# Draft regulation FY19-24

## Towards a balanced and sustainable regulation


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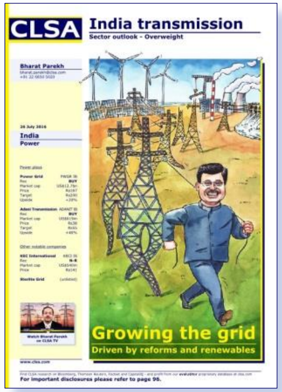
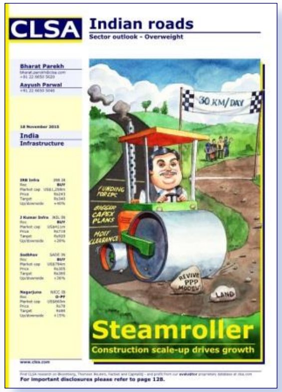
**Investment Analyst**



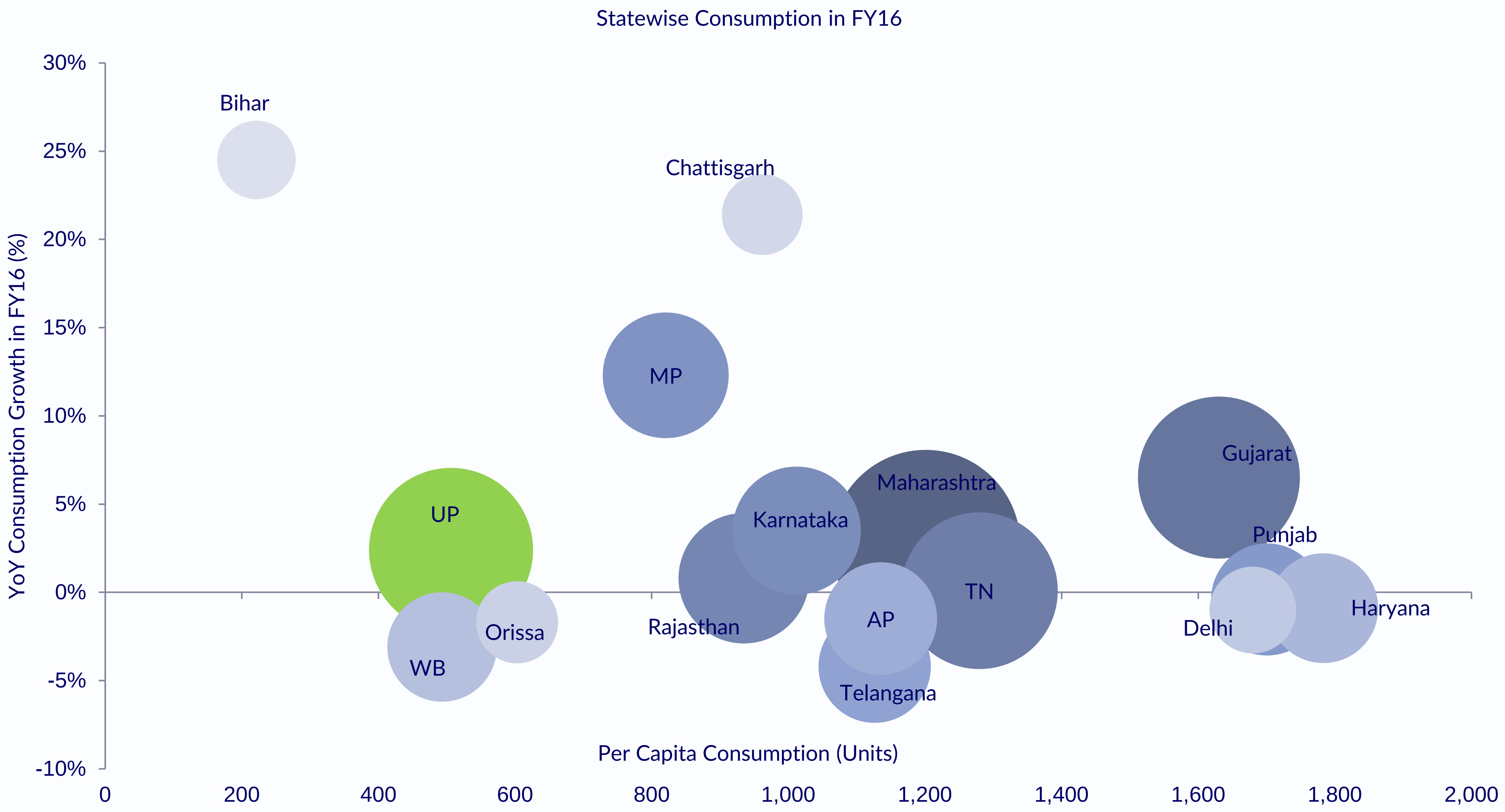


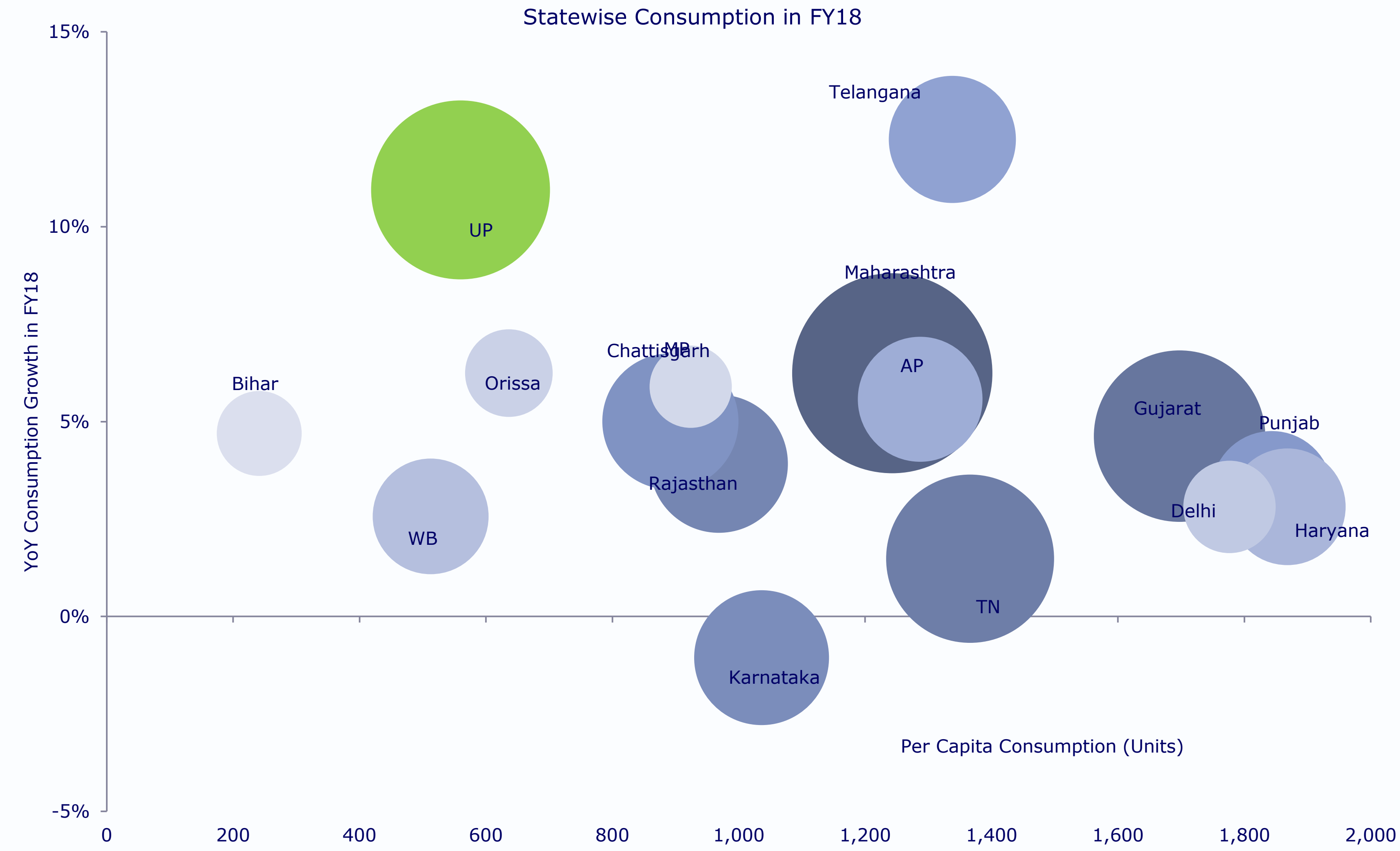

Feb 2019

For important disclosure information please refer to pages 72-73 of this presentation.

# Power Demand: Constraint before UDAY

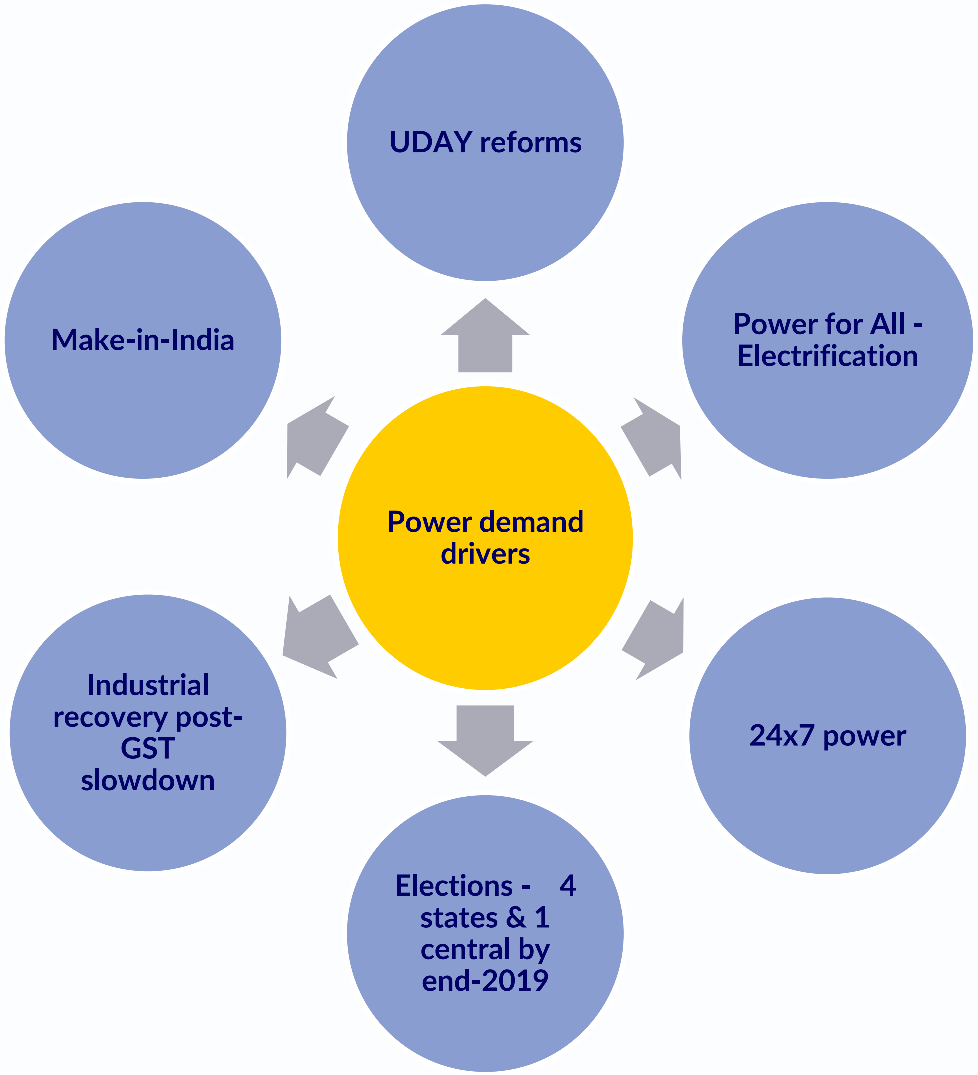


# Power Demand: Begins to grow post UDAY



# Power demand - Multiple drivers falling into place

- UDAY reforms have cleaned-up discoms balance sheet



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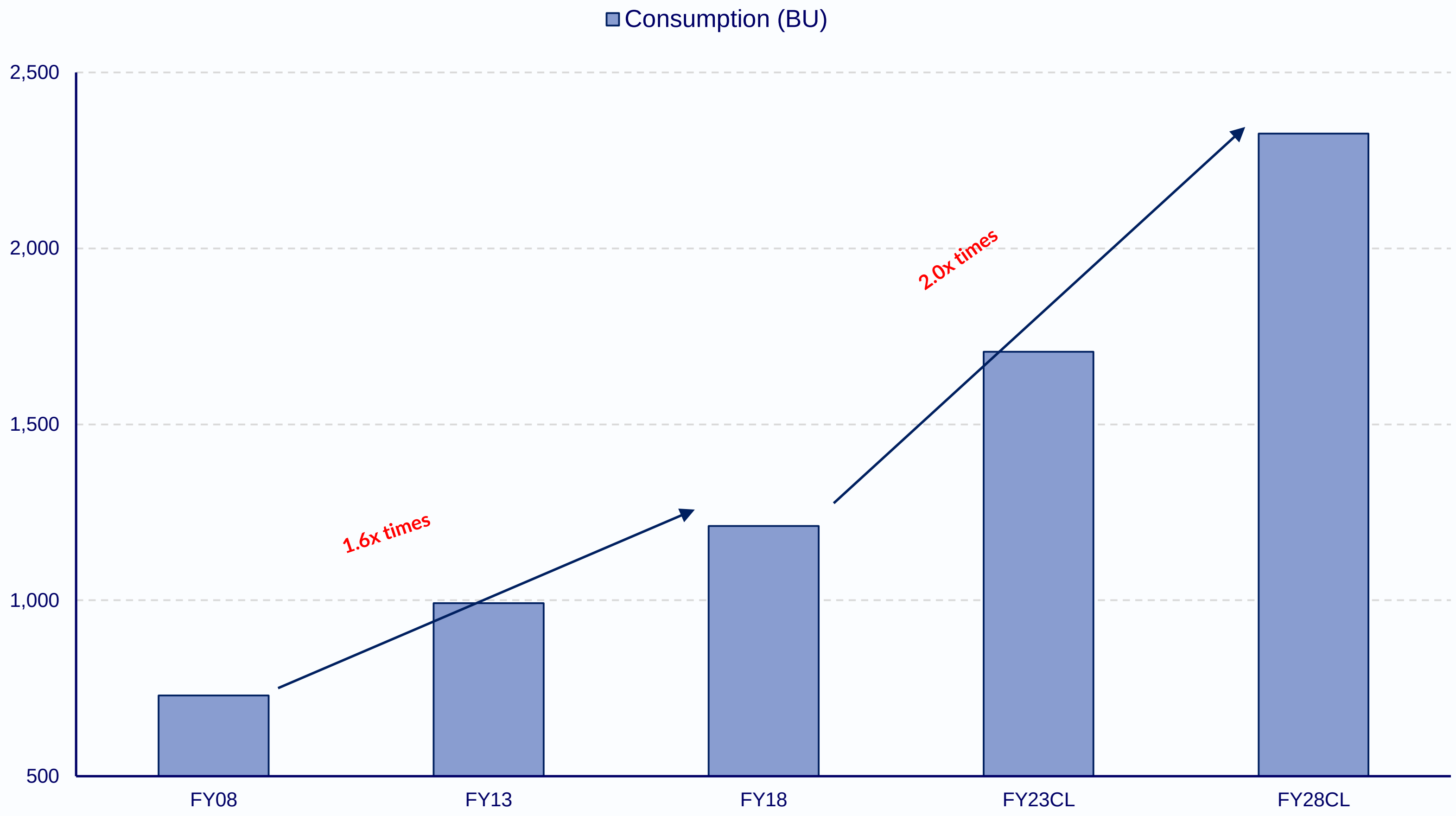
# Power demand: Set to double

- We expect India's power demand growth to double over FY18-28CL



# Power supply: Constrained

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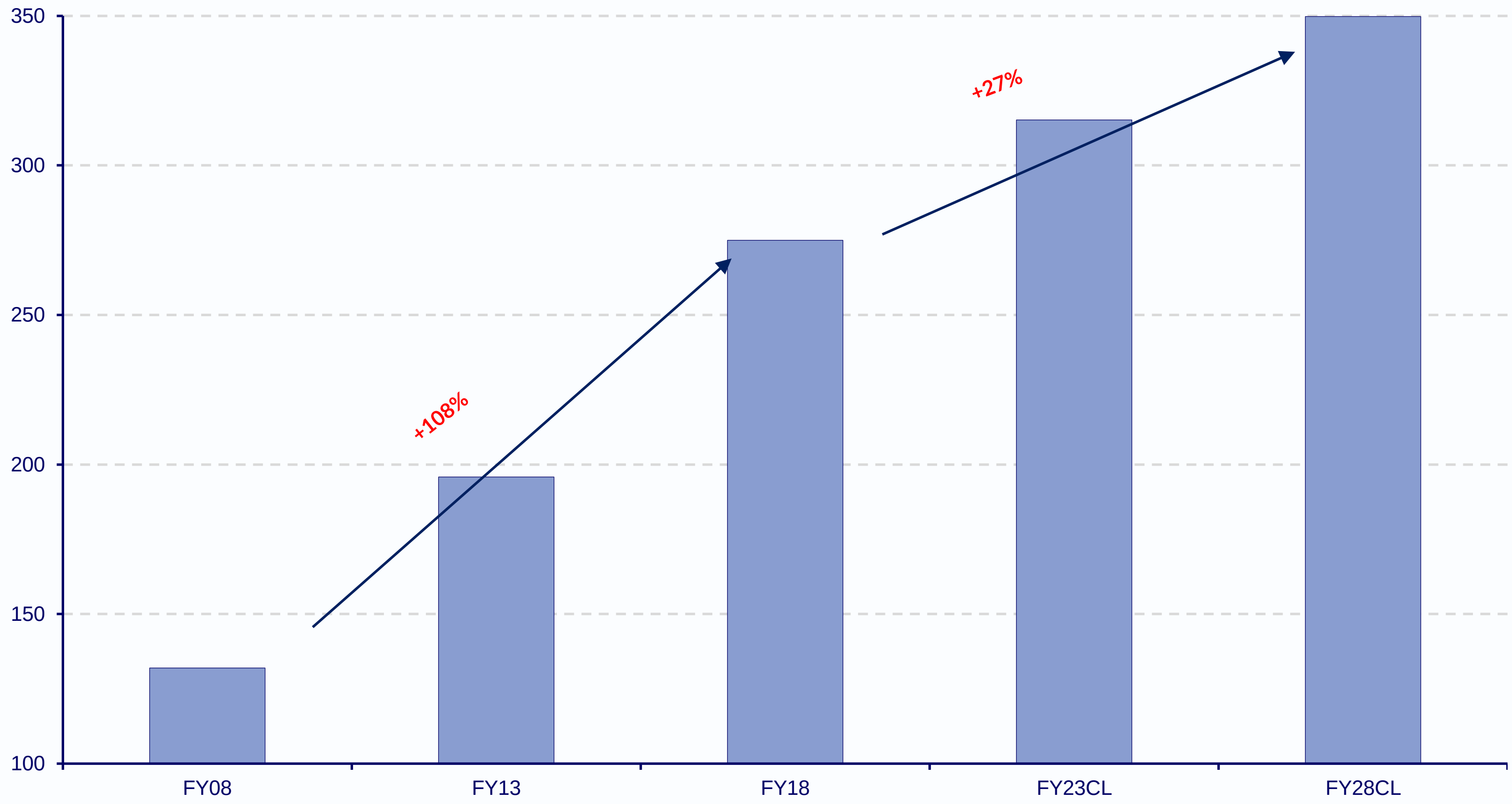
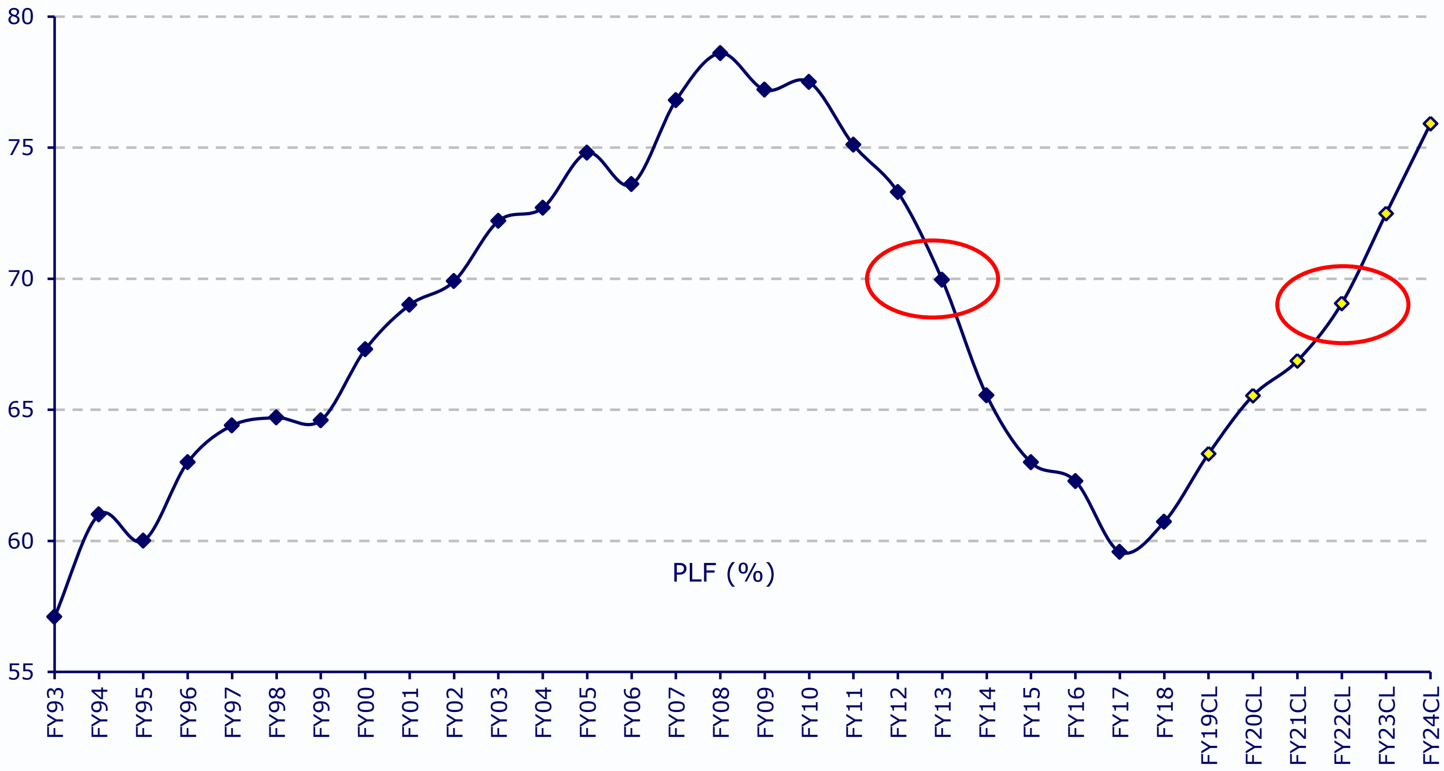
# Power supply: Conventional capacity addition

- The pace of capacity addition to slow down led by supply constraints.
- Improving thermal PLFs going ahead.



# Indian thermal power plants' PLF

- PLFs bottomed in FY17 as new capacity outpaced demand growth
- FY18 saw first revival of PLF in past several years. Hereon, it is expected to rise structurally



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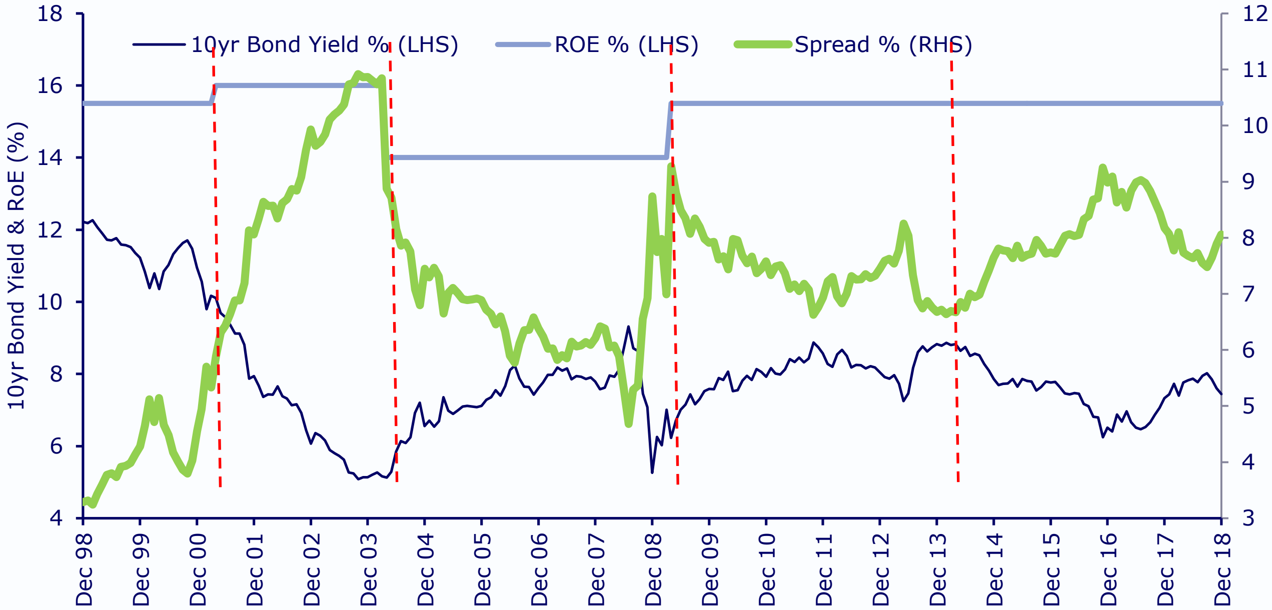
# Key investor feedback: Draft FY19-24

- What they appreciate?
  - Long-term track record - Continuity of RoE regime and 15.5% rate
  - Nice balancing act
  - Sharing of coal handling losses – granting of 85kcal/kWh to IPPs
  - Focus on peaking power for RE integration
    - PLF incentive should be 2x off-peak incentive vs 15%, to help peak loads
  - Focus on maintenance of thermal plants – NQPAF ex-annual schedule maintenance
  - Continuing hydro incentives



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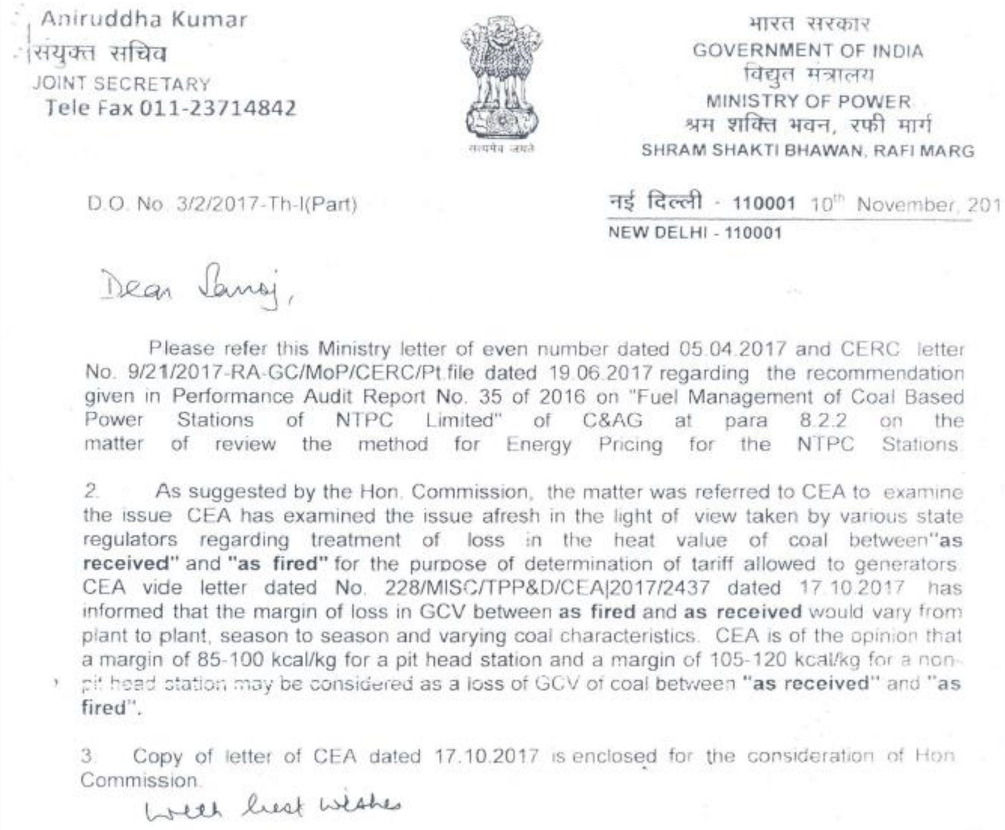
# Key investor concerns

## Regulation: FY14-19

- Insensitivity of the system leading to under-recovery of RoE
- Case 1: NTPC ‘As received, As Fired’ case
  - No action despite CEA’s recommendation dated Oct 2017 and Ministry’s advisory of Nov’17,
  - ~13% of NTPC’s regulated return was wiped-off
  - Not only the management of NTPC but Indian regulation was questioned globally
  - De-rating of stocks
- Case 2 – Power Grid NE – Agra HVDC line – lack of full tariff recovery
  - Made to run around to be able to collect full tariff
  - Only fault was to implementing this project of strategic national importance on-time, while other projects delayed



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भारत सरकार
GOVERNMENT OF INDIA
विद्युत मंत्रालय
MINISTRY OF POWER
श्रम शक्ति भवन, रफी मार्ग
SHRAM SHAKTI BHAWAN, RAFI MARG

D.O. No. 3/2/2017-Th-I(Part)

नई दिल्ली - 110001 10th November, 201
NEW DELHI - 110001

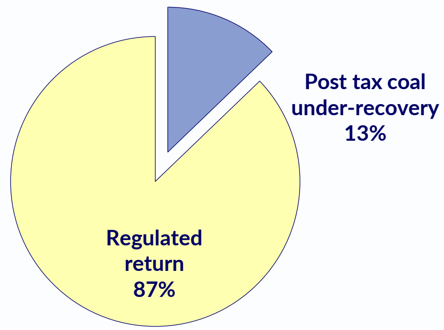
Dear Sanjay,

Please refer this Ministry letter of even number dated 05.04.2017 and CERC letter No. 9/21/2017-RA-GC/MoP/CERC/Pt.file dated 19.06.2017 regarding the recommendation given in Performance Audit Report No. 35 of 2016 on "Fuel Management of Coal Based Power Stations of NTPC Limited" of C&AG at para 8.2.2 on the matter of review the method for Energy Pricing for the NTPC Stations.

2. As suggested by the Hon. Commission, the matter was referred to CEA to examine the issue. CEA has examined the issue afresh in the light of view taken by various state regulators regarding treatment of loss in the heat value of coal between "as received" and "as fired" for the purpose of determination of tariff allowed to generators. CEA vide letter dated No. 228/MISC/TPP&D/CEA|2017/2437 dated 17.10.2017 has informed that the margin of loss in GCV between as fired and as received would vary from plant to plant, season to season and varying coal characteristics. CEA is of the opinion that a margin of 85-100 kcal/kg for a pit head station and a margin of 105-120 kcal/kg for a non-pit head station may be considered as a loss of GCV of coal between "as received" and "as fired".

3. Copy of letter of CEA dated 17.10.2017 is enclosed for the consideration of Hon. Commission.

With best wishes




FY18 Regulated return - Rs73.6bn



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# Key investor suggestions

## Draft FY19-24

- Net fixed asset concept - Retrospective reduction in regulated equity of existing assets post useful life
  - To hurt regulatory stability and continuity
  - Biggest impact on consumers: deprives them of low-cost power as IPPs have little incentive @5% equity
  - Applied by AERA after opening ‘non-aero’ revenue stream, bigger than aero revenue!
  - If at all, it should be done only for new projects (yet to start construction)
- Emission Capex to be debt funded – inherently inconsistent
- Special allowance for thermal projects should continue for future projects also to support low cost power supply to consumers
- Realistic cycling loss compensation to factor-in equipment impact and commercial loss
- Hydro station – To lower upfront tariff / step up tariff could be considered
  - Useful life needs to increase to 50 years vs 35 years
  - Loan repayment period to 18-20 years vs 12 years
- Introduce cap on borrowing cost linked to MCLR (for debt from related parties)
- O&M - CPSE wage hike – from Jan 2017 should be considered in the base year cost



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# Why protect regulatory utilities in a market economy

- Private B/s are broken / over-leveraged
- Market mechanism has failed in India
- Case I & II bids – trend towards re-regulation in case of losses by IPPs
- DISCOMs – struggle to get quality power supply if terms of trade are favouring them
- Arm twisting by TBCB IPPs with 'forced shut-downs' of plants / gaming / Claims
- **Regulated utilities have relatively better served its consumers!**

NTPC


Power Grid

# Thank You

For important disclosure information please refer to pages 72-73 of this presentation.