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SEZs will get to sell power outside zones

Decision To Enhance Fund Flow To Power SEZs, Help Centre Meet 11th Plan Target

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NEW DELHI

THE government will allow power projects located in special economic zones (SEZs) to sell electricity to units outside the zones, including in other SEZs, without seeking a distribution licence from state electricity boards. This will make these power SEZs, such as the ones proposed by the Adani Group, Wardha Power and the Maharashtra Industrial Development Corporation (MIDC), more attractive to investors.

A notification would soon be put up by the commerce department specifying the details, additional commerce secretary DK Mittal has said. "The move would make production of goods and services in SEZs more competitive,". he said, adding that units would be able to source cheaper power from SEZs. The zones with captive power generation capacity such as Reliance's proposed multi-product zone in Jhajjar and smaller zones like Hari Fertilizers in Chandauli also stand to benefit from the move as they can sell excess power.

Seeking a distribution licence from state electricity boards (SEBs) for selling power outside the zone is time-consuming as producers have to complete a lot of paperwork. "The process of getting licences is very complicated and the move to allow SEZs to sell power without licences would go a long way in encouraging power production in such zones," Mr Mittal said.

According to Hitender Mehta, a Gurgaon-based consultant and SEZ expert, the decision to ease sale of power from SEZs to units in other SEZs would certainly bring down cost of power for units. "Units purchasing power from other SEZs will not have to pay either Customs, excise or local levies," Mr Mehta said, adding that power producers in SEZ would anyway have a cost advantage as they have been exempted from paying duties while setting up their power plants.

Sale of power by SEZs in the domestic tariff area (area outside SEZs), would, however, attract Customs duties, as clarified by finance minister Pranab Mukherjee in his budget speech last week. Interestingly, the finance ministry had initially opposed setting up of power SEZs on the ground that it went against the spirit of the SEZ Act, which was primarily to promote exports of goods. The finance, commerce and power ministries also spent a lot of time discussing an appropriate formula for taxing sale of power from SEZs to the area outside SEZs, and finally came up with one acceptable to all.

At present, there are no operational power SEZs in the country. However, there are as many as six developers who have got formal clearance for setting up power plants in their proposed zones. The relaxed conditions for selling power outside the zones is expected to attract more investments in the zones. It is also a step in the direction of getting closer to the single-window clearance mechanism promised in the SEZ Act.

Excess power from SEZs could also help the government meet its power generation targets. It had plans to add over 78,500 mw of additional power generation capacity in the 11th Plan period. Together with requirements in transmission and distribution sectors, the total investment for achieving this target is close to Rs 10,00,000 crore. So far in the 11th Plan (till January 2010), the total power generation capacity addition has been about 19,500 mw against the target of 35,000 mw.

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