

MINUTES OF THE 18TH MEETING OF THE
CENTRAL ADVISORY COMMITTEE (CAC) OF CERC
HELD ON 07TH OCTOBER, 2013 AT NEW DELHI

**VENUE: SEMINAR HALL, FIRST FLOOR
NEW CONFERENCE BLOCK
INDIA INTERNATIONAL CENTRE, NEW DELHI .**

Shri V.S. Verma and Shri M. Deena Dayalan, Members of Central Electricity Regulatory Commission (CERC) were on the dais. A list of participants is **enclosed** at **Annexure-I**.

2. Shri V.S. Verma welcomed the Members of the Advisory Committee. In his opening remarks, Shri Verma expressed his appreciation for the advice and valuable suggestions given by the Central Advisory Committee on a number of issues of critical importance in the past.

Shri Verma highlighted that the Indian power sector was caught in the vicious circle of shortage of fuel, rising fuel cost and deteriorating financial conditions of discoms. Shortages of domestic fuel clubbed with poor financial health of the discoms have rendered generation capacities stranded. All India Thermal PLF (for coal/Lignite based) has gone down from 78.6% in 2007-08 to 69.95% in 2012-13. In this backdrop, CERC faces major challenges in setting new tariff norms for the control period 2014-19 and the challenge lies in balancing the need for investment promotion while at the same time maintaining regulatory certainty. Shri Verma also highlighted some of the key issues around Capital Cost, Return on Equity and Operating Norms and requested for considered view of the Committee on the key issues highlighted in the Approach Paper for Tariff Regulation 2014-19.

Shri M. Deena Dayalan, Member, CERC mentioned, there are a number of issues relating to Tariff Regulations which the Central Commission is presently seized of. The approach paper circulated by the Commission has discussed the issues in detail and has solicited views of the stakeholders. The Commission has come before the CAC for advice on the key issues that need to be addressed in the Tariff Regulations for 2014-19. Shri Dayalan also requested the Members to give their considered views so as to enable the Commission to take a final view on the regulations.

3. The deliberations on the agenda item were initiated with a presentation made by Shri M.K. Anand, Chief (Fin.), CERC. A copy of the presentation is **enclosed** at **Annexure-II**. The presentation highlighted Approach for Tariff Setting, Prospects for Tariff Regulations 2014-19 and the key issues of tariff regulations viz. Capital cost, R&M, Depreciation, Return on Investment, Interest on Working Capital, O&M expense, operational norms, Incentive, Alternate Tariff Design etc.

The presentation summed up the following issues for discussion: - (i) Approach to Tariff Regulations for 2014–19 – Regulatory certainty and process simplification. (ii) Addressing issues arising out of fuel shortage. (iii) Benchmarking of Capital Cost and Standardization of Construction Period. (iv) Return on Equity (ROE) – Need for review. (v) Operation and Maintenance (O&M) Cost – Need for review of principles. (vi) Working Capital Norms – Need for review. (vii) Operational norms – Need for review. (viii) Incentives – Need for review of principles. (ix) Alternate Tariff Design – Based on First Year Tariff with Indexation of Balance Life – feasibility of introduction of this model. (x) Any other suggestion.

4. Discussion

The issues highlighted were discussed in detail. The following views were expressed by the members of the CAC.

- Generators and lenders perceive high risk in power sector due to issues related to environment clearances, land acquisition, right of way, fuel and transmission constraints. It has become difficult for developers to seek lending for the projects. In view of this, some stakeholders suggested that the returns should not be lowered.
- As envisaged in the Tariff Policy, there is need to move towards ROCE approach leaving scope for financial engineering which would be in the larger interest of the sector.
- ROE should be linked to bank rate as was done under the Sixth Schedule of the erstwhile Electricity (Supply) Act, 1948.
- Depreciation should take care of debt repayment but depreciation recovered over and above the debt repayment liability should be used for creation of new assets.
- There is a case for differential ROE for hydro projects because of difference in gestation period.
- IDC may be approved for un-controllable parameters only and IDC on account of controllable parameters (for example, delay resulting from poor contract management) should be disallowed.
- There is a need to identify agencies to undertake prudence check of capital cost.
- Fuel Shortage: There is a need to define specific circumstances under which the availability norms for reimbursement of Fixed Cost can be lowered.
- CERC should be supported by expert agencies on key issues.
- The Commission should adopt less prescriptive and more normative approach so that efficient developers can be rewarded. Competitive environment should be created within tariff regime. There is no need to

change norms for a plant where investment has already been made. CERC Regulation should reduce the discretionary powers of CERC itself. The competition issues should be brought before the CAC.

- ROCE is good for large investors because of their capability of raising debts. However, small investors prefer ROE approach over ROCE.
- Reactive power injection and primary response capabilities by generators should be encouraged.
- Availability norms should be reviewed in view of fuel shortages. Normative SHR should be very close to design heat rate and incentive structure should be built to induce the generators to reach to the level of design heat rate.
- It was also suggested that in a condition where the demand is low, the economic principles would require price cuts to trigger demand. Hence, ROE should be rolled back to 14%. Need for review of useful life of projects was also reiterated.
- It was suggested that there was no need to make drastic changes in the existing regulations. Controllable and Un-controllable factors should be defined.
- Tariff should be determined based on the actual cost and benchmark cost should be considered for reference purpose. Norms for Special allowance, GFA and ROE should be continued. There should be incentive for peak hour supply.
- O&M for hydro projects should be based on actual O&M cost. Rate of secondary energy rate should be equal to primary energy rate. Benchmarking of capital cost should not be adopted for hydro projects.
- Continuity of principles should be there for greater regulatory certainty for existing investment. ROE must be fixed considering the interest of the investors.
- Concerns were raised that the distribution utilities are resorting to load shedding instead of buying power for the consumers. This is costing more to the consumers as they are made to pay high cost for diesel generators as back up supply.

- Approach Paper should quantify the impact of various scenarios proposed in the paper. Review of past MYT should be undertaken and approach paper should be backed up by data analysis.
- Norms for R&M should also be prescribed. The regulations should be based more and more on indexation. Alternative tariff design deliberated in the approach paper should also be considered.
- Implementation of FGMO/Communication system etc should be linked to Fixed Cost recovery. Allocation of transmission corridor for power exchanges should be made. It was also viewed that the power exchanges must be ready to bear the cost for allocation of transmission corridor.
- CAC must meet once in every three months.

5. Shri M. Deena Dayalan, Member, CERC requested the Members of the CAC to give in writing their considered views on the specific issues highlighted in course of the presentation made by Chief (Fin.). The Members extended their gratitude for the valuable suggestions made by the Members of the CAC.

6. Shri V.S. Verma, Member, CERC expressed gratitude for the suggestions given by the stakeholders.

The meeting ended with a vote of thanks to the Commission.

LIST OF PARTICIPANTS ATTENDED THE EIGHTEENTH MEETING
OF
CENTRAL ADVISORY COMMITTEE (CAC)
HELD AT INDIA INTERNATIONAL CENTRE (IIC), NEW DELHI
ON 07TH OCTOBER, 2013

S. No.	NAME	
01.	Shri V.S. Verma Ex-Officio Member, CAC	Member, CERC
02.	Shri M. Deena Dalayan Ex-Officio Member, CAC	Member, CERC
03.	Shri T.L. Sankar Advisor	Administrative Staff College of India (ASCI)
04.	Shri Vinod Dhall	Former Member/Acting Chair, Competition Commission of India
05.	Shri R.V. Shahi	Former Secretary, MOP
06.	Shri Rajiv Yadav Chairman & Managing Director	ASEB & Assam Power Distribution Corporation Limited
07.	Shri Deepak Amitabh Chairman & Managing Director	PTC India Limited
08.	Shri Ashok Khurana Director General	Association of Power Producers (APP)
09.	Shri K. Ramanathan Distinguished Fellow	The Energy & Resources Institute (TERI)
10.	Prof. S.C. Srivastava	Indian Institute of Technology (IIT), Kanpur
11.	Shri R.K. Madan CEO (Power)	Adani Enterprises Limited
12.	Shri Satish Jindal Chief Executive Officer	JSW Power Trading Company Limited
13.	Shri Bhasker U. Mete President, GEA	Maharashtra State Electricity Power Gen. Corpn. Limited
14.	Shri Kirti J. Amin President	Kisan Vikas Sangh

15.	Shri Navin Tandon Additional Member (Electrical)	Representative of Railway Board
16.	Shri D.P. Bhargava Director (Technical)	Representative of NHPC Limited
17.	Shri R.T. Agarwal Director (Finance)	Representative of Power Grid Corporation of India Limited
18.	Shri K.G. Radhakrishnan Economic Advisor	Representative of Dept. of Consumer Affairs
19.	Shri M.K.V. Rama Rao Executive Director (Comml.)	Representative of NTPC Limited
20.	Shri R.S. Sharma MD & CEO	Representative of Jindal Power Limited
21.	Ms. Rasika Chandihok Director (Energy)	Representative of Confederation of Indian Industry (CII)
22.	Shri Ashwini Swain Associate Fellow	Representative of Consumer Unity & Trust Society (CUTS)
23.	Ms. Ashwini Chitnis	Representative of PRAYAS
24.	Shri Vivek D. Patki Vice-President	Representative of Mumbai Grahak Panchayat
25.	Shri S.K. Kansal SE/ISB	Representative of PSTCL
26.	Shri Sambit Basu Director (Policy Group)	Representative of IDFC
27.	Shri Rajesh K. Mediratta Director (Business Development)	Representative of Indian Energy Exchange (IEX)
	SPECIAL INVITEES	
28.	Shri V.V. Sharma Senior Vice-President	Representative of Power Exchange India Limited (PXIL)

18th Meeting of Central Advisory Committee (CAC)

Tariff Regulations 2014-19



Presentation by
Central Electricity Regulatory Commission
New Delhi, 110001

7th October, 2013



In this presentation

- **Background**
- **Approach for Tariff Setting**
- **Prospects for Tariff Regulations 2014-19**
 - a) **Financial Norms**
 - b) **Operational Parameters**
- **Issues for Discussions**



Background

- Central Commission determines tariff for
 - a) Generating companies owned or controlled by Central Government
 - b) Other Generating companies having composite scheme for generation and sale in more than one state
 - c) Inter-State Transmission of electricity
- State Commissions are guided by the Terms and Conditions laid down by Central Commission as per Electricity Act, 2003
- Central Commission issued Tariff Regulations for the period 2001-04, 2004-09 and 2009-14
- Commission determined the tariff for about 50592 MW capacity of generating station and associated inter-state transmission system



Approach for Tariff Setting

- Safeguarding Consumer interest as well as ensuring recovery of cost of electricity in reasonable manner
- To attract investment in the sector
- Inducing efficiency through incentive and disincentive mechanism
- Commission specified financial and operational norms for generating station and transmission system
- Hybrid approach followed consisting of norms based on actual cost and pre-specified normative parameters



Prospects for Tariff Regulations, 2014-19

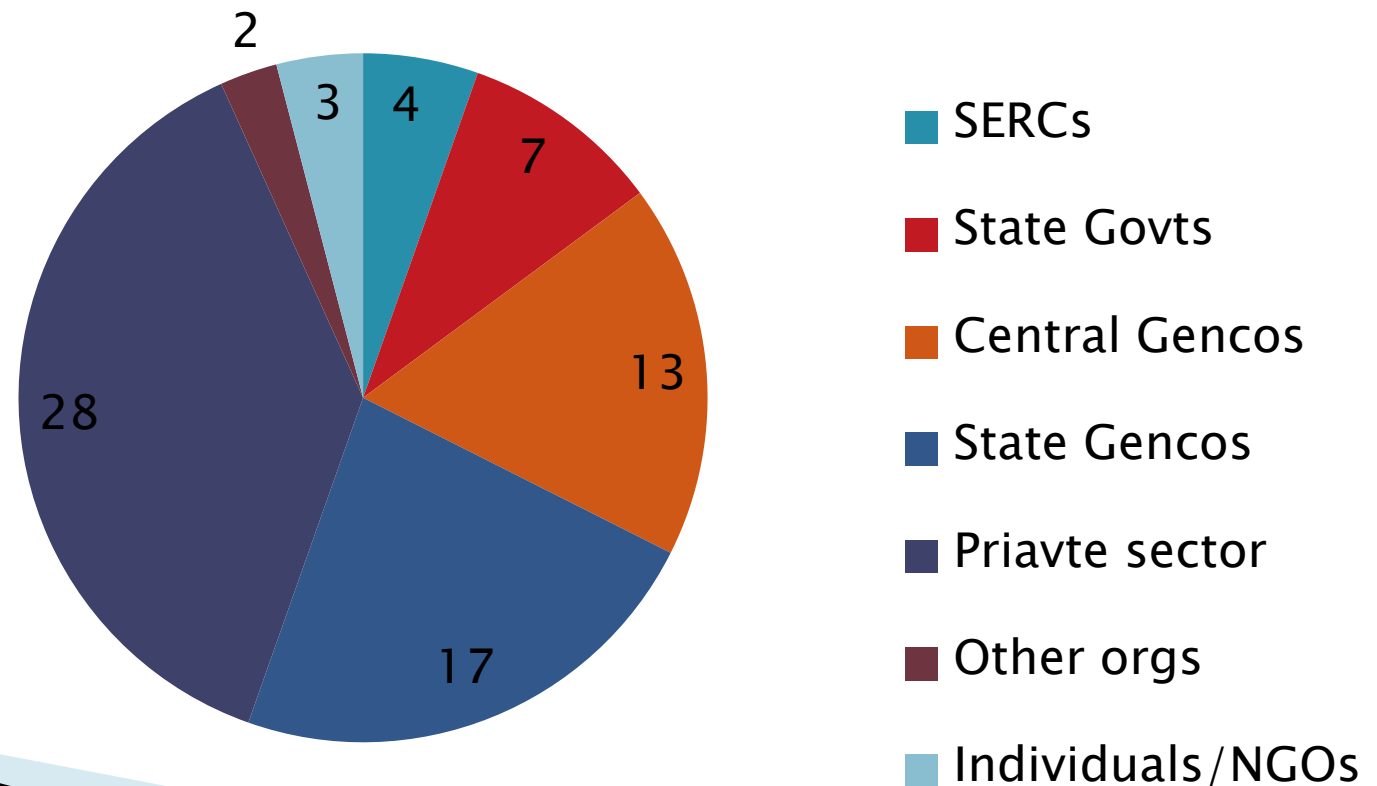
- Investment oriented– in view of capacity addition planned during 12th Plan.
- Addressing stranded investment –Fuel Shortage
- Regulatory Certainty– No significant departure
- Simplified Tariff Determination Process – Minimum complexity
- To discourage inefficient cost – Pre-specified normative parameters to be specified

Present Status of Tariff Regulations, 2014-19



- Approach Paper issued by the Commission on 25.6.2013.
- Responses received from 74 stakeholders.

Stakeholder's Response





Capital Cost

- **Standardization of Construction Period**
- **R&M -Treatment of Additions**
- **Normative OR Benchmark Capital Cost**
- **Treatment of Initial Spares**
- **Basis for Capital Cost – Projected v/s Actual**



Renovation and Modernization

- Continuation of special allowance
- Treatment of additions in case of R&M

Depreciation

- Review of useful life and depreciation rate
Treatment of additions during fag end of life
- Treatment of depreciation while combining assets
- Regulatory Methods for re-evaluation of Useful life

Financial Norms



Return on Investment

- ROCE v/s ROE Approach
- Pre-Tax ROE v/s Post-Tax ROE
- Return on Equity (existing 15.50%) – Necessity to roll back ROE
- Fixed ROE or Market linked ROE
- Differential Rate of Return
- Treatment of 80IA in case of grossing of ROE



Interest on Working Capital

- Stock of Fuel for working capital
- Inclusion of depreciation and ROE in Working Capital
- Treatment of working capital in case of ROCE
- Treatment of 80IA in case of grossing of ROE



Operation and Maintenance expenses

- Methodologies to determine escalation factor
- Need for mid term review of normative O&M cost
- Need for true up of O&M cost
- Suggestion to develop model similar to RPI-X
- Treatment of other income in O&M costs

Operational Norms



Operational Norms

- Sharing mechanism (similar to 2004-09) for gains due to operational parameters
- Review of Normative PAF for thermal generating station (in view of fuel shortage)

Incentive

- Linking incentive to fixed charges and availability
- Differential incentive for off peak and peak period

Additional Issues



Alternate Tariff Design

- **Based on first year tariff with Indexation for Balance life**

Shortage of Fuel

- **Use of Imported Coal due to fuel shortage**
- **To Specify Normative Blending Ratio**
- **Need for Prior consent of beneficiaries**
- **How to ensure fuel procurement efficiency in case of importing coal**

Specific Issues for Discussions



Issues for discussions

- √ Approach to Tariff Regulations for 2014–19 –
Regulatory certainty and process simplification.
- √ Addressing issues arising out of fuel shortage.
- √ Benchmarking of Capital Cost and
Standardization of Construction Period.
- √ Return on Equity (ROE) – Need for review.



Issues for Discussions

- √ Operation and Maintenance (O&M) Cost – Need for review of principles.
- √ Working Capital Norms – Need for review.
- √ Operational norms – Need for review.
- √ Incentives – Need for review of principles.
- √ Alternate Tariff Design – Based on First Year Tariff with Indexation of Balance Life – feasibility of introduction of this model.
- √ Any other suggestion.

Thank you