

TAMIL NADU GENERATION AND DISTRIBUTION CORPORATION LTD

From

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To

The Secretary,
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4th Floor, Chanderlok Building,
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New Delhi- 110001.

Lr. No. CFC/RC/SE/CERC/EE2/ AEE/ F. CERC /D. 107/20 dt: 15.07.2020

Sir,

Sub: CERC – Draft CERC (Terms and Conditions of Tariff)
(Second Amendment) Regulations, 2020 – Comments
and suggestions of TANGEDCO – Submitted – Reg.

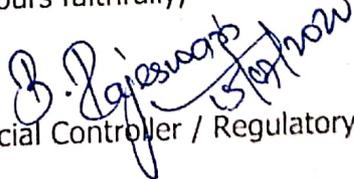
Ref: No. L-1 /236/2018/CERC Dated: 1st June, 2020
No. L-1/236/2018/CERC Dated : 30th June, 2020

This is with reference to the public notice of Hon'ble CERC dated 1st June, 2020, inviting comments/ suggestions/ objections on the draft CERC – Draft CERC (Terms and Conditions of Tariff) (Second Amendment) Regulations, 2020. Subsequently, time extension has been granted to submit the comments upto 15th July, 2020.

In this connection, the comments/ objections and suggestions of TANGEDCO are submitted herewith as Annexure. It is requested to consider the above while finalizing the Regulations.

Thanking you,

Yours faithfully,


Chief Financial Controller / Regulatory Cell (I/c)

Encl:

- i) Annexure I : General Observations of TANGEDCO
- ii) Annexure II : Para-wise comments of TANGEDCO.

ANNEXURE I

Comments of TANGEDCO on the Draft CERC (Terms and conditions of Tariff) Regulations (Second Amendment), 2020.

The following general observations/ suggestions are made on the proposed Second amendment to Tariff Regulations:

1. Treatment of mismatch between Mines/ Integrated generating stations:

The first Proviso under Regulation 5, Clause (2) states that "Provided that in case the integrated mine is ready for commercial operation but is prevented from the declaration of date of commercial operation for reasons not attributable to the generating company, its suppliers or contractors, the Commission may approve another date of commercial operation, considering the reasons that prevented the declaration of the date of commercial operation."

The eventuality of the readiness of the mine and delay in declaration of COD has been dealt in the above proviso. Whereas, the eventuality of the Mine being ready for COD and the integrated generating station not ready has not been dealt in the Regulation.

TANGEDCO submits the following two provisos for the above eventuality:

Provided that once the Commission approves the date of commercial operation of integrated Mines as per the Petition filed by the Generator, if there is delay in the commissioning of the linked generation station, the delay and financial implications is attributable to the Generator only and not to be passed on the utilities.

Provided further that, in case if there is delay in commissioning of the generating station, the cost of the lignite/coal excavated should not be included in the Pooled cost and the Lignite Price for such Mine which is commissioned prior to the DOCO of the generating station, shall be treated as standalone price until commissioning of the linked generating

station

2. The Generating Company should, well in advance (prior to 7 days) give information to the utilities on the details about the commercial operation of the Mines and the status of the linked generating stations, as is being done before the Date of Commercial Operation of the generating stations. A regulation to this effect may be introduced in appropriate section.
3. A new proviso has been proposed after second proviso of Regulation 16 of the Principal Regulations as under:-

“Provided also that in case of supply of coal or lignite from the integrated mine, the **landed cost** of primary fuel shall be based on the input price of coal or lignite, as the case may be, as computed in accordance with these regulations.”

In this regard, it is to be stated that the term landed cost of lignite need to be elaborated by clear reference to the components / taxes / duties which are to be added in the base price for the purpose of calculation of landed cost of Lignite. The landed cost components should be explicit and should be bench marked

4. Concerns of the Working group on Mine Developer and Operator (MDO):

The Working Group constituted by CERC have raised their concerns regarding outsourcing of Mining activities which is extracted below:

"There are a few related issues which may require the attention of the regulators and generators and inter alia the distribution licensees. Most of the mines are being operated by Mine Developer Cum Operator (MDO) in absence of any mining cadre in the allottee Government companies. The mining done mostly is opencast (strip mining), and such mining volume is admeasured by composite mining under a well laid down mining plan. But for most of the MDO contracts, it is understood that they have been approved on "per tonne" delivery of Coal as the deciding criteria implying whichever bidder has indicated minimum value for the delivery cost of coal has been declared successful. While thus the contract is simple to administer, this may

lead to a situation of front-loading by the MDOs by deviating from laid down mining process and extracting more coal by operating at lower stripping ratio. But effect will be encountering higher stripping ratio with progress of time.

Operating MDO may go for less of composite mining but produce higher quantity of coal by working in low stripping ratio patches in the beginning. They may abandon mining when the stripping ratio become higher. In absence of effective monitoring, it will be detrimental for consumers. Scenario is probable, because generators do not have mining cadre, and monitoring may be ineffective unless specifically concentrated upon.

Further many of the MDO contracts have been decided by benchmarking with the price of Coal India Ltd. (CIL) without finding out the cost of the coal extraction in similar geo-mining conditions. As has been pointed out, CIL pricing is kept at a level to keep reasonable profit for the entire company and is not directly related to individual mine wise cost. Further it may so happen that due to some constraints, mining is allowed to commence at a place with lower stripping ratio and there is no migration clause to deal with such eventuality in the contract. This may allow MDO to gain unduly in the beginning and further create a route of abandonment at a later stage.

In future, for contract settlement, these aspects have to be kept in mind in absence of any standard bidding guidelines and lack of prescription and criteria for evaluation of MDO tender”.

The concerns of the Working Group in the following aspects may kindly be considered and appropriate provisions may be made in the Regulations please:

1. There are no standard bidding guidelines and criteria for evaluation of MDO tender.

2. The generators do not have mining experience and have to depend on the MDOs for extraction of lignite/coal. When the stripping ratio is less, they may front load by deviating the norms and later when the stripping ratio becomes higher, they may abandon.
3. Another main concern is that the MDO contracts have been decided by benchmarking with the price of Coal India Ltd, without finding out the cost of coal extraction in similar geo-mining conditions. CIL pricing is kept at a level to keep reasonable profit for the entire company and is not directly related to individual mine wise cost.

The Commission may therefore look into all the aspects and above before issuing the regulations and a standard bidding procedure / criteria may be issued along with the Regulations so as to protect the interest of the end consumers.

5. Debt equity ratio shall be as per the prevailing interest ratio shall be taken into consideration 80:20. Funds are available at lower rates in the market. Further, the mining industry is a no risk business as reserves are identified; Buyer/ Buyers are tied up as the mines are integrated with generators unlike generating companies where there is always a potential risk involved in selling the power in the absence of long term PPA. The tariff is also confirmed. Hence there is no risk on the part of the mining company. Therefore the debt – equity ratio shall be reduced to 80:20.
6. The Proposed Clause 36N. Adjustment on account of Shortfall of Overburden Removal (OB Adjustment) states that :

(1) The generating company shall remove overburden as specified in the Mining Plan. In case of shortfall of overburden removal during a year, the generating company shall be allowed to adjust such shortfall against excess of overburden removal, if any, during subsequent three years. In case of excess of overburden removal during a year, the generating company shall be allowed to carry forward such excess to adjust shortfall, if any, during

subsequent three years.

TANGEDCO submits that this clause is to be deleted as will promote inefficiency in the performance of the mining company as pointed out in the remarks of the Working Group in this context:

"Since the mine plan provides the stripping ratio inter-alia guiding factor for quantity of coal extracted and overburden to be removed, the same needs to be complied. The implementation of mine plan and compliance of stripping ratio will take care of the requirement of OB adjustment.

The compliance of mine plan and stripping ratio obviates the requirement of OB adjustment. The adjustment of OB is result of non-adherence of mine plan and stripping ratio. The regulatory framework should encourage the best practice discouraging inefficient practice. Accordingly, that any loss on account of higher OB adjustment may not be passed on to the consumer through input price. The OB adjustment may be rationalized, either in quantity of coal (in case of lower removal of overburden) or overburden (in case of lower extraction of coal) in accordance with annual production plan.

Hence the proposed Regulation may be modified as below:

"The generating company shall remove overburden as specified in the Mining Plan. In case of excess or shortfall of overburden removal during a year, the generating company shall raise debit/ credit note as applicable".

7. The proposed Clause (2) under Regulation 59 states that "The charges payable by a beneficiary or long term customer shall be first adjusted towards late payment surcharge on the outstanding charges and thereafter, towards monthly charges levied by the generating company or the transmission licensee, as the case may be, starting from the longest overdue bill."

This clause is to be removed in total, as it is against the interest of the discoms and end consumers. The discoms in the country are in severe financial crisis and struggling to stay afloat. So adjusting the payment made by discoms towards surcharge first will only lead to further degradation of the financial health of the discoms. On the other hand, the generators, especially CGS are running under huge profit and the survival of the generators are directly dependent on the survival of the discoms. Hence in the benefit of the discoms and end consumers, this clause shall be removed.

Sd/... 15.07.2020

Chief Financial Controller
Regulatory Cell / (I/c)