Comments on draft CERC (Terms & Conditions of Tariff) Regulations, 2019

NHPC has already submitted regulation wise detailed comments on draft CERC (Terms & Conditions of Tariff) Regulations, 2019. However, due to time constraint, our presentation is restricted to following regulations only.

1. Regulation 30 – Rate of ROE on additional capitalization after cut-off date

Proposal:

- Return on equity on capital employed after cut off date of the project to be treated as loan with **weighted average rate of interest**.

Comments / suggestions

- Additional capitalization beyond cut-off date is essentially required due to following reasons:-
  a. Implementation of award of arbitration.
  b. Force majeure conditions (Major repairs due to flood, heavy rain, land slide etc.)
  c. Replacement of assets having lower life (10 - 20 years).
  d. The adoption of technological improvement for successful and efficient plant operation.
  e. Implementation of better monitoring system like SCADA etc.
- Restricting rate of return on equity portion of additional Capex with weighted average interest rate will create financial loss to generating company.
- In case of CPSUs, the interest rate is lower (say 8%) due to better credentials, hence it will be **non-equitable** with private developers having higher interest rate (say 12%).
- **Hence, it is requested to allow normative RoE @ 15.5%/16.5% on equity infused at any point of time during the life of station.**

2. Regulation 25 – Additional capitalization beyond cut-off date

Proposal:

- The Regulation 14 (3) (viii) of Tariff Regulations, 2014 related with additional capitalization for '**successful and efficient operation of plant beyond cut-off date'** is being deleted.

Comments / suggestions

- Additional capitalization beyond original scope of work & beyond cut-off date is unavoidable in case of hydro power projects due to reasons like;

a. **Replacement of equipments** like transformers, digital governors, DG Sets, batteries, cooling water pumps etc. **whose life is not commensurate with the life of plant** (i.e. 40 yrs as per draft regulations).

Illustration: Tariff petitions of NHPC for the period 2009-14 & 2014-19 in which add cap in respect of replacement of above assets has been allowed by CERC in case of Salal, Chamera-I & Uri-I Power stations.

b. Besides replacement, **technological obsolescence & upgradation of technology**.
Illustration: Salal Power Station - automation of Plant for efficient operation and better control with real time monitoring (SCADA) was done in 2017-18.

- In view of above, **it is requested that provisions of Regulation 14(3)(viii) of Tariff Regulations, 2014 may be retained in the regulations for the period 2019-24.**

3. Regulation 35 – O&M Expenses (Hydro)

Proposal:

- Uniform rate for O&M expenditure (2.5%) for all new hydro power projects irrespective of its capacity.
- IDC and IEDC is being excluded from capital cost for O&M purpose.
- Imposition of 4% ceiling based on admitted capital cost for existing Power Stations.
- Non-inclusion of effect of wage revision and GST in projected O&M expenditure for 2019-24.
- Expenses on security and capital spares not being included in draft Regulations, 2019, as same is supposed to be reimbursed on actual basis.

Comments / suggestions

- Adoption of uniform O&M expenditure (2.5%) for all hydro power projects is not based on merit. The earlier provision (4% upto 200 MW and 2.5% beyond 200 MW) had **inherent merit and same should be continued**.
- IDC and IEDC component in the capital cost of the Project is upto 40%. In case of its exclusion, the normative O&M Exp. will be effectively reduced to 1.5% instead of 2.5%. Hence, **IDC and IEDC may be considered in capital cost for O&M expenditure,** otherwise the percentage of O&M expenses may be enhanced to 3.5% for >200 MW and 5% for upto 200 MW.

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Regulation 35 – O&M Expenses (Hydro)

Comments / suggestions

- The proposed O&M expenditure in case of old projects is subject to ceiling of 4% of admitted capital cost. As this aspect has not been discussed in explanatory memorandum, it appears to be a drafting error.

  Hence, the phrase ***"subject to maximum of 4% of admitted capital cost as on commercial date of the respective year"*** should be deleted as Hon'ble Commission has already computed O&M Expenses for next tariff period based on actuals.

- In case of NHPC, the projected O&M expenditure for tariff period 2019-24 **does not include effect of wage revision and GST**.

  The revised O&M Expenses have been computed by NHPC considering impact of wage revision & GST and submitted to CERC with detailed working / comments **for adoption in final regulation**.

- Under new regulation, expenses on security and capital spares has been excluded from O&M expenses.

  Based on actual expenses for the period 2013-18, the projected expenditure on security and capital spares have been computed by NHPC and submitted in CERC with detailed comments for its incorporation in final regulation. **The expenses on security & capital spares should be allowed in advance in the Tariff Regulations like O&M expenses with provision for truing up based on actuals in due course.**

4. Regulation 60 – Norms of operation (NAPAF)

Proposal:

- The NAPAF of NHPC hydro power stations have been reviewed and in some cases, it has been fixed beyond 90%.
- In case of some of the hydro power stations of other utilities, even though the achieved NAPAF is above 100% the proposed NAPAF is 90% only. Hence, the new norms are not on equitable basis.

Comments / suggestions

- The **maximum NAPAF for hydro power stations should not be more than** 90% as stipulated in Regulation 60 (1) of the draft regulation.
- Older Power Stations which have achieved the NAPAF in the current tariff period as per existing norms **may not necessarily achieve the proposed NAPAF in the subsequent years due to further wear and tear owing to ageing**. So increasing the NAPAF for older stations **may not be technically justified**.
- The norms **should be on equitable basis** for all hydro power generating utilities.
- In order to achieve certain incentive for efficient performance, **some margins should be allowed** to generating companies.
- By increasing the NAPAF on the basis of previous performance, **the better performing stations should not be penalized.**
- In view of the above submissions, it is suggested that Hon'ble Commission should **retain the existing NAPAF norms**.

5a. Regulation 51– Payment of incentive for peak and off-peak power

Proposal:

- Incentive for peak and off-peak power is being allowed to thermal power stations only.

Comments / suggestions

- Similar incentive may please be considered for hydro power stations also as they are providing **valuable peaking power**.

5b. Regulation 54– Rate of secondary energy

Proposal:

- The rate of secondary energy in case of hydro power stations appearing in Tariff Regulations, 2014 (90 paise/unit) has been retained in draft Regulations, 2019 as well.

Comments / Suggestions

- For providing additional generation (i.e. secondary energy), generating stations are making extra efforts by causing wear & tear of machines which need regular maintenance to be serviced through O&M Expenses.
- In order to incentivize higher generation and also for meeting additional O&M expenses due to wear & tear, it is requested to **increase the rate of secondary energy** and to link it with market clearing price (average RTC) of the Day Ahead Market.

6. Regulation 17- Reduction of Equity base after useful life

Proposal:

- Equity base after useful life of plant is proposed to be reduced (upto residual value of the project).
- Further, the provision has a retrospective effect due to phrase *"which has completed its useful life as on or after 01.04.2019."*

Comments / suggestions

- In case, Power Station is generating energy after its useful life, the benefit of **return on full equity should be allowed to the Generator till the completion of R&M and approval of post R&M Tariff** by the Hon'ble Commission in line with the existing Regulations.
- The new provisions, if implemented should be on prospective basis. Hence, the phrase *"as on or after 01.04.2019"* should be replaced by ***"on or after 01.04.2019"***.

7. Regulation 76 – Deviation from ceiling tariff

Proposal:

- The draft regulations proposes deviation from norms for reducing tariff in initial years of operation by reducing depreciation, RoE, O&M exp etc.
- Such deviation is being allowed for one year at a time and recovery of unrecovered depreciation after useful life of the project.

Comments / suggestions

- **The deviation from norms is allowed in Tariff Regulations, 2014 without any restriction of one year at a time and same should be continued.** Existing regulation has all operational flexibilities and same is subject to approval by Hon'ble Commission.
- Proposed regulation will create practical difficulties in finalizing long term PPAs, which are important for Hydro Power.

Thank You