ISSUE-I | JANUARY 2021

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POLICY Updates

What's INSIDE

Representation on Steep Rise of Basic Raw Material Prices

The Indian electrical industry has been facing severe hardships due to unusual rise in the prices of its basic raw materials, such as, Steel, Aluminium, Copper and Zinc etc. in the range of 15-35%, which are critical inputs in the manufacturing of electrical equipment. A large portion of IEEMA membership falls under micro, small and medium enterprises which are unable to sustain the impact of this crisis.

IEEMA represented this matter to Prime Minister's Office, Ministry of Power, Ministry of MNRE and Department of Expenditure etc. It was submitted that the Covid lockdown period impacted deliveries/ execution schedule of many contracts, many of which are fixed price contracts. The association recommended that to provide immediate relief to the suppliers: (a) The lockdown period should not be considered as delivery period and delivery extension should happen for all contracts, for at least 6 months, excluding the lock down period. (b) Extend the price variation contracts, till the extended delivery period.

IEEMA Representation on Denial of Emergency Credit Line Guarantee (ECLG) Scheme under Aatmnirbhar Bharat Package

The ECLG (Scheme) 2.0 was launched to cover 26 stressed sectors (power sector included), identified by Kamath Committee, with credit outstanding of above Rs. 50 crore and up to Rs. 500 Crore, as on 29.2.2020. However, the manufacturers of Power, Distribution Transformers and Reactors had been denied this benefit by nationalized banks on the ground that these Companies are not directly engaged in generation, transmission or distribution of power and the company's industry classification falls under 'Electrical Equipment' Industry / Sector, within sub-segment of 'Power Transmission and Distribution Equipment'.

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IEEMA requested the Ministry of Finance to issue appropriate clarification to the Banks and Financial institutions on applicability of this Scheme which is intended to provide liquidity support to the manufacturing sector.

Request for Clarification on Order of the Ministry of Power, dated 2nd July 2020

To protect the security, integrity and reliability of the critical power supply system and its network in the country, the Ministry of Power had issued an Order, dated 2nd July 2020, stipulating some conditions on imports of equipment from prior referral countries, sharing land borders with India. These conditions include prior permission of the Government of India and testing of these equipment in designated Indian laboratories.

In its representation to the Ministry of Power, Government of India, IEEMA sought certain clarification that whether the testing needs to be done on the finished product or on all the components individually, and whether the testing shall be done in a lab or after installation of the imported product. In absence of the above clarity, the State utilities are insisting upon the suppliers to provide test certificates or undertakings to this effect.

IEEMA also mentioned that equipment, sub-assemblies or components which are essentially devoid of any inbuilt electronic devices and associated software, do not have the capability for causing cyber-attacks.

Request to Implement Relief Measures Provided by the Government of India

In its representation to the respective State Governments and the Union Territories, CPSUs, State Owned Utilities, PFC, REC, Ministry of Power etc. IEEMA

mentioned that the pandemic had brought many challenges for the industry. Keeping in mind the importance of manufacturing sector, the Government of India announced some relief measures, from time to time, such as:

- Declaration of 'Disruption of Supply Chains Due to Spread of Corona Virus' as a Force Majeure event.
- Return of Performance Securities Proportional to Supplies Made / Works Contracts Concluded
- Replacement of Bid Security / Earnest Money Deposit (EMD) with Bid Security Declaration
- Reduction in Value of Performance Security in Government Tenders from existing 5-10% to 3% of the value of the contract

IEEMA requested the State Governments and the Union Territories to issue orders to their Power Utilities and the Government Departments to follow the aforesaid relief measures provided by the Government of India.

Further, IEEMA requested the utilities to re-work on Contract Delivery Period and extend the delivery schedule, against the contracts / Orders in hand and no penalties should be imposed till there is an impact of Covid -19 in running of businesses.

It was also submitted that the Covid-19 lock down period should not be considered as delivery period and delivery extension should happen for all contracts, for at least 6 months, excluding the lock down period, along with extension of the price variation contracts, till the extended delivery period.

Short Payment of GST to Suppliers by WBSEDCL

IEEMA represented the matter of short payment of GST by the West Bengal State Electricity Distribution Company Limited (WBSEDCL), for supplies of cables and other goods, deviating from earlier mutually agreed contractual provisions.

Just before the delivery of consignments GST was introduced, replacing earlier provisions of Central Sales Tax and Central Excise Duty. In view of the same, the utility issued amendments to its earlier purchase orders and agreed to pay GST. Meanwhile, the Government of West Bengal, issued a notification no. 5050-F (Y), dated 16.08.2017, on methodologies for release of payments under GST.

Upon raising of bills, the suppliers received short payments of GST from WBSEDCL. The supplied materials were manufactured and inspections were done before the implementation of GST. Moreover, WBSEDCL had agreed to pay GST in its purchase orders, when it was implemented.

IEEMA requested WBSEDCL to follow its own contractual commitments and not to deduct GST arbitrarily. It was requested to remit the differential amount of GST to the suppliers.

Denial of ECLG Scheme to Manufacturers of Electrical Equipment

The Emergency Credit Line Guarantee Scheme 2.0 was launched to cover 26 stressed sectors (including the power sector), identified by Kamath Committee. This was one of the relief measures announced by the Government of India, on 12th November 2020, under the Aatmnirbhar Bharat 3.0. The scheme covered credit outstanding of above Rs. 50 crore and up to Rs. 500 Crore, as on 29.2.2020.

Some manufacturers of electrical equipment, including Transformers, Conductors, Cables and other items were denied the benefits of this scheme by the nationalized banks, with an interpretation that the applicants are not directly engaged in generation, transmission or distribution of power and these companies fall under the Electrical Equipment Industry / Sector, within sub-segment of Power Transmission and Distribution Equipment.

IEEMA represented the matter to the Department of Financial Services, Ministry of Finance, Government of India, and sought clarification on applicability of this Scheme, in order to ensure reaching out of its benefit to the manufacturing industry, as intended by the Government.

Further, it is mentioned under point no. 19 of the Operational Guidelines that the status of the borrower's account on the date of sanction / disbursement should not be NPA, to qualify for this Scheme. IEEMA submitted that this point is in contradiction and defeats the purpose of the scheme, since many accounts which have come under stress during the period of March 2020 onwards may have become irregular due to the lockdown and its consequences. Hence point no. 19 should be removed, so that all MSMEs get this financial support under the ECLGS scheme. Additionally the Supreme Court had ordered that status will be maintained for all those account which are standard, as on 30th August 2020, and no borrower account should be declared as NPA.

Non-Adherence to DoE Order of 23rd July 2020 by Power Utilities in States

The Department of Expenditure, Union Ministry of Finance, in its Order, dated 23rd July 2020, stipulated restrictions on bidders from countries sharing land border with India, particularly China, from eligibility to participate in bids for procurement of any goods, services or works unless registered with the Competent Authority notified therein. A clarification was issued on the same by the Department of Expenditure, on 24th July 2020, illustrating applicability of the Order under different stages of tendering with examples.

As informed by IEEMA members, some of the State owned power utilities had entertained bids submitted by Chinese companies for their tenders. IEEMA represented to the Department of expenditure stating that all state grids are inter-connected; any malware/ Trojans etc. embedded in equipment imported from China by any electricity utility in any state can pose serious threats to the entire power network in the country. It was requested that while checking this, the Government also needs to bring the private sector electricity utilities, under the ambit of the said Order.

Request for removal of concessions allowed under Chapter 98 (Project Imports)

Concessional customs duty of 5% for project imports was introduced in the year 1986, when domestic industry did not have sufficient manufacturing capacity in most of the industry segments, and India required large scale investment for infrastructure development in various sectors, including Power. Special HS code of 9801 0013 was created to facilitate imports of Power Projects under these regulations.

Presently, the Indian electrical industry has adequate capability and capacity of manufacturing equipment to manufacture most of the electrical equipment required for the Power Sector. However, Project Imports concessions continue for the Power Sector, which has resulted in import of many non-essential equipment. An analysis of imports under HSN code 9801 0013 from 2007-08 to 2019-20 shows cumulative imports of approx. INR 176 thousand Crore having taken place. All these imports have been business-significant, which could have been supplied by the Indian industry when the domestic capacities remain underutilized and operating at 60-70%.

IEEMA recommended to revoke concessional duty imports under project imports and promote domestic manufacturing under Aatmnirbhar Bharat.

The Electricity (Rights of Consumers) Rules, 2020 Issued

The Ministry of Power issued the Electricity (Rights of Consumers) Rules, 2020. These have been issued under the Electricity Act, 2003.

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Certificate of Origin Service of IEEMA

IEEMA issues **"Certificate of Origin (Non-Preferential)",** required by exporters at the time of exporting their products out of the country.

The Ministry of Commerce and Industry, Government of India approved IEEMA Delhi as an authorized agency to issue this certificate in the year 2003, vide DGFT Public Notice no. 64/2002-07, dated 19th February 2003. IEEMA's name and contact details appear under Appendix 2 E of Handbook of Procedures (Vol.I) of the Foreign Trade Policy.

On receipt of applications from exporters, IEEMA issues these certificates instantly with zero wait time.

Members desirous to obtain the certificates from IEEMA need to send filled-in format of Certification of Origin, along-with copies of invoice and packing list(s) for each consignment, to the below mentioned address. Applicants may get the certificates either in person or through courier.

A nominal certificate fee of INR 118 (INR one hundred eighteen only - inclusive of GST) is charged per certificate. Applicants need to add INR 50 (INR fifty only) as courier charges. Payment may be made by cash / cheque / DD in favour of **"IEEMA"** payable at **"Delhi"**.

Exporters are requested to send their requisitions and queries to:

Mr. Sudeep Sarkar
Director

Indian Electrical & Electronics Manufacturers' Association (IEEMA)
Rishyamook Building, First Floor, 85A, Panchkuian Road, New Delhi – 110 001
Ph: 011- 23363013-14 / 23746634, **Fax:** 011- 23363015
Email: sudeep.sarkar@ieema.org

Key features of the Rules include:

- **Servicing of Consumer Requests:** Discoms must provide for a web-based information system with details on various procedures and tracking mechanism for all applications for various services. These procedures and services include grant of new/temporary connection or modification of existing connections. The grant of new connection or modification in existing connection must be completed within 7 days for metro cities, 15 days in municipal areas, and 30 days in rural areas from the date of application.
- **Metering:** A new connection must be provided with a smart pre-payment meter or a pre-payment meter, unless approved otherwise by the State Electricity Regulatory Commission (SERC). All defective meters will have to be replaced by the distribution licensees within: (i) 24 hours in urban areas, and (ii) 72 hours in rural areas.
- **Prosumers:** Prosumers refer to people who produce as well as consume electricity. Prosumers will have the rights of a general consumer. They will also be allowed to set up renewable energy generation units. The total generation capacity by prosumers should not exceed limits prescribed by the state regulatory commissions.
- **Compensation for not adhering to performance standards:** SERCs will specify certain standards of performance for the distribution licensees such as limit on interruptions in power supply, maximum time for resolution of complaints and providing other consumer services. If licensees fail to adhere to these standards, they will have to compensate the consumers. The compensation amount will be specified by SERCs and will be provided to consumers as adjustments in their electricity bills.

Guidelines for Implementation of Feeder Level Solarisation under Component-C of PM-KUSUM Scheme Issued

The Ministry of New and Renewable Energy issued guidelines for implementation of feeder level solarisation, under component-C of Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahaabhiyaan (PM-KUSUM) scheme.

Component-C of the scheme aims at solarisation of 15 lakh grid-connected agricultural pumps (including 7.5 lakh pumps with feeder level solarisation) by 2022. The guidelines specify two methods for installing solar power plants for feeder level solarisation: (i) capital expenditure (CAPEX) mode, and (ii) renewable energy service company (RESCO) mode.

The distribution company will be the implementing agency in their respective areas of distribution. Farmers with power consumption below the benchmark consumption (determined by discoms) will be incentivised. Under CAPEX mode, 30% of total cost will be provided by the central government as central financial assistance (CFA). The CFA for northeastern states will be 50%. 40% of the total CFA amount will be provided to discoms on completion of tendering process and signing of agreement with the selected engineering, procurement, and construction (EPC) contractor. Under RESCO mode, 30% of the estimated cost of installation of solar plants will be provided to developers as CFA. CFA will be disbursed through discoms on successful commissioning and declaration of commercial operation date of solar plant. Bank guarantees, equivalent to CFA amount, will be required for release of CFA. The project life of solar plants will be of 25 years. In case of failure of plant within this period, the discom may have to refund CFA amount on pro-rata basis. All components used in installation of solar power plants must confirm to applicable specifications and guidelines issued by Bureau of Indian Standards and the Ministry. Further, the guidelines specify that the solar plants must mandatorily use indigenous solar panels (with indigenous solar cells and modules).

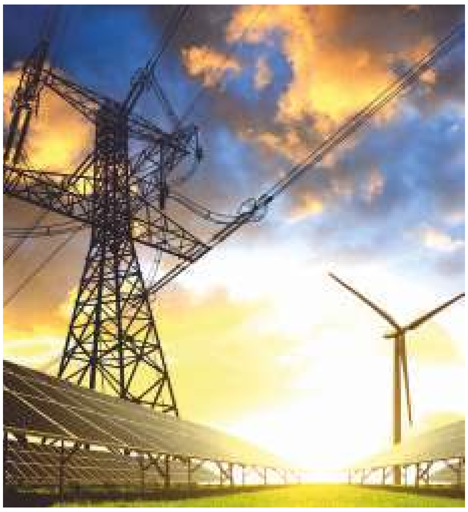
Guidelines for a Competitive Bidding Process for Procurement of Round the Clock Power from Mixed Sources Amended

The Ministry of Power amended the guidelines for the tariff-based competitive bidding process for procurement of round-the-clock power from renewable energy sources, complemented with power from coal-based thermal power sources.

The guidelines were released in July 2020 to facilitate bundling of renewable energy with thermal sources of energy to address the intermittent nature. The amendments enable bundling of renewable energy with any source of energy. This will facilitate availability of cheap energy for RTC procurement.

The key amendments include the following:

- **Bidding Parameter:** As per earlier provisions, the composite tariff (tariff for renewable energy complimented with any other source of energy) was the parameter for bid evaluation. The amendments specify weighted average levelized tariff per unit supply of RTC power as the parameter for bid evaluation. The weighted average levelized tariff is the tariff determined



by considering the proportion of energy from RE sources and non-RE sources as specified in the power purchase agreement (PPA). It will include: (i) fixed component of RE power and non-RE power (such as investment on equipment and infrastructure). The fixed component of tariff is required to be quoted in each year of the duration of PPA. The variable component is required to be quoted as on the scheduled date of commissioning.

- **Penalty for Shortfall in Power Availability:** The guidelines specified that: (i) annually at least 51% of power must come from renewable sources, and (ii) the renewable power generator is required to ensure at least 85% availability of power annually and during the peak hours. In case these targets are not achieved, the power generators were subject to a penalty of 25% of the cost of this shortfall in energy terms (calculated at the maximum composite tariff payable during the year). The amendments increase the penalty to 400% of the cost of this shortfall in energy terms, calculated at the applicable tariff payable during the year.

- **Peak Hours:** Currently, peak hours are defined as four hours a day during either evening or morning as mentioned in the bidding documents by the procurer. As per the amendments, the peak hours will be four hours a day as defined by the regional load despatch centres.

Draft Electricity (Change in Law, Must-run status, and other Matters) Rules, 2020 Released

The Ministry of Power released the draft Electricity (Change in Law, Must-run status, and other Matters) Rules, 2020. The draft Rules, issued under the Electricity Act, 2003, are aimed at facilitating pass through and compensating renewable energy generators for lack of demand from buyers. Pass through refers to the mechanism in which any additional expenditure is accounted in the cost and is charged to the consumer. Key features of the draft Rules are:

Tariff Adjustment on Change in Law: In case of any change in law event, the tariff will be adjusted to compensate the affected party. The change of law often results in additional capital expenditure which impacts tariff. The compensation will be aimed at restoring the economic status of the affected party to the position as if the change in the law had not occurred. The pass-through will be allowed on per unit basis of electricity and will come into effect automatically after 30 days of the change in law event. The formula for determining the pass-through should be mentioned in the bidding document or the Power Purchase Agreement (PPA). Otherwise, the formula prescribed in the government guidelines may be used to determine the pass-through. The state electricity regulatory commission will have to complete the claim verification process within 60 days of the pass-through coming into effect. The verification will be based on the documents submitted by generators and buyers.

Must-run Power Plants: All renewable energy power plants (such as wind, windsolar, and hydro) with PPA to sell power will be treated as a must-run power plant. A must-run power plant will be subjected to curtailment or regulation only in case of any technical constraints in the electricity grid or for reasons related to the security of the grid. In case of curtailment due to any other reasons, the buyers will have to compensate the generators. The rate of compensation should be mentioned in the PPA, else the compensation will be at the rate of 75% of the PPA rate per unit.

Trading license to procure power for distribution companies: Intermediary buyer will be allowed to procure power for distribution companies through a bidding process. In case of multiple suppliers at different rates, the weighted average of all bids will be the resultant bid rate.

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