

The Sasan Power Project in MP (Reliance ADAG Group)

Summary:

- **Location:** Sasan, Madhya Pradesh, a 3,000 acre cluster of 5 villages Sidhikhurg, Sidhikala, Tiwara, Jhanjhi and Harihara containing a population of about 10,000 located approximately 25 km from three captive pithead coalmines.
- **Date Initiated:** Feb 10, 2006 with the incorporation of Sasan Power limited (SPL).
- **Size:** 3,960 MW coal-fired ultra mega power project (UMPP) - 6x660 MW
- **Annual Emissions:** 26,000-27,000 tonnes of carbon dioxide per year or 832 grams carbon dioxide per kilowatt hour
- **Local Displacement:** About 6,000 people will lose their land and homes once the Rs 20,000-crore (\$200 billion) project takes off. Both issues are critical because the green cover here belies the stark poverty of an area that has just one or two pakka (permanent) houses. Most farmers and daily labourers live in mud hutments.
- **Power Use:** The states sharing the power are Madhya Pradesh (Lead Procurer) with a 37.50% share, followed by Punjab (15%), Uttar Pradesh (12.5%), Delhi (11.25%), Haryana (11.25%), Rajasthan (10%) and Uttarakhand (2.5%).
- **Ex-Im Support:** After a reversal of an earlier decision to follow its low carbon policy US Exim bank gave approval for \$600 million in loan guarantees. The reversal came with a “compromise” between Reliance and Ex-Im to generate 250 MW of renewable energy on site to address low carbon policy concerns.
- **Legal Controversy:** Tata Power Company challenged the use of surplus coal from the captive coal mines for other projects of Anil Ambani-controlled Reliance Power. The current structure would allow Reliance Power to save about Rs 960 crore in a year, as captive coal mines give cost savings of up to Rs 240 crore a year for every 1,000 Mw capacity. The Delhi High Court dismissed a petition on 14th April 2009. Tata Power said the company would appeal the decision in the Supreme Court.

Introduction:

The Sasan Ultra Mega Power Project (UMPP) is a Government of India initiative to develop a large power plant in India. Sasan Power Limited (SPL) is currently developing a 3,960 MW coal-fired UMPP to be located in Sasan, Madhya Pradesh, approximately 25 km from three captive pithead coalmines. The Sasan project will be a 6x660 MW coal-fired project.

Sasan Power Limited (SPL) was incorporated on February 10, 2006. This company was incorporated as a wholly owned subsidiary of Power Finance Corporation Limited in order to build, own, operate and maintain the Sasan Ultra Megawatt Power Project at Sasan, Madhya Pradesh. It was transferred to Reliance Power under the provisions of a share purchase agreement dated August 7, 2007 and is now a fully owned subsidiary of Reliance Power.

Where the power will go:

A Power Purchase Agreement has been executed with 14 Procurers comprising 7 States and their off take shares are as follows; Madhya Pradesh (Lead Procurer) will be entitled for 37.50% share, followed by Punjab (15%), Uttar Pradesh (12.5%), Delhi (11.25%), Haryana (11.25%), Rajasthan (10%) and Uttarakhand (2.5%).

Legal issue:

Tata Power Company challenged the use of surplus coal from the captive coal mines of Sasan ultra mega power project (UMPP) for other projects of Anil Ambani-controlled Reliance Power. A Tata Power executive had earlier told Business Standard that the EGoM decision would allow Reliance Power to save about Rs 960 crore in an year, as captive coal mines give cost savings of up to Rs 240 crore a year for every 1,000 Mw capacity. The Delhi High Court dismissed a petition on 14th April 2009. Tata Power said the company would appeal the decision in the Supreme Court.

Carbon Policy of Exim bank:

The US Exim Bank had recently established and implemented a carbon policy that requires its board of directors to carefully consider the potentially adverse environmental impact of high-carbon intensity transactions. On June 24th, the Board of Directors of the Export-Import Bank of the United States (Ex-Im) voted not to proceed with further review of the application for the Sasan project, based on environmental concerns.

Noting that Reliance's Sasan plant is projected to emit close to 26,000-27,000 tonnes of carbon dioxide per year, the official said that the board, "after careful consideration, viewed "The board felt that the environmental impact of the facility is such that they could not support it," the Exim official said that the environmental impact of the project would be too adverse".

This comes in the backdrop of US President Barack Obama determining that power projects of the kind should move away from carbon-based fuel towards renewable ones.

"The board felt that the environmental impact of the facility is such that they could not support it," the Exim official said.

"We were just looking at the size and scale of this particular transaction and the board feels it is not in good faith to proceed -- given the projected adverse environmental impact it would have," he said.

The Reversal Of Exim's decision:

It, however, reversed its decision on July 1, after Reliance Power's commitment for developing renewable energy and cut emissions. This financing which was rejected 3 weeks ago has been "reconsidered" ostensibly due to Reliance Power's 250 Renewable Energy Plant.

Responding to green commitment from Reliance Anil Ambani group, the US Exim bank gave a preliminary approval for \$600 million in loan guarantees to the supplier to Rs 20,000 crore power project at Sasan in Madhya Pradesh. The bank said the Board of Directors has approved a full financial, technical and environmental review of an application by Reliance Power for financing its coal-fired power plant. Reliance Power's application is, however, still subject to final review and approval, it said.

A day before the Board meeting, US environmentalist alleged that the US Export Import Bank succumbed to intense lobbying despite high emissions, a charge contested by Reliance Power whose officials said that emission from the project would be at 832 grams of COs/KWh, way below the Exim Bank norms.

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