

Comments on Draft Regulation
for Terms and Conditions of
tariff for 2014-2019 by DVC

1. Re: Date of Commercial Operation(Regulation-4)

CERC PROPOSED

The generating station or unit thereof after being put into commercial operation shall demonstrate the plant availability of not less than the normative plant availability in the month following the date of declaration of commercial operation. If the generating station or unit thereof is not able to demonstrate normative availability, except for the reason beyond the control of generating company, such generating station or the unit is said to be put into commercial service from the month of normative availability.

DVC'S COMMENTS WITH JUSTIFICATION

- It will cause unnecessary delay in declaration of commercial operation thereby IDC may increase and capital cost will go up. Accordingly the tariff serviced from the inflated capital cost will increase and ultimately beneficiaries/customers will be burdened.
- If present approach is continued ,the generating station performing lower than normative will not be able to recover the normative fixed cost from beneficiary. At the same time the generators moving from commissioning stage to commercialized operation stage can amend its minor teething problems without risking their cash inflow. This leads to win-win situation for both beneficiary & generators.
- Hon'ble Commission may kindly consider dropping the 3rd Proviso of regulation 4(1) of draft notification.

2. Re:ROE

It has been found from the explanatory memorandum that National Institute of Public Finance & Policy had recommended that ROE should be determined based on standard Capital Asset Pricing Model (CAPM) with adjustment of relevant factors.

- **COMMENTS:**

In view of the specific recommendation of National Institute of Public Finance & Policy for finding out ROE on the basis of CAPM , DVC proposes to review ROE for the tariff period 2014-19 & fix ROE as per CAPM model.

3. Re: Application for Determination of Tariff (Regulation-7)

CERC PROPOSED [Regulation 7(7) & 7(8)]

when the actual expenditure falls short of projected expenditure by more than 5% , generating company or transmission licensee has to pay back @ 1.2 times bank rate.

While actual expenditure exceeds projected expenditure by more than 5% , generating company or transmission licensee has to receive @ 0.8 times bank rate.

- **COMMENTS:**
- It would not be practical for the generating company or transmission licensee to make a comprehensive plan for exploring additional capital expenditure towards efficient operation of plant/sustenance of age old plant operating parameters.
- The risk of unforeseen contingencies beyond $\pm 5\%$ of the projected additional capitalization will burden the Generating company or transmission licensee.
- If the Regulation 14(3)(vi) is read in conjunction with Regulation 14(3)(v) of draft regulation, it is found that coal & lignite operated thermal power plant will not be allowed to capitalize additional capital expenditure required for efficient operation of thermal generating plant as the same may be made from compensation allowance.

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- The coal/lignite based thermal generating station as per the Regulation 17 (2) of draft regulation will not receive any compensation allowance till it is operated more than 10 (ten) years. Even after operation of more than 10 years, the permissible amount of compensation allowance will only meet expenditure against the minor items such as tools and tackles, furniture, air-conditioners, voltage stabilizers, refrigerators, coolers, fans, washing machines, heat convectors, mattresses, carpets etc. which is specifically prohibited under clause 14 of draft regulation.
- In absence of any specific additional capitalization route for coal based thermal generating station, the coal based thermal generating station will face higher risk with the provision of above proposed Regulation 7(7) & 7(8) .

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- It is, therefore, logical either to include coal & lignite operated thermal power plant in the Regulation 14(3)(vi) to capitalize additional expenditure required for efficient operation of thermal generating plant or may make compensation allowance equitable.

4. Re: True up (Regulation-8)

- **O&M expenditure**

The explanatory memorandum states that the escalation rate computed based on the five year average WPI and CPI for FY 2008-09 to FY 2012-13 considering 60% WPI and 40% CPI is 8.35% , whereas for the purpose of escalation till FY 2013-14 the Hon'ble Commission considered the escalation rate of 5.72%, 6.19% and 6.04% for coal, gas and hydro generating stations respectively.

- During the truing up process Hon'ble Commission proposes not to consider for uncontrollable portion of O&M cost under uncontrollable parameter in Regulation (8),8(1)(b) of draft notification.
- In view of the above and proposed regulation mandates generators to pass 25% of total gain from controllable parameters to the beneficiary the Hon'ble Commission is requested to make either O&M norms based on the escalation rate arrived ,i.e 8.35% or O&M expenditure should come under uncontrollable parameters.

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5. Re: Computation of Capacity Charge(Regulation36(b)

A) Incentive & PLF

- Incentive to a generating station or unit thereof in terms of Regulation 30(4) of draft notification shall be payable at a flat rate of 50 paise/kWh for ex-bus scheduled energy corresponding to scheduled generation in excess of ex-bus energy corresponding to Normative Annual Plant Load Factor (NAPLF).
- **COMMENTS:**
- The generators can only declare better Plant availabilities based on day ahead condition while schedule is dependent upon the beneficiary's demand. The same philosophy is accepted by the Hon'ble Commission in the matter of hydel generation & accordingly hydro stations will continue to receive incentive linked to PAF as per the Regulation 31 (2) of draft notification.
- Therefore it is proposed not to modify the fixed charge recovery formula for thermal generating stations but to retain the same formula what has been notified in Terms and Conditions of Tariff Regulation 2009-14.

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6. Re: Norms of operation for Thermal Generating Station

- **Operational Norms**

- **A. NAPAF:**

- It is noted from explanatory memorandum published by the Hon'ble Commission that according to Commissions analysis the actual five year average PLF of Chandrapura TPS (Unit 1-3) was around 70% against the existing norm of 60%. However the Hon'ble commission has proposed to set 75% NAPAF for CTPS U#1,2,&3 which is 5 % higher than the average NAPAF ever achieved & practically not achievable with these vintage units.
- **COMMENTS:**
- In view of the above the Hon'ble Commission may kindly review the NAPAF of CTPS as notified in draft regulation & revise the same to 65%-70% considering the 46years age of the plant.


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B. Heat rate

- It is seen from the draft regulation that the Hon'ble commission has proposed stringent norms for heat rate for the tariff period 2014-19.
- In view of the fact that the Hon'ble commission has made station heat rate as one of the controllable parameter to be considered during truing up & net gain out of better achievement on this count to be shared with the beneficiary, the hon'ble commission may continue with the current normative heat rate values.
- In terms and condition of tariff 2009-14 regulation 26.(ii)(B)(a) the hon'ble commission had included specific methodology for heat rate determination based on design parameters subjected to a ceiling value for the units which is commissioned on or after 01.04.2009. The Hon'ble Commission has proposed to continue the methodology with intentions to bring down the margin to 4.50% from the current 6.50% as expressed in explanatory memorandum. However while charting maximum design heat rate using sub-Bituminous coal, the same is not quoted at par with the values charted in tariff regulation 2009-14. This may please be reviewed by the Hon'ble commission.

C. Normative O&M for DVC's Hydel station

- In absence of specific norms of O&M expenditure for DVC's hydel stations in the draft regulation 2014-19, DVC has calculated normative O&M expenditure for our hydel stations according to the principle adopted by the Hon'ble Commission while computing normative O&M for other hydel stations. Detail data & calculation there to will be submitted by DVC with its written submission.
- DVC submits that all the expenditure for Social Integration programme ,soil conservation as per DVC act may be considered by CERC on actual basis.



Thank You