



Draft CERC (Terms and conditions of Tariff) Regulations, 2019

Comments and suggestions of
TANGEDCO

Key issues in the proposed Draft Tariff Regulations, 2019

- ✓ Extension of Cut off date to three years - Regulation.3(14)
- ✓ Indemnification clause in the implementation agreement – Regulation.3(34)
- ✓ “Prudence check ” - Regulation.3(55) (Existing Regulation need to be retained)
- ✓ Variable cost of the integrated mines – Regulation.8(5)
- ✓ Separate component of tariff for emission control equipment instead of combining the supplementary fixed cost – Regulation.9(3)
- ✓ Truing up – Regulation.12,13 (To be retained as in Tariff Regulations, 2014)
- ✓ Debt-Equity ratio – Regulation.17
- ✓ Prudence check of Capital Expenditure- Regulation.19(1) (Benchmarking based)
- ✓ Decapitalising the unused initial spares after COD – Regulation.22
- ✓ Return on equity – Regulation.30 (Need for revision on rate of return)
- ✓ Depreciation - Regulation.33 (Retention of salvage value to 10%)
- ✓ Input price for variable cost- Regulation.36 – (Delinking of Mines from pooling)
- ✓ Capacity charge for peak and Non-peak hours – Regulation.51(2)
- ✓ Rebate and Late Payment surcharge – Regulation.68 and 69.

Chapter 1 - Definitions

Regulations

Comments

- | <u>Regulations</u> | <u>Comments</u> |
|--|--|
| • Regulation 3(10) – Change In Law' | ✓ Clarity on effective date of change in law |
| • Regulation 3(14) – 'Cut-off Date' | ✓ Restrict Cut of Date to one year |
| • Regulation 3(21) – Development period for Integrated Mines | ✓ To be included in the separate Regulation for integrated mines |
| • Regulation 3(31) – 'GCV as received' | ✓ Periodicity of measurement to be included |
| • Regulation 3(34) – 'Implementation Agreement' | ✓ Indemnification Clause to be added in the 'Implementation Agreement' |
| • Regulation 3(45) – Mine Infrastructure | ✓ Separate Regulation for Mine Infrastructure – time period for making use of the land to be specified |
| • Regulation 3(48) – O&M Expenses | ✓ Clarity needed on "fuel other than used for generation of electricity" |
| • Regulation 3(55) – Prudence check | ✓ Bench marking shall be the basis for Prudence check |
| • Regulation 3(72) 'Transmission Service Agreement' | ✓ Clarity on interchangeability of BPTA, LTA with TSA |

Chapter.3 – Procedure for Tariff Determination

Regulations

- **Regulation 8(4), 9(3)**
- Assets installed for implementation of the revised emission standards shall form part of the existing generation project and tariff thereof shall be determined separately on submission of the completion certificate by the Board of the generating company.
- **Regulation 8(5)**
- Variable charge component of Tariff of the generating station sourcing coal or lignite from the integrated mine shall be determined based on the input price of coal or lignite, as the case may be, from such integrated mines:

Comments

- The supplementary fixed cost on account of emission control equipments should be a separate component in the tariff structure to establish the significance of the compliance of the emission norms by the generating company.
- A separate Regulation needs to be notified for Integrated Mines.
- Transfer price of lignite from each mine has to be determined by the Hon'ble Commission independently and should not be pooled as is being done now.

Chapter.3 – Procedure for Tariff Determination

Regulations

Regulation 9 : Application for determination of tariff

- Filing of tariff application- within 60 days of the anticipated date of commercial operation:
- Capitalization of not less than 80% of the cost envisaged in the IA or Rs. 500 Crore, whichever is lower., as on the anticipated date of commercial operation
- **Reg.10(4) Time frame**
- Tariff to be billed as per previous block till approval for next block

Comments

- Reduction of allowable **interim tariff** to 80% of IA is a welcome move.
- Views /objections of the beneficiaries and stakeholders has to be sought/heard since tariff for ineligible elements are being claimed and necessary parties are not mapped.
- **Interim Tariff to be defined**
- A time frame need to be provided for approval of the tariff under the new block.

CHAPTER – 4,5 TARIFF STRUCTURE, CAPITAL STRUCTURE

Regulations

Regulation.14 Components of Tariff

• The supplementary fixed cost for additional capitalization on account of implementation of revised emission standards in the existing generating station or new generating station, as the case may be, shall be determined by the Commission separately;

• **Regulation.16 – Variable charges/ Energy charges**

• **Regulation.17(1) Debt-Equity Ratio**

• For new projects, the debt-equity ratio of 70:30 as on date of commercial operation shall be considered. If the equity actually deployed is more than 30% of the capital cost, equity in excess of 30% shall be treated as normative loan

• **Regulation.17(6)**

• The accumulated depreciation as on the completion of the useful life less cumulative repayment of loan shall be utilized for reduction of the equity.

Comments

- ✓ The cost-benefit analysis in respect of the additional capitalisation on account of the implementation of revised emission standards in the existing generation station or new generation, as the case may be, must be done considering the life period served/remaining/ PLF achieved / NAPAF in the previous years etc.
- ✓ Variable/Energy charges should be determined after getting the views of the beneficiary utilities and after conducting hearings on the subject matter.
- ✓ Debt -Equity need to be 80:20

- ✓ In line with the suggestions of K.P. Rao committee (accepted by GoI) hence a welcome move.

CHAPTER - 6

COMPUTATION OF CAPITAL COST

Regulations

Comments

Regulation.18(2) (c)

- The Capital Cost of a new project

✓ Forex variation needs to be restricted only upto the SCOD

Regulation.18(3)(d)

- Capital expenditure on account of ash disposal including handling and transportation facility;
- **Regulation.19(1)-Prudence check of capital expenditure**

✓ No benchmark in determining the expenditure of ash disposal including handling and transportation facility, hence the reasonableness of the expenditure must be compared with that of the similar generating stations.

✓ Hon'ble Commission empowered to notifying the bench mark norms.

✓ The National Tariff policy and EA2003 mandates to frame regulations which *would encourage competition, efficiency, economical use of the resources, good performance and optimum investments*

✓ Since Benchmarking is an important tool to measure the level of performance of a company, it must be the point of reference for prudence check.

Regulation.22 – Initial Spares:

- Initial spares shall be capitalised as a percentage of the Plant and Machinery cost upto cut-off date,

✓ **Unused initial spares to be decapitalised**

✓ **Initial spares not interchangeable**

CHAPTER -7 COMPUTATION OF ADDITIONAL CAPITAL EXPENDITURE
CHAPTER -8 COMPUTATION OF ANNUAL FIXED COST
CHAPTER -9 COMPUTATION OF CAPITAL COST OF INTEGRATED MINE AND INPUT PRICE

Regulations

- Regulation.28 Special provisions for thermal generating stations which have completed 25 years
- Regulation.30- ROE
- Regulation.33 – Depreciation
- Regulation.34 - IWC
- Regulation.35 - O&M
- Regulation.36 – Input price for variable charges:

Comments

- This beneficiary is of the opinion that the tariff for such stations also continued to be determined by the Commission and payment made as in the case of other running stations instead of allowing the generator to sell the energy in a manner as it deems fit in the case of refusal to enter into an agreement by the beneficiary. Further, emission control expenditure also need to be incurred.
- Base rate need to be reduced to 12% considering the decrease in the risk associated with equity.
- Salvage value shall be retained at 10%
- Cost of secondary fuel shall be fixed as 45 days
- Separate O&M norms for aged and new plants
- Separate Regulation for integrated mines

CHAPTER -10 COMPUTATION OF VARIABLE COST
CHAPTER -11 COMPUTATION OF CAPACITY CHARGES AND ENERGY CHARGES
CHAPTER 12 – NORMS OF OPERATION

Regulations

Comments

- Regulation.47 – Components of landed cost of fuel:
- Regulation.51 (2) – Capacity charge for Peak and Off-peak hours:
- Regulation. 52 – Computation and payment of Energy Charges for thermal generating stations:

- Regulation.59(A) Normative
Quarterly Plant Availability
factor-83%

- Frequency of third party sampling to be notified and to be witnessed by beneficiaries on rotation
- Introducing higher fixed charges for peak period not necessary as this will encourage gaming

- The components of reagents used for operation of emission control system shall form a separate component in the Variable Cost
- Reformulate the formula for ECR by defining the cost of primary and secondary fuel as one part and the cost of reagents as another part
- The basis for reduction of availability norms to 83% is unexplained and unjustifiable. As the proposed reduction in availability factor that too on quarterly basis, will discourage the generators to improve their performance efficiency. Therefore, existing norms of 85% for NQPAF may be continued for all thermal generators.

CHAPTER -13 SCHEDULING, ACCOUNTING AND BILLING
CHAPTER 14 – SHARING OF BENEFITS

Regulations

Comments

- **Regulation.68- Rebate**

within a period of 2 days of presentation of bills by the generating company or the transmission licensee, a rebate of 2% shall be allowed.

- **Regulation.69 – Late Payment surcharge**

Payments beyond a period of 45 days from the date of billing, a late payment surcharge at the rate of 1.25% per month shall be levied by the generating company or the transmission licensee, as the case may be.

- **Regulation. 70 (1) – Sharing of gains due to variation in norms:**

- Considering complexity in analyzing the invoice and the availability of various data and declining interest rates on working capital loans, the payment time may be realistically enhanced to 5 working days from the presentation of bills to avail 2.5% rebate instead of 2%.

- Considering the downward trend in the interest rates, and the average collection period of Discoms, the rate of delayed payment surcharge may be fixed at 1% p.m. and for a period may be beyond 60 days.

- Include the controllable parameters under reagents consumption for computing the gains



Thank you