

Comments on
'Draft CERC (Terms and Conditions
of Tariff) Regulations- 2014'

KERALA STATE ELECTRICITY BOARD LIMITED

Relevance on KSEB..

- With the commissioning of Kudamkulam Nuclear Power Plant- the total capacity allocation from Central Generating Stations (CGS) to Kerala will be about 1680MW
- Total annual fixed cost liability from CGS – about Rs 1500.00 crore
- Inter-state transmission system-
 - Annual transmission charges- Rs 350 crore
 - **Tariff applicable to ‘TATA-MAITHON- 150 MW’**
 - **Transmission charges associated with procuring power through ‘CASE-1 Bid’, MTOA, STOA....**

KSEB generally agrees with the proposals of the Hon'ble Commission on the following..

- (1) Tax on RoE (Regulations-25): KSEB agree with proposal of the Hon'ble Commission on **'modifying the existing provision of pre-tax RoE being grossed up with the Tax Rate, to post tax RoE with income tax proposed to recover on actual basis to the extent of RoE.**
 - **However, Hon'ble Commission has to incorporate specific provisions in the regulations that, 'tax holiday benefit under section 80- IA shall be availed by the Generators and Transmission licensees and shall pass on the same to the beneficiaries'.**

(2) Incentive (Regulation 30(4))

KSEB welcomes the proposal of the Hon'ble Commission to de-link the incentive with target availability.

Incentive shall be payable by the beneficiaries only for the ex-bus scheduled energy , corresponding to the scheduled generation in excess of ex-bus energy corresponding to NAPLF.

KSEB agrees..

(3) Regulation 27(3) (3rd proviso)

- KSEB agrees with the proposal that, ‘any depreciation disallowed on account of lower availability of the generating station or generating unit or transmission system, as the case may be, shall not be allowed to be recovered at a later stage during the useful life and extended life.

(4) Regulation 8(1)& 8(3)

- KSEB in principle agrees with the proposal of sharing the gains of ‘controllable parameters’ with the beneficiaries.
However, KSEB suggest that the gains may be shared in the ratio of 1:1 instead of 3:1.
- Further, the regulation may specify that, the loss on account of ‘controllable parameters’ shall not be passed on to the beneficiaries.

(5) De-linking SFC from fixed cost (Regulation 30(5 & 6))

Interest on Loan Capital (Regulation-26)

- Regulation 26(7).
 - The regulation 26(7) provides that, the generating company and transmission licensee shall take every effort to re-finance the high cost loan as long as it results in net savings on interest.
 - The net savings shall be shared between the beneficiaries and generators/ transmission licensees in the ratio of 2:1
Further, the regulation also provides that, the costs associated with the refinance shall be born by the beneficiaries.
However, in reality, none of the generators and transmission licensee are taking efforts to re-finance the high cost loans and not sharing the savings with the beneficiaries.

Hence, it is suggested that, Hon'ble Commission may incorporate appropriate mandatory provisions in the regulation that, all the generators and transmission licensee shall take every efforts to refinance the high cost loans at the cost of the beneficiaries and to share the savings with the beneficiaries.

Interest on Working Capital (Regulation-28)

- Exclude RoE from working capital

Hon'ble Commission vide the paragraph 11.5.5 of the Explanatory memorandum has proposed not to include RoE as the components of receivables for arriving at normative working capital as no working capital was required to fund the RoE. However, this proposal was not included in the regulation 28(1)(a)(v), 28(1)(b)(iv), 28(1)(c)(i). Hence Hon'ble Commission may modify the regulation as per the proposals in the explanatory memorandum.

- Exclude O&M expenses: Since O&M cost is included in the two months receivables, there is no rational in providing one month O&M costs again as part of the working capital.
- Two months receivable:
Instead of adopting two months receivable based on NAPLF, past two months receivables based on the actual schedule may be adopted for assessing the working capital requirement based on actual schedule.

Scheduling of power during fuel shortages (Regulation 30(9)) & Blending of coal

- KSEB agrees with the proposal that, securing fuel is prime responsibility of generator and in case of non fulfilment of supply of committed quantity of coal the generator is free to procure either e-auction coal or imported coal and schedule power on the basis of the same.
- If the generator is not able to schedule power due to fuel shortage the same shall be considered as loss in availability of the unit or station as the case may be.
- Blending of coal: The paragraph 15.5.12 of the Explanatory memorandum stipulate that, ‘incase blending of coal leads to a price increase of blended coal in Rs/kCal terms by over 30% of the base price of fuel or 20% of price of fuel for the previous month, whichever is lower, the generator must intimate the beneficiaries three days in advance and take beneficiaries **consent** before going for such blending. However, as per the regulation 30(9) (3rd proviso), the generators are allowed for blending with prior **consultation** only. The ambiguity may be clarified.

Norms of operation..

- Gross Station Heat rate – Kayamkulam GPS (Regulation 36 (C) (vi))
 - As per the paragraph 16.3.2 (b) of the explanatory memorandum, the five year average of the actual Gross Station Heat Rate (GHR) is 1968 kCal/ kWh against the proposed GHR of 2000 kCal/ kWh.
 - Considering the past five year average of the actual GHR of Kayamkulam plant, KSEB may request that, the GHR may be re-fixed at 1970 kCal/ kWh instead of 2000 kCal/kWh.

Incentive rate (Regulation 30(4))

- The fixed cost is allowed to recover fully, provided the generators are able to achieve the target availability. Further, the actual energy charges incurred by the generators is also fully reimbursable. Hence, there is no rationale in providing incentive at the excessive rate of Rs 0.50 for the energy scheduled above the NAPLF fixed for incentive, over and above the 'full fixed cost and actual energy charges'.

Hence, the incentive rate may be reduced to Rs 0.25 per unit instead of Rs 0.50 per unit.

Additional Capitalization (Regulation-14)

- The additional capitalisation after the cut-off date may not be allowed. However, the generators or the transmission licensees may be allowed to claim the compensation allowance as per the regulation-17.

Depreciation (Regulation-27(7))

- Depreciation on the assets created at the fag end of the useful life of the project:
 - Reassessment of the useful life shall be insisted.
 - Depreciation on the new assets shall be made based on the extended useful life.
 - Depreciation on the old assets shall be allowed till the original useful life as defined under regulation 3(60)

THANKS