

No. 66/86/93-PG
Ministry of Non-Conventional Energy Sources
Block No.14, Kendriya Karyalaya Parisar,
Lodi Road, New Delhi-110003

Dated : 07.09.1993

My dear Chief Secretary,

1. Under the new Strategy and Action Plan of the Ministry, special emphasis is sought to be given to generation of grid quality power from non-conventional energy sources. The targets for the 8th Plan have been significantly enhanced, and the new Plan aims at generation of 2000 MW of power through wind, small hydro, bio-energy, solar, etc. The targets for small hydro and wind power are 600 MW and 500 MW respectively. These programmes are being given a market orientation to make them commercially viable and sustainable. While the budgetary allocations will be utilized for selected demonstration projects, the programmes will mainly be implemented through private sector projects with mobilization of resources from financial institutions, external assistance and private investment.
2. The average cost of power generation from non-conventional energy sources already compares quite favourably with new coal, thermal/gas based projects and captive diesel generating sets. While in future their costs are expected to drop, costs of conventional electricity generation will only increase. Even at present, given a more level playing field in the power sector, wind power and small hydro would emerge to be cheaper and cleaner sources of power generation, if full compensation is given to the subsidies provided for fossil fuels and if the costs of environmental degradation and other externalities are taken into account.
3. You may be aware that the Centre has introduced several fiscal and other promotional incentives to attract private sector participation in the generation and supply of energy from non-conventional energy sources. In addition, a few States have introduced measures such as wheeling, banking, buy-back, third party sale, capital subsidies, industry status, sales tax exemption, etc. However, these vary from State to State in the States where they have been introduced or are different for wind power and small hydro, while in most other States they are yet to be announced.
4. The Ministry has drawn up a set of guidelines (enclosed) for consideration and adoption by all States towards a uniform policy pertaining to non-conventional energy sources. A minimum buy-back price of Rs.2.25/unit has been proposed. This is considered reasonable as the average cost of generation from new coal thermal projects is already Rs.1.90/unit (1991 figures), while it is even higher at Rs.2.20/unit for gas based projects, and Rs.2.50/unit from captive diesel sets.
5. I am writing this to suggest that the proposed package of incentives is introduced early in your State. The guidelines suggested by us are by no means exhaustive. You may like to consider additional incentives to offer the most attractive package to encourage private sector participation, which will give a major boost to power generation from non-conventional energy sources. I hope that the incentives that are introduced will be allowed to continue over the entire operative period.

6. I also suggest that a suitable institutional framework should be set up for dealing with these projects. As already announced by a few States, a State Level Committee should be set up to co-ordinate and provide "single window" clearance, and a separate "Cell" should be set up in the State Electricity Board to provide assistance to entrepreneurs; simplified guidelines and procedures should be evolved and published for invitation and processing of proposals to enable quick clearance.
7. Interest has been expressed in large private sector/joint venture projects, and World Bank lines for credit are already available for private sector wind farm and small hydro projects. Possibilities are being explored for large GETF, ADB assistance and bilateral financing. The existence of a suitable policy package and conducive institutional facilities for private sector investment is often a prerequisite for a State to become eligible for such schemes.
8. I would urge you, therefore, to assign the highest priority to this matter, so that fullest advantage could be taken of the available resources for exploitation of the potential available in your State.

I look forward to an early reply.

With regards,

Yours sincerely,

Sd/-
(L.M. MENEZES)
Secretary MNES