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How CLP succeeded where others struggled

Foreign players have struggled to make inroads in the power sector, but success stories outnumber failures for CLP as it completes 15 years in India

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Buried deep in the Malwa plateau in Madhya Pradesh lies Chandgarh, a dry and dusty village dotted with patches of cultivable land. In the middle of the village, inside a minimalist office, a handful of people are glued to their computers. They are monitoring data, that is fed into their computers through a system called SCADA, or supervisory control and data acquisition, on electricity generated from wind turbines in the vicinity. An adjoining sub-station transmits power from these turbines to the grid.

Gamesa maintains these turbines, which have 2 Mw capacity each, as contractors for the CLP group, one of the largest foreign players in the power sector. So far, CLP has invested ₹14,500 crore in the country.

Chandgarh is one of the six states where CLP has set up wind farms in India. It has 46 turbines here. Each of them has a lift that can take two people at a time up to a certain height, beyond which the staff has to climb up manually, to carry out maintenance work. Operated and maintained by Gamesa under a contract, the turbines were commissioned in 2015 and work at 24-27 per cent capacity. The power is bought by the state government under a 25-year agreement.

Scripting a different story

Even as foreign players such as Enron, Congentrix and others have struggled in India, CLP has made steady inroads. With 920 Mw of installed capacity across six states, it is among the largest wind energy players in India.

Wind energy is not the only success story for the 115-year-old Hong Kong-based company that clocked 15 years in the country last month.

CLP's first success came with a combined-cycle power plant (it uses gas and steam turbines) at Paguthan in Gujarat. In February 2002, CLP took over the 655 Mw natural gas- and naphtha-fired plant from UK-based PowerGen. The buy-out was part of a $662-million deal under which PowerGen sold its projects in Indonesia, Thailand and Australia to CLP.

For CLP, it was the second time that it was trying its hand at power generation in India. Its majority partner, Cogentrix, in December 1999, had walked out of the 1000 Mw Mangalore power project in Karnataka. CLP, which had 40 per cent equity, wanted to stay back and complete the project but that could not happen.

When CLP took over Paguthan, the erstwhile Gujarat Electricity Board owed money to the power plant.

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RAJIV RANJAN MISHRA
MD, CLP India

The company, however, turned around the Gujarat plant. "In the early years, we decided not to make any fresh investment but focus on resolving the issues that the plant was facing. Those were the days when even the state utility was in a bad financial state. Very little natural gas and liquid fuel were available. Prices had skyrocketed. So in the first three years, all we did was to focus on improving operations," says Rajiv Ranjan Mishra, managing director, CLP India.

The plant utilisation, which was just 5 per cent in 2014, jumped to 11 per cent in 2015, largely due to CLP India winning two rounds of auctions by the government for subsidised imported gas. Finally, plant availability reached 94 per cent in 2016.

The flagship asset for the group, however, is not Paguthan but a coal-based power plant at Jhajjar, in Haryana. The 1320 Mw plant, too, had its share of troubles. The commercial operation of the first unit started in July 2012, but coal supply was sporadic. By November, the company was forced to import coal but its blending was restricted to 15 per cent as Haryana distribution companies did not want costly power. Andrew Brandler, the group CEO, even wrote to then Prime Minister Manmohan Singh about shareholder concerns on the viability of the India projects. "The pressure is mounting and the management needs to urgently find remedial solutions or reconsider present and future investments in the country," Brandler wrote to Singh.

Then, in June 2013, the blending restriction was relaxed to 40 per cent on a monthly basis and 35 per cent annually. As domestic coal supply improved, CLP gradually started to reduce the share of imported coal from 2015. Since May 2016, it hasn't procured imported coal. The plant has not just managed to stay afloat, but achieve a record availability of 93 per cent last year, helping CLP India show consistent increase in profit for three years in a row. Its operating earnings from India in 2016 were HK$469 million.

"There have been some good times and some difficult times. When times have been difficult, we have been modest. We have focused on the assets we already have. When times have been good, we have looked to expand," says Mishra.

CLP INDIA IN NUMBERS

	Installed capacity Mw	Electricity transmitted Gw/hour		Availability %		Utilisation %	
		2016	2015	2016	2015	2016	2015
Wind	954	1,704	1,473	92.9	94.4	21	20.6
Coal	1,320	2,965	5,406	93.2	82.4	27.3	49.9
JHAJJAR PLANT							
Gas	655	547	621	94.4	97.4	9.7	11.1

Paguthan; Source: CLP

Power of the sun

The latest addition to CLP's diversified portfolio is solar power through a project at Veltoor, Telangana. The 100-Mw project, due to start operations this year, is being built in partnership with Suzlon. CLP owns 49 per cent stake, bought at an estimated investment of ₹760 crore, and has the option to acquire the balance 51 per cent a year after the project is commissioned.

What explains CLP's success is its somewhat different strategy. For instance, in 2004, CLP had the opportunity to foray into power distribution but decided against it as it was not ready for the challenge of running a distribution business.

When coal-fired ultra mega power plants were put up for bidding, CLP felt that, as standalone investments, these projects were too big. "Besides, the entire first generation of bids that we saw in those years was effectively won by taking bigger coal price risk. We reckoned that it was not a risk that a power generation company should take," says Mishra.

When CLP started looking at renewable energy, it was initially to mitigate business risk from the group. "We first faced it in Australia. We knew it was only a matter of time when the pressure on carbon dioxide emission could intensify in our other markets. So, as a way of diversifying that risk, we even changed to renewable," says Mishra.

The company first looked at smaller biomass projects but realised that the challenges in the micro segment were not something which a large company like CLP could meaningfully manage. It found wind energy to be more apt for itself.

It has tried out new ways to fund its projects. In 2015, CLP India pooled together its operational wind energy assets in a single subsidiary and raised ₹600 crore from green bonds, making CLP Wind Farms (India) the first corporate issuer of such bonds from South Asia.

Power transmission is next on its agenda. "Besides, we are actually looking at a whole range of technologies for tomorrow; 20 years from now," he says. Charging stations for electric cars is one such example.

Caution has been the byword of CLP's India strategy and it has paid off well. As Mishra puts it, "Fifteen years come in handy. We are able to tell our staff that we just have 100 years more to go".