

**BEFORE THE CENTRAL ELECTRICITY REGULATORY COMMISSION
3RD AND 4TH FLOOR, CHANDRALOK BUILDING,
36, JANPATH, NEW DELHI – 110 001**

IN THE MATTER OF:

**Comments/suggestions on “Draft Power System Development Fund
Regulations, 2019.”**

SUBMISSIONS OF PRAYAS (ENERGY GROUP), Pune

19th June, 2019

The CERC vide public notice dated 24th May 2019, invited comments and suggestions from all stakeholders on the “Draft Power System Development Fund Regulations, 2019.” The present submission is in response to the said notice as well as the draft regulations and explanatory memorandum published thereunder. We request the Commission to accept this submission on record.

1 Approach and Perspective

The PSDF consists of funds from congestion charges, DSM charges and reactive energy charges and is being used to fund crucial capital works to create essential infrastructure across states. CERC has proposed to repeal the existing PSDF regulations such that the subsequent notified regulations are more in line with the guidelines specified by the Ministry of Power for disbursal of funds. In essence, the proposed regulations remove the necessity for examination of sanctioned works by the Commission after it is cleared by the Appraisal Committee and before it is approved by the Monitoring Committee.

The purpose of the PSDF funds is to create essential infrastructure to relieve network congestion, improve voltage profiles and ensure grid safety and security. As much of the funds are recovered from charges levied on the system users, it is crucial that there is public accountability and scrutiny of disbursal and utilisation of funds.

Even though the funds are maintained and operated through the Public Account of India, it is not clear what the status of disbursal and utilisation of these funds is. As of April 2019, grants of more than Rs. 11,000 crores have been approved from the Power System Development Fund for various projects across states in India¹. However, the status of actual disbursal of funds and

¹ For more details, please see: https://psdfindia.in/wp-content/uploads/2016/07/PSDF_Status-of-the-Scheme_30042019.pdf

progress in the projects and activities is not publicly reported by the Nodal Agency in a systematic manner.

Table 1 reproduced from the minutes of the 8th Meeting of the National Power Committee on 30th November 2018 shows that only 17% of the grant sanctioned for 117 schemes across the country have been disbursed.

Table 1: Low disbursal of grants sanctioned as on 31.10.2018

Region	Number of schemes	Grant Sanctioned (Rs. Cr)	Grant Disbursed (Rs. Cr)	% grant disbursed as compared to sanctioned grants
Northern	24	1,907	438	23%
Western	30	1,104	115	10%
Southern	27	2,230	390	17%
Eastern	20	1,623	513	32%
North Eastern	13	646	242	38%
All India Schemes	3	3,384	196	6%
Total	117	10,894	1,894	17%

Source: Minutes of the 8th Meeting of NPC held on 30th November 2018²

Much of the delay in disbursal could be due to several processes for approval and scrutiny which CERC seeks to simplify with the proposed changes in the draft regulations. However, it is also crucial that there is tracking, reporting and accountability for disbursal and utilisation of funds.

Delays in funds disbursal by the Ministry of Power hinder the development of crucial infrastructure to ease congestion, improve reliability and ensure grid security. CERC has been take many progressive steps towards broadening and deepening markets in India, ensuring better scheduling practices and increasing the reliability of the grid. Delays in development of such crucial infrastructure will affect all stakeholders not just the beneficiaries of the grants and will hinder deepening market operations and reliable grid operations in the country. Thus, CERC should continue to play a critical role in increasing accountability by:

- Ensuring improvements in disbursal and utilisation of funds
- Ensuring that any costs attributable to delay in disbursal of funds is not borne by beneficiaries of the scheme
- Broadening the scope of eligible projects to enable investment in storage applications to ease congestion.

² For more details, please see : <http://www.cea.nic.in/reports/committee/npc/meetings/npcMinutes-8.pdf> (Page 20)

Our comments and suggestions in this context are detailed below:

2 Regulations towards increased public accountability of fund disbursement and utilisation

2.1 Provision to ensure scheme-wise reporting of fund utilisation to CERC

While the PSDF website gives details of the status and sanction orders, it may be useful to also increase emphasis in the public reporting of the monitoring and reporting of fund utilisation on a quarterly basis. The Power System Development Fund Regulations, 2019 can specify procedures and formats for reporting fund disbursement and utilisation by the nodal agency. The nodal agency can report the following to CERC on a quarterly basis:

- Scheme-wise grants sanctioned and disbursed with reasons for delay in disbursement, if any.
- Progress in each scheme as compared to important project milestones with reporting of delays and cost-overruns, if any.
- Reporting of potential benefits from each scheme and tracking on impacts or savings after project completion, especially if the benefits are with respect to easing transmission congestion, strengthening transmission system etc.

These reports (in formats stipulated by CERC) should be available on the CERC website as well as the website of the nodal agency.

2.2 Specification on analysis and reporting in the Annual Report to the Commission

Draft Regulation 7 (1) specifies that the nodal agency shall prepare an annual report with respect to the PSDF and submit the same to the Commission. It is suggested that the Commission specifies the analysis and observations which need to be reported in this annual report to the Commission. Such an annual report should contain:

- Broad observations and trends on fund disbursement and utilisation
- Analysis of the type of capital works and schemes sanctioned and the potential impact of the same
- Action take to improve fund utilisation and reduce delays and cost overruns
- Suggestions and broad recommendations by the nodal agency to the Ministry of Power and the Commission to improve efficacy of scheme implementation.

Such a report can highlight implementation issues, focus on bottlenecks and throw light on mid-course corrections to improve scheme so that the funds can be used in an optimal manner. This report should be uploaded on the Commissions and the nodal agency's website.

2.3 Ensuring any costs due to delays in disbursement of funds are not passed onto to consumers or beneficiaries

Regulation 4 (2) specifies that the portion of the grant from PSDF shall be reduced from the capital cost of the project. This is good practice to ensure that the capital cost is not recovered

from the beneficiaries via increase in tariffs. Given delays in funds disbursement, it is also likely that implementation agencies and utilities incur costs due to delays in funds disbursement. This could be due to working capital borrowings or market borrowings during the period of capitalisation. There could also be delays and cost-overruns attributable to delay in disbursement in grants. In case there are costs incurred which can be attributed to delays in grant disbursement these costs should be adjusted in future grant commitments rather than be passed on to consumers or beneficiaries as they should not be bearing the burden of such delays. The final regulations can also specify this to ensure consumers do not bear the cost of such delays.

3 Encouraging storage applications to ease congestion and ensure grid reliability

Prices of battery energy storage systems have come down drastically and are predicted to further reduce in the years to come. Electric storage is a very modular system and allows for use in multiple applications. Hence we suggest that Draft Regulation 4 (3) on Utilisation of the Fund be changed to specifically include battery energy storage systems as part of the list of items which can be funded under the PSDF. This is especially important since storage systems can play a vital role in the listed objectives of the PSDF namely, avoiding transmission congestion, improvement of power supply quality, modernizing the grid and possibly even assisting in islanding of critical areas. Such an inclusion could go a long way in establishing public sector funded pilot schemes for storage-based applications.

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