

COMMENTS / SUGGESTIONS

ON

DRAFT CERC

(TERMS AND CONDITIONS OF TARIFF)

REGULATIONS, 2019

(TARIFF PERIOD 2019-2024)

COMMENT 1 - (Resumption of Cl.14(3)(viii))

Clause 14 (3) (viii) of Regulation 2014 Deleted in Draft Regulation 2019 provides as under : -

"In case of hydro generating stations, expenditure incurred due to any additional work which **has become necessary for successful and efficient plant operation;**"

SUBMISSION

- HON'BLE COMMISSION IS REQUESTED FOR RESTORATION OF CLAUSE 14(3)(VIII) AS THE GENERATING COMPANY MAY HAVE TO NECESSARILY REPLACE SOME OF THE COMPONENTS / INSTALL NEW EQUIPMENTS FOR EFFICIENT PLANT OPERATION OR DUE TO UPGRADED TECHNOLOGY FOR EXTENDED LIFE OF THE PROJECT/ REQUIREMENT FOR BETTER GRID STABILITY AS DIRECTED BY AUTHORITIES TIME TO TIME.
- NHDC has recently installed 125MVAR reactor as per grid requirement based on recommendation of Regional Power Committee.
- Till now Hydro Plants are designed considering useful life of 35years. The extension of useful life of hydro power projects from 35 years to 40 years may be considered only on resumption of Regulation no. 14(3)(viii) of CERC Tariff Regulations, 2014.

COMMENT 2 - (Return on Equity)

Clause 30 of Draft Regulation 2019 provides as under : -

“Return on equity in respect of additional capitalization after cut off date within or beyond the original scope shall be computed at the weighted average rate of interest on actual loan portfolio of the generating station or the transmission system;”

SUBMISSION

- ROE is granted for permanent capital locked for the project.
- Equity carries higher risk to the investor, accordingly there should be provision of higher return (so return on equity provisioned in Regulations' 14 is appropriate).
- For old items, retrospective change in ROE should be avoided.
- **Rehabilitation and Resettlement activities are still going on for NHDC Projects (executed by State Govt) and there are number of cases awaiting verdict from court. The award to which is beyond the control of Generators. The quantum of arbitration awards in most cases, the differential loss for ROE will be significant.**

HON'BLE COMMISSION IS REQUESTED TO CONTINUE TO ALLOW ROE AT EXISTING RATE I.E. 15.50% / 16.50% INSTEAD OF THE PROPOSED WEIGHTED AVERAGE RATE OF INTEREST ON THE ACTUAL LOAN PORTFOLIO.³

COMMENT 3 - (Depreciation)

Clause 33 of Draft Regulation 2019 provides as under : -

“The salvage value of the asset shall be considered as 5% and depreciation shall be allowed up to maximum of 95% of the capital cost of the asset.”

The salvage value for IT equipment and software shall be considered as NIL and 100% value of the assets shall be considered depreciable.

SUBMISSION

- Software/ Computer related equipment which forms integral part of Generating Plant, its Decapitalisation should be considered by CERC as per norms of IT/ Computer equipment instead of the norms of Generating Plant Machinery, owing to frequent upgradation and obsolescence of old systems.
- **FOR ISPS SCADA IS PURCHASED FOR RS.326LAKHS WHEREAS DECAPITALISATION OF OLD ASSETS WORKED OUT AS RS.414LAKHS.**
- Land held for reservoir has no salvage value, 100% depreciation be allowed on this account.

HON'BLE COMMISSION IS REQUESTED TO CONSIDER DECAPITALISATION OF SOFTWARE/ COMPUTER RELATED EQUIPMENT WHICH FORMS INTEGRAL PART OF GENERATING PLANT AS PER NORMS OF IT/ COMPUTER. ALSO 100% DEPRECIATION MAY BE ALLOWED FOR LAND HELD FOR RESERVOIR.

COMMENT 4 - (O&M Expenses)

Clause 35(2) of Draft Regulation 2019 provides as under : -

“Following operations and maintenance expense norms shall be applicable for hydro generating stations which have been operational for three or more years as on 01.04.2019 **subject to maximum of 4% of admitted capital cost** as on commercial date of the respective year.....”

SUBMISSION

- The O&M Expenses allowed for NHDC Projects in the Draft Regulation' 2019 is found to be on the lower side even if the norms of calculation of CERC are applied to the base figures for FY 2013-14 to FY 2017-18.
- Owing implementation of recommendations of 3rd PRC, the expenditure against Employee Remuneration and Benefits has increased considerably (about 25%), the appropriate factor need to accounted in O&M Expenses of NHDC Projects
- For NHDC projects weightage of Employee cost is 35% of O&M Exp, which may be considered for normalising O&M Exp of 2017-18. Further, the average rate of escalation in the O&M Expenses for NHDC comes to about 10%, accordingly the annual escalation for hydro generating companies may be considered as suitably around 10% instead of 4.7%.

COMMENT 4 - (O&M Expenses)

- Further, certain items which were of capital nature as per accounts and projected as Addcap during tariff period 2009-14 and od 2014-19 but the same was disallowed by Hon'ble commission citing it to be of O&M nature. The expenditure against same may be considered for revision of O&M expenses by Hon'ble CERC.
- **NHDC's Indira Sagar and Omkareshwar are multipurpose projects** and Project cost is categorised as Unit -I Dam, Unit -II Irrigation Component and Unit -III Power Component. SSP & GoMP has made subvention(s) of about 31.42% of ISP Dam Unit-I Cost (mother reservoir for all downstream project) towards sharing of benefit for such regulated releases and as irrigation component. But, there is no provision of sharing of O&M expenses on Dam and appurtenant structure by GoMP or SSP and entire O&M of dam is done by NHDC.
- IT IS WORTH-MENTIONING THAT, "WITH NHDC'S INSTALLED CAPACITY AS 1520 MW, THE ASSESSED O&M EXPENSES IN 2019-20 WORKS OUT TO RS.12.44LAKHS/ MW, WHICH IS LOWEST AS COMPARED TO O&M EXPENSES AS BEING NOTIFIED FOR 2019-24 FOR OTHER HYDRO STN."

O&M EXP INCURRED BY NHDC POWER STATIONS IS HIGHER THAN THAT ALLOWED BY HON'BLE CERC, ACCORDINGLY HIGHER O&M EXPENSES MAY BE FIXED FOR NHDC POWER STATIONS BEING MULTIPURPOSE PROJECTS.

COMMENT 5 - (NAPAF)

Clause 37(4) of Draft Regulation 2019 "

Provisions of existing Tariff Regulations, 2014		Provisions of proposed Draft Tariff Regulations, 2019	
Indira Sagar	: 85%	Indira Sagar	: 87%
Omkareshwar	: 90%	Omkareshwar	: 93%

SUBMISSION

- NHDC's Indira Sagar and Omkareshwar are multipurpose projects. As per the National Water Policy, **power generation from multipurpose project like ISPS & OSPS has been commended least priority over Drinking Water and Irrigation requirements.**
- Accordingly, Central Electricity Authority (CEA) had determined the Bench Mark operation of ISPS & OSPS with respect to progress of 03 stages of irrigation command in the Narmada Basin. The Irrigation Utilization corresponding 03 stages of irrigation command is as follows:

Stage	Irrigation Utilization (BMC)	ISPS	OSPS
		Design Energy (MU)	Design Energy (MU)
Stage - I	6	1980	1167
Stage - II	13	1095	696
Stage - III	18.25	876	565

COMMENT 5 - (NAPAF)

- About 98% of canal network for irrigation command has been completed by GoMP and Project is now inching towards Stage III i.e. beyond 13 BMC water Utilization. Depletion of Reservoir level shall be accelerated by increased water consumption for irrigation command in Stage III and NHDC's Reservoir shall not be able to retain at higher level for longer period of time.
- As per direction of NVDA, the level of Indira Sagar Reservoir are being maintained above EL 247.00 M owing to conserve sufficient water for other purposes. This is not a unanimous condition to be maintain for long, it can be reverted at any point of time resulting to depletion of Reservoir level of ISPS up to EL 243.23 M. Under this circumstances and operational constraint, the demonstration of actual PAF in coming years may fall up to 67.20%. (Resultant Cum PAF – 83.60%)

Level	Installed capacity	Reduced capacity	%variation/ effective PAF	Effect on NAPAF FRL to 247.0/ 243.23 (MDDL)
262.13	125MW	125MW	100%	
255.49	125MW	122MW	97.60%	
250.49	125MW	108MW	86.40%	
247.00	125MW	98MW	78.40%	
243.23	125MW	85MW	67.20%	

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COMMENT 5 - (NAPAF)

- In case of failure of monsoon and in the eventuality of filling of reservoir less than EL 255.0 M, the probability of further lowering down of PAF may not be ruled out as evident from above table, even if project demonstrates the full machine availability.
- As the Reservoir level is directly related with the Plant Availability Factor (PAF) of NHDC's Power Station, the additional letup should be given in Normative Plant Availability Factor (NAPF).
- NHDC's Power Station has completed 12 years of prominent services and the machines are demanding more preventing maintenance. Also, as per OEM maintenance guideline, these machines shall require more shutdown for preventive / routine maintenance / inspection. Therefore, considering 2% allowance on forced outage is not sufficient. Additional allowance of 3% should be given in NAPF for NHDC's Power Station.

ACCORDINGLY, HON'BLE CERC IS REQUESTED TO **FURTHER REDUCE THE NAPAF OF ISP AND OSP FROM 85% AND 90% AS MENTIONED IN REGULATION 2014.**

COMMENT 6 - (REBATE AND LPSC)

Clause 68 of Draft Regulation 2019 (Rebate)

Clause 69 of Draft Regulation 2019 (Late Payment Surcharge)

SUBMISSION

- Hon'ble CERC has not reduce the Rebate corresponding to the decrease in payment period from 60 days to 45 day (Receivables have been reduced from 60 days to 45 days). Further, LPSC has been reduced from 1.5% to 1.25%.
- ACCORDINGLY, HON'BLE COMMISSION IS REQUESTED TO AMEND THE PROVISION OF REBATE AS UNDER:-
 - (i) FOR PAYMENT WITHIN 2 DAYS - @ 1.0%.
 - (ii) FOR PAYMENT BEYOND 2 DAYS BUT WITHIN 30 DAYS - @ 0.5%.

COMMENT 7 - (Sharing of Benefit)

Clause 72 of Draft Regulation 2019 (Non Tariff Income)

SUBMISSION

- THE NON TARIFF INCOME (other than interest on investment and bank balances) HAS ALREADY BEEN SHARED 100% DURING NORMALISATION OF O&M EXPENSES BY CERC, HENCE FURTHER SHARING IS NOT JUSTIFIED.
- FROM ABOVE IT IS EVIDENT THAT THE INCOME OF GENERATING COMPANY IS ALREADY ACCOUNTED AND SHARED, HOWEVER INVESTMENT ON BANK BALANCE BELONG TO THE INVESTOR, IT IS RIGHT OF INVESTER TO EITHER INVEST THE EARNING FROM BUSINESS INTO BANK OR INFUSE IT IN OTHER BUSINESS. THE SHARING OF INTEREST ON BANK INVESTMENT (WHICH BELONG TO INVESTOR) SHOULD NOT BE SHARED. ALSO IT APPEARS TO BE AGAINST THE BUSINESS ETHICS.
- NHDC is striving for Business Expansion in near future, the equity portion for proposed project may be required immediately any day, accordingly the requisite amount has been invested in Banks. The income of interest may not be considered as Gain by Hon'ble Commission and its sharing with the beneficiary is unjustified.

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COMMENT 7 - (Sharing of Benefit)

- **Sharing of Interest on Investment and Bank Balances shall be detrimental for hydro development** as with inclusion of this provision investors may share of maximum possible cash/ bank balances with company without keeping enough amount required for equity infusion for future projects.
- Resources are deployed by investor for financial gain including remuneration on capital locked, so interest on investment should not be shared.
- Further, Hon'ble CERC allows working capital amount for 3 component (O&M Exp, Receivables & Maint Spares) as these are allowed on normative basis without actual risk involved, also no remuneration is allowed by CERC for blocked up money like in Security Deposits for connections etc., accordingly sharing of interest on investment and bank balance may not be provisioned.

HON'BLE CERC IS REQUESTED THAT NON-TARIFF INCOMES ON BANK BALANCE AND INVESTMENTS SHOULD NOT BE MADE PART OF SHARING.



THANKS