

Comments/suggestions on “Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2019 for the tariff period from 1.4.2019 to 31.3.2024”

Public Hearing

Feb 01, 2019

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# Approach and Perspective

- About a third of 220 GW thermal capacity regulated by CERC and act as model regulations for state Commissions
- Opportunity to evaluate performance and efficacy of current norms
- Submission objectives
  - Simplicity of tariff determination
  - Incentive structures to boost efficiency
  - Compliance to environmental norms and regulations
  - Sound planning practices and avoidance of stranded assets

# Three part tariff structure

- Specifying hourly / daily peaks may not be relevant for thermal plants and make process more complex than necessary
- Specifying normative availability exclusive of scheduled maintenance inappropriate
- Simpler process suggested as follows
- RLDCs, in consultation with respective state beneficiaries, to prescribe monthly target availability in three brackets at year beginning
  - For peak load months
  - For off-peak months without scheduled maintenance
  - For off-peak months with scheduled maintenance
- Naturally, specified availability inclusive of outages
  - Generators to plan and notify outages at beginning of year – should not be during peak months
  - Under-achievement of availability in peak months not to be compensated in other months
  - Under-achievement of availability in non-peak months can be compensated against other non-peak months
- Uniform incentive (independent of peak or off-peak) of Rs. 0.50 / kWh for over-achieving PLF

# Computation of Energy Charge for Thermal Stations

- Clause 52(3) permits usage of alternative fuels as long as the cost increase is less than 30%
- Highly inappropriate in the context of
  - Amendment to NCDP dated July 2013 has specified that coal suppliers have to supply 65% - 75% of contracted coal beyond which imports are permitted
  - Proposed provision allows cost increase of 30% even if 65% - 75% responsibility not met
  - Particularly relevant when many coal based plants are operating at PLFs well below 75%
  - Dilutes responsibility of CIL
  - Burdens consumers in a context of lack of transparency regarding coal requisitioning, coal supply and sharing of any coal shortages among coal consumers

# Compliance with environmental norms

- Serious concern regarding progress to comply with environmental norms notified in 2015
- Cap-ex for meeting with environmental norms to be approved by the Commission
  - Hence, Commission should also track progress of utilizing investment to meet norms
- Hence,
  - Commission should mandate that plants submit periodic status reports
  - Commission should hold generators accountable for (lack of) progress
  - No IDC if delayed beyond scheduled date of commissioning of equipment
  - Should explicitly state that allowance or disallowance of costs not a ground for non-compliance with emissions standards
- Clause 35(6) should allow water charges only to the extent permitted by the notified environmental norms
- Clause 11 should explicitly state that in-principle approval should not be construed as final approval for expenditure
  - Notify guidelines for approval process and data to be submitted
  - Can adopt process similar to MERC

# Coal-based plants with a captive coal mine

- Chapter 9 should be consistent with Coal Mines (Special Provisions) Act, 2015
  - Cost-of-mining based recovery of energy charges applicable to only to PSUs
  - Private sector generators' energy charge to be based on bid value
- Regulation 37
  - Coal mines have to be commissioned in a stipulated period – costs arising due to delays should not be passed on to beneficiaries
  - Terms used in clauses 37(b) and 37(c) such as “value of production” and “touching coal and lignite” need to be clarified
- Regulations 39(5), 40(1), 41: Details of expenditure and additional expenditure on coal mines including their justification should be part of the public process of tariff determination
- Regulation 45
  - Regulations should account for coal from captive mines being used in multiple units / stations
  - The methodology of computing input price (Rs / MT) from information in Annexure V should be specified
  - Since objective of captive coal mine allocation is also to reduce electricity tariffs, input coal cost computation should cap it at corresponding CIL notified price

# Capital costs and IDC

- Approach paper listed benchmark/reference cost as an option but it was not considered citing lack of sufficient data
  - Peculiar given the amount of operating coal capacity in the country
- Publicly available data states that hard cost of coal-based plants has not changed much but most increase is due to IDC, in other words delays
  - Strangely, costs of sub-critical units often seem to be higher than super-critical
  - Poor project management and execution seem to be main reasons for delays, not others
- Hence
  - Should not condone delays in land acquisition and associated cost-overruns (clause 11)
  - Section 62 PPAs to be new plants should be on the lines of Section 63 whereby beneficiary has a right to invoke force majeure and terminate PPA for delays beyond one year
  - Urgently undertake cost benchmarking exercise and use that as basis for cost approval
  - Costs or penalties paid by generator or transmission company to the other party due to mismatched COD should not be passed on to consumers

# Thermal plants completing 25 years

- Welcome proposal to optimally utilize such assets
  - No new capacity addition until such assets are utilized fully
- Existing PPAs will expire at 25 years
  - In case the beneficiary chooses to continue to buy power from the said unit/ plant, fresh PPA should be signed and approved by the Commission after considering beneficiary's demand and alternative available sources
  - In case the unit/station opts for undertaking capital expenditure for renovation and modernization, strict time limits for project implementation should be imposed



# Data to be published by generators

- Regulation 49(2) requiring generators to share all details of fuel procurement with beneficiaries welcome
  - Should also be publicly available for consumers as costs are eventually passed on to consumers
  - Generators to publish such data on their website in easy readable (e.g. spreadsheet) formats
- Costs claimed under change in law (for Section 62 and 63)
  - Need or separate data reporting formats for annual costs claimed under change in law events
  - To be available on generators' websites in easily readable (e.g. spreadsheet) formats

# Thank you

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