

AP allows use of RLNG in power plants

Event update

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The Andhra Pradesh (AP) government has approved gas-based power plants in the state to operate with re-gasified liquefied natural gas (RLNG). Production at these power plants (GVK's Jegurupadu-1 , Jegurupadu-2 and Gautami, GMR's Vemagiri and Kakinada barge-mounted and Lanco's Kondapalli-1 and 2 plants) have been hit by reduced natural gas supplies from Reliance Industries, as production at the latter's KG-D6 fields has fallen to less than 53mmscmd from a peak of 60mmscmd in Q1FY11.

Impact

As part of the arrangement, GAIL will divert KG-D6 gas currently being consumed by users on the West Coast of India to gas-based power plants in AP. The users on the west coast will, in turn, be supplied RLNG to be imported by GAIL. Although the source of gas will be physically swapped, West Coast users will continue to pay for KG-D6 gas (US\$4.2/mmbtu), while the cost of the relatively expensive RLNG will be borne by power plants in AP.

GAIL has arranged for imports of 2.594mmscmd of RLNG up to May 2011, which will be made available for the power plants, at a cost of US\$10/mmbtu. The additional cost of fuel vis-à-vis KG-D6 gas will be a pass through to APDISCOMs under the PPAs signed with the power plants. The cost of fuel is expected to increase from ~Rs1.8/unit to ~Rs3.5/unit with the use of RLNG, pushing up the total cost of power to Rs4.5/unit. Led by lower generation due to the shortfall in gas production, power deficits in AP have risen sharply over the last 3-4 weeks, driving short term tariffs to as high as Rs11/unit. Moreover, APDISCOMs have contracted power under short-term bilateral PPAs at ~Rs5/unit. We believe the increasing cost of short-term power is the key trigger for the state to approve the use of RLNG and get assured delivered power at Rs4.5/unit.

Our View

The availability of RLNG is a key positive for GVK, GMR and Lanco as PLFs at their gas-based power plants have fallen to below 70% over the last 2-3 weeks, and thereby impacting their ability to recover capacity charges. With the swapping arrangement in place starting today, we expect PLFs to immediately improve to 85-90%. We believe Lanco, for its Kondapalli-2 and GMR for the Kakinada power plant, would avail of RLNG depending on their expectations of merchant realizations and the likely spreads from the incremental power generation. With the swapping arrangement in place up to May 2011, we see sustained higher PLFs for the companies over the next two months. Our current estimates assume PLFs of 75-80% for these plants in FY12 and any higher level of operations would lead to earnings and cash flow upsides. We maintain Outperformer on GVK, GMR and Lanco.

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Gas allocation from Reliance's KG gas basin

| Plant | MW | Allocation | | Contracted | |
|---------------------------|-----|------------|----------|------------|----------|
| | | Firm | Fallback | Firm | Fallback |
| GVK Gautami | 464 | 1.9 | 0.4 | 1.9 | 0.1 |
| Godavari (Spectrum Power) | 208 | - | 0.2 | - | 0.2 |
| GVK Jegurupadu Ph-I | 217 | 0.2 | 0.2 | 0.2 | 0.1 |
| GVK Jegurupadu Ph-II | 220 | 0.9 | 0.2 | 0.9 | 0.1 |
| Konaseema | 445 | 1.8 | 0.4 | 1.8 | - |
| Lanco Kondapalli-1 | 350 | 0.4 | 0.3 | 0.4 | 0.1 |
| Lanco Kondapalli-2 | 366 | 1.5 | 1.8 | 1.5 | 0.1 |
| Rel Infra Samalkot | 220 | 0.3 | 0.2 | 0.3 | 0.1 |
| GMR Vemagiri | 370 | 1.5 | 0.3 | 1.5 | 0.1 |
| GMR Kakinada | 220 | 0.9 | - | 0.9 | - |

Source: Infraline

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