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From the Minister for Trade

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NBIM

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INDIA: ATP FOR DESU GAS TURBINES

In my letter to you of 5 December, I said I would write again with more detailed comments on some of the points you have raised on our proposal to provide ATP in support of British bids for the DESU Gas Turbine Project.

First, can I assure you that there is not, in this or any other case, any question of my Department commissioning a consultant to assess developmental merit. In this case, because the available information was inevitably limited, and because of CEGB's experience of gas turbines and BEI's knowledge of the Delhi system, we felt their comments would be both relevant and helpful to your advisers. There is no reason to believe that their views are other than professional and disinterested. BEI have no financial interest in seeing the DESU contract go to any particular company or, indeed, to any particular technology. Their arguments in support of the supply of gas turbine generators to DESU reflect their considerable knowledge and understanding of the situation in Delhi.

As the attached further comments on some of the detailed issues illustrate, many of these are subject to differences which cannot easily be resolved in the absence of detailed investigations; it would clearly not be practicable to undertake these in the necessary timescale or, possibly, at all. In these circumstances, I suggest due weight should be given to the knowledge and expertise of BEI staff who are very ready to brief your advisers further on those features of the Delhi system which they consider justify the economic use of gas turbines.

There is no question of bending the rules in favour of GEC. As I said in my letter of 5 December, I continue to find it hard to believe that a test of developmental value cannot be met in this case, even if it is not the project you would choose ideally to support. Because it is an ATP case, the primary issue is the legitimate defence of our commercial interests. John Brown, as well as GEC, are potential beneficiaries. I do not consider that the extent to which GEC has benefited from other aid supported



projects is a relevant consideration. In any case, as well as GEC itself, many sub-contractors and suppliers benefit from these projects. Moreover, the number of projects brought forward by GEC which make a claim to aid support reflects their competitive strengths. I am sure that you agree that aid should be used in support of projects likely to be carried out effectively and competitively.

Finally, on the question of the collaboration agreement, GEC-Ruston/Rolls Royce have indicated to BHEL willingness to include in the agreement the EM610 and SK30 models as well as their smaller machines (all GEC gas turbine activity is now combined in one business unit). BHEL have said explicitly that this will depend on the acceptance of these models by Indian customers in current tenders (DESU, DVC and National Fertilizers). As regards the competition for the collaboration agreement, Brown Boveri as well as GE are in contention. Though GE's own bid for DESU appears uncompetitive, GE machines are being offered by several other contenders who are GE licensees, notably Alsthom Atlantique and John Brown. This means, of course, that from this point of view, the case for support of GEC/RR is stronger. However, we do not wish to treat John Brown on a different basis for the purposes of the ATP case because, if the technical and price evaluation is in favour of the GE machine, it is important that John Brown are able to match the French finance offer.

Contract award is expected shortly after the Indian general election, which is on 24 December. It is essential therefore that we reach a decision before Christmas. This means that we need to put the matter to the Prime Minister this week before she leaves for China. We can report our respective views separately or jointly as you wish. Will you let me know how you would like to proceed?

I am copying this letter to the Prime Minister, George Younger and Peter Rees.

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PAUL CHANNON

Paul

THE ROLE OF GAS TURBINES IN NEW DELHI: FURTHER COMMENTS

1 All the evidence we have from Delhi shows that the existing generating capacity is increasingly unable to keep pace with demand, which is rising at some 10% per year. There is, therefore, a real and urgent need for radical improvements in the supply system. The Government of India recognises this and is taking significant steps to improve the situation. The foundations of a national transmission network are being laid and the power authorities are undergoing a consequent reorganisation. More specifically new thermal power units are to be constructed at Rajghat and Uttar Pradesh, which will ultimately deliver over 950 MW and be of direct benefit to Delhi.

However, it will be over six years before this new capacity is available; in the meantime the pressure of rising demand forces DESU to take urgent action. They have no choice but to commission plant with a short lead-time and, in view of these constraints, the installation of gas turbine generators can be regarded as a sensible move.

2 The use of gas turbine generators is not meant to replace or prejudice a fundamental reform of the Indian power supply industry. It is rather an essential element in the further development of the generation strategy, since it will permit a continuation of supply while new - and more cost-effective - plant is constructed and brought on-stream.

3 It is true that substantial standby plant has already been installed by industrial consumers in New Delhi. This must be due to the irregularities in the DESU supply and reinforces the urgent need to improve the supply from DESU. Small scale industrial generators are expensive to run and impose further inefficiencies on an industrial sector which is still struggling to develop. ODA economists comment that gas turbines produce more expensive electricity than stand-by generators, but agree that reliable evidence is not available. Many companies in India and elsewhere have entirely valid reasons of their own for holding reserve plant - but they do not generally do so because standby generators produce cheaper electricity. Moreover, the acceptance of dispersed plant as a feature of the electricity supply industry will hinder the development of an efficient energy policy in Delhi, since DESU has no control over the operation or condition of these units. On the other hand a steady, centralised control system can offer a quick and flexible response to fluctuations in demand, thus keeping fuel costs and wastage to a minimum. The development of such a system would harmonise well with the Indian Government's desire to move towards a national supply network.

The World Bank has made available \$3m for the rehabilitation of thermal plant in India as a whole. Whilst this is beneficial to the total scene it will have little effect on Delhi in particular for four to five years. Thus DESU is faced with 10% power shortages over the next 5 years and demonstrates the alleviation that gas turbines would give in supplying the 10% power supply deficit. It is likely gas turbines would give another 10% power to displace the thermal plant in DESU to permit beneficial access for maintenance. Therefore gas turbines made an indirect contribution to the improvement in thermal plant availability. India's reliability problems derive from very poor maintenance due to lack of access because there is no incentive or statutory authority allowing engineers to disconnect consumers merely to carry out maintenance of power station plant. They in fact await a breakdown. The cost of these power shortages has been examined by many authorities and BEI have examined Finish papers, Swedish papers and Ontario Hydro and Consolidated Edison contributions. Both the Canadians and Swedish investigation and substantiation by the American work the value of energy not supplied for use in optional reliability investment appraisals is 35 times the present cost of a unit of electricity. This is an average value and based on many thousands of questionnaires directed at agriculture, domestic and commercial and industrial consumers. It is BEI's belief that it would be very conservative to use a figure of 20 times for Delhi when it is remembered that these assessments exclude the cost of riots and looting.

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