory risks**:
   i. **Taxes/duties**: When the Power Plants were set up, the applicable electricity duty was 3 Paisa for co-generation plant and 10 Paisa for others and remained till 1999. From 1999 it was revised to 20 for cogeneration and 40 Paisa for others.

      The rate of ED on CPP has been revised upward significantly in breach of estoppel to uniform 40 Paisa in 2004. In 2013, it was raised to 55 Paisa and now 70 Paisa in 2019. This is again a breach of estoppel as investment in CPP was imperative and was encouraged by the State policy to encourage CPP based industries. The power position was not satisfactory till end of 2010. The exorbitant raise in the ED rate has punished the investment made in CPPs. Our Industry members have been compelled to operate and meet their requirement through CPPs because of technical considerations for uninterrupted quality power for their processes and safety.

c. Operations and maintenance continue to be an added risk and responsibility for the non-core activities.

d. **Financial risk**:
   i. Raising of resources for a non-core defensive investment is a challenge.
   ii. Return of such investments is a risk because of factors beyond the control of the industry members which are stated above. Any change in fuel supply, fuel cost, O&M cost and duties significantly affect the viability of the investment in CPP and therefore the project.

Current Scenario of the State : Sir, the revised State Budget 2019-20 presented on 2nd July in the State assembly has proposed an increase of 15 Paisa per unit on consumption from CPP. Further, the proposal is to link ED rate with the Wholesale Price Index (WPI) to escalate with increase in WPI rate. Thus, ED rate is proposed to be 70 Paisa per unit from the existing 55 Paisa wef 2019 and thereafter increase it regularly with escalation in WPI rate. This is a big adverse impact to industries operating fully on CPPs as the current rate of ED of 55 Paisa itself is very high and unbearable adversely affecting viability of operations. The last increase in ED rate on consumption from CPP was recently made in 2013 from 40 paisa to 55 Paisa.

Thus, two immediate increase in short period from 40 to 70 Paisa is too harsh and steep and will affect the viability of our industry members who have invested in CPPs adversely. Further the proposal to link ED rate with WPI escalation is also very harsh and unprecedented. Such drastic action will discourage investment in CPP by our industry members.

Sir, we would like to place before you the following for your kind consideration. Our members already pay high and unreasonable current ED levy of 55 Paisa per Unit. The proposed increase of 15 Paisa in ED rate and further linking it with WPI escalation is requested to be rescinded:

- It is pertinent to know that our industry members have set up CPPs with own investment to meet captive power and steam requirement. Investment was made because of State policy. The power position in the state was inadequate to support large investment from industries requiring uninterrupted and quality power.

- Investment in CPPs by the Industry members facilitated the State in allocation of its resources to other critical areas of economy.

- When investment in CPP was encouraged, ED rate was a token rate. Against this backdrop, ED is increased drastically wef 1999 with increase of 18 times in Cogeneration CPP. It is a breach of estoppel.

- The present rate of ED (55 Paisa) is among the few highest ED rate in the country and is way above the current levy in industrially developed states like Maharashtra, Tamil Nadu, Andhra Pradesh, Karnataka etc. In 2015, ED rate in Maharashtra was increased to 120 Paisa. However, Maharashtra Govt. is positive and has not preferred to appeal the against the order of HC which has stayed the increase in rate. (comparison *of States to be attached*)

- The logic in proposing increase of 15 Paisa on CPP in comparison to levy ED from Industrial consumers of Discom is found unreasonable. There is no rationale to reduce the gap between the rate of ED of CPP and Industrial consumers of Discom. Historically, ED rate of CPP were significantly lower (token rate) than rate of GEB consumers. This was obvious for reason that State does not have obligation to supply power to our CPP based Industry members. These two sectors viz; CPP based industries and other consumers of Distribution Companies are different categories and there is no logic in comparison of the same. In fact, in recent past, there are occasions where ED rate of Discom consumers is reduced and there is no significant increase in ED rate of Discom consumer in absolute term.

- We are sure that the state would not like the industries based on CPP to become uncompetitive and unviable.

- The fuels used for power generation is in negative list in VAT and thus do not get benefit of ITC.

- VAT on fuels used in power by CPP contributes to significant revenue. Significant part of CPPs in the state use NG fuel having the highest VAT rate of 15%. As stated above, State does not allow input tax credit on all the fuels spent on power.

The proposed ED rate increase from 55 to 70 Paisa per Unit from CPP will make the existing CPP investment and operation unviable. This will also discourage our members for further expansion of CPP and investment in industries in the State.

We request that when the growth momentum for the investment is continuing in the State, the industry operating the CPPs should not be penalized and put to a severe disadvantage. The investment in CPP which is huge and is an important national asset and hence needs to be protected with the same spirit with which it was encouraged to overcome serious shortcomings in meeting uninterrupted quality power requirements.

Considering the prevalent adverse market conditions and appreciating the submission made hereinabove, we request you,

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1. to kindly drop the proposed increase in ED rate on CPP and
2. to drop the proposal to link ED rate with WPI escalation rate.

Sir, we look forward to your visionary support and kind consideration in the interest of industrial growth and sustaining the faith of Industries. We do hope and request that suitable actions will be taken on our submissions.

With regards,

Durgesh Buch
President

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Current Electricity Duty Rates in Different States

Sl No	State	Current Rates of ED (Paise/Unit)
1	Gujarat	55 paise/ unit – proposed 70 paise in Budget 2019-20
2	Maharshtra	30 paise/ unit continued. 120 paise/ unit rate is stayed by High Court in 2016
3	Tamil Nadu	Not less than 10 paise & not more than 20
4	Karnataka	20
5	Andhra Pradesh	25
6	Rajasthan	40
7	Orissa	55
8	Haryana	1.5
9	Uttar Pradesh	3
10	Punjab	1.5
11	Kerala	1.2

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Historical status of ED rates in the State - CPP

Period	CPP - Self Generating Plant	
	Cogeneration	Other CPP
From 1980s To 1999	3	10
From 1999 To 2004	20	40
From 2004 To 2013	40	40
From 2013 To 2019	55	55
From 2019 onwards	70	70

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Shri Saurabhbhai Patel
Hon'ble Minister of Energy
Govt. of Gujarat
2nd Floor, Swarnim Sankul – 1, New Sachivalay
Gandhinagar-382010

Sub: **Representation on behalf of our industry members pertaining to the Budget Proposal for the Year 2019-20 regarding increase of 15 Paisa in Electricity Duty (ED) on captive use from Captive Power Plant (CPP) - reg withdrawal of proposed increase in ED rate.**

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Shri Nitinbhai R. Patel
Hon'ble Deputy Chief Minister
Finance, Roads & Building & Health & Family Welfare
Govt.of Gujarat
2nd floor, Swarnim Sankul-1, New Sachivalaya
Gandhinagar-382010

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