

Comments on Draft CERC (Terms & Conditions of Tariff)(First Amendment)Regulations,2020

Haldia Energy Limited

By

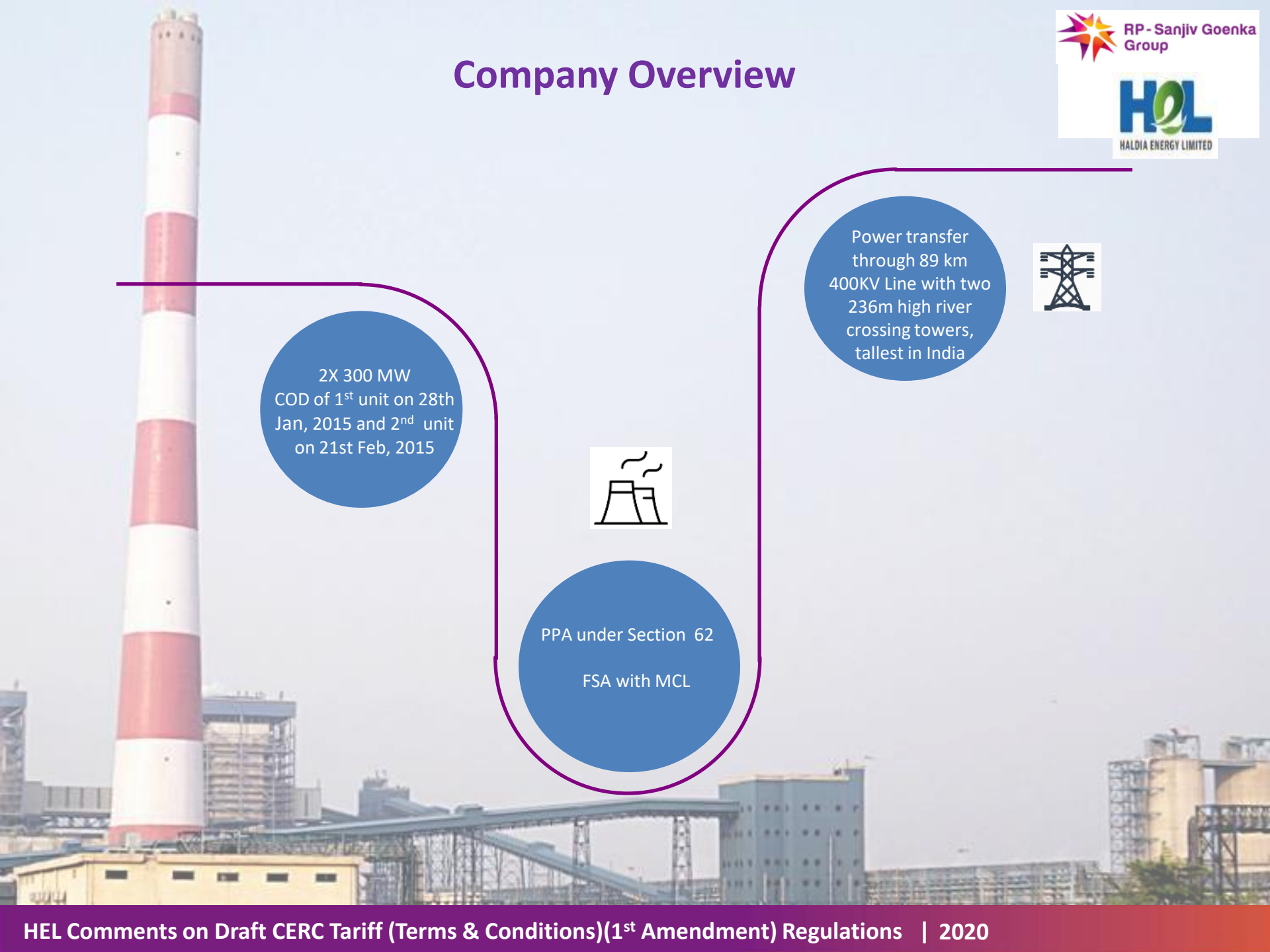
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Date : 13th July 2020

2x 300 MW Thermal Power Generating Station

Haldia, East Midnapur, West Bengal

Company Overview



2X 300 MW
COD of 1st unit on 28th
Jan, 2015 and 2nd unit
on 21st Feb, 2015



PPA under Section 62

FSA with MCL

Power transfer
through 89 km
400KV Line with two
236m high river
crossing towers,
tallest in India



Issue 1 : Amendment to Regulation 9 of the Principal Regulations : Timeline of application for determination of tariff

Proposed Amendment	HEL Comments/Suggestions	Rationale
<p><i>A new proviso, ... shall be addedas under: “Provided also that the generating company shall file an application for determination of supplementary tariff for the emission control system installed in the coal or lignite based thermal generating station in accordance with these regulations not later than 60 days from the date of operation of such emission control system.”</i></p>	<ol style="list-style-type: none"> 1. Filing of application for determination of supplementary tariff may be allowed before 180 days from scheduled commissioning date. 2. Hon’ble Commission may fix a provisional tariff within next 4 months. 3. Otherwise Hon’ble Commission may allow a provisional supplementary tariff of 95 % of the reasonable costs after prudence check. 	<p>In order to allow the generators to recover the fixed and variable costs associated with installation of FGD immediately after commissioning.</p>

Issue 2: Amendment to Regulation 18 of the Principal Regulations : Debt-Equity Ratio

Proposed Amendment	HEL Comments/Suggestions	Rationale
<p><i>A new clause, namely Clause (6) shall be added as under:</i></p> <p><i>“(6) Any expenditure incurred for the emission control system during the tariff period as may be admitted by the Commission as additional capital expenditure for determination of supplementary tariff, shall be serviced in the manner specified in clause (1) of this Regulation.”</i></p>	<p>Incremental equity above normative level, if any, for installation of emission control system should not be considered as normative loan (as per regulation 18(1) of the Tariff Regulations and RoE on the actual may be provided to the developer</p>	<p>Prevailing volatile financial market in India including stress in the banking sector, developers / IPPs are finding it difficult to raise finance from the banks.</p>

Issue 3: Amendment to Regulation 30 of the Principal Regulations : Return on Equity

Proposed Amendment	HEL Comments/Suggestions	Rationale
<p><i>In the first proviso under Clause (2) of Regulation 30 of the Principal Regulations, the words “excluding additional capitalization due to Change in Law,” shall be deleted and at the end of the said proviso, the words and expressions “or in the absence of actual loan portfolio of the generating station or the transmission system, the weighted average rate of interest of the generating company or the transmission licensee, as the case may be, as a whole, shall be considered;” shall be added.</i></p>	<p>It is requested to keep the provisions of extant regulations intact, where RoE on additional expenditure arising out due to change in law events to be treated at par with the equity of the original scope of work (i.e. RoE of 15.5% or 16.5%, as the case may be).</p>	<p>The distinction of capital expenditure which is forced on the generator due to change in law , is akin to a new Greenfield project necessitated by law. It would be unfair that while new projects being approved shall get the higher rate of return 15.5% (including the equity required to meet the expenses for environmental systems), the existing projects undergoing retrofitting of FGD/SCR/SNCR shall be fetching lower returns.</p>

Issue 3: Amendment to Regulation 30 of the Principal Regulations : Return on Equity (continued)

Proposed Amendment	HEL Comments/Suggestions	Rationale
<p><i>A new clause, namely, Clause (3) shall be added.... as under:</i></p> <p><i>“(3) The return on equity in respect of additional capitalization due to emission control system shall be computed at the weighted average rate of interest on actual loan portfolio of the generating station or in the absence of actual loan portfolio of the generating station, the weighted average rate of interest of the generating company as a whole shall be considered.”</i></p>	<p>We suggest the Hon’ble Commission may be pleased to consider that existing plants shall be allowed an additional 1% return on equity investments for environmental systems.</p>	<p>The risks of equity investment in the emission control equipment are far higher for the existing generating plants as the original OEM of BTG package will not take any responsibility for deterioration of plant performance and the entire risk of system integration is completely on the original developer.</p>

Issue 4A: Amendment to Regulation 35 of the Principal Regulations : O&M Expenses

Proposed Amendment	HEL Comments/Suggestions	Rationale
<p><i>Sub-Clause(7) of Clause (1) of Regulation 35shall be substituted as under:</i></p> <p><i>“(7) The operation and maintenance expenses on account of emission control system in coal or lignite based thermal generating station shall be 2% of the admitted capital expenditure (excluding IDC & IEDC) as on the date of its operation, which shall be escalated annually at the rate of 3.5% during the tariff period ending on 31st March 2024:...”</i></p>	<p><i>O&M expenses on account of operation and maintenance of emission control system may be allowed at 3% of the admitted capital expenditure (including IDC & IEDC) for sub-critical units as on the date of its first year of operation with a suitable annual escalation thereafter.</i></p>	<p>1. O&M expenses of emission control system on a stand-alone basis, may require additional cost involvement due to -</p> <ul style="list-style-type: none"> ➤ Corrosive environment : degradation of equipment. ➤ Imported equipment/spares –sensitive to forex fluctuation. ➤ Additional logistics support. ➤ Insurance cost : ~ 0.5% of admitted capital cost.

Issue 4B: Amendment to Regulation 35 of the Principal Regulations : O&M Expenses (continued)

Proposed Amendment	HEL Comments/Suggestions	Rationale
<p><i>Sub-Clause(7) of Clause (1) of Regulation 35shall be substituted as under: “..... Provided that income generated from sale of gypsum or other by-products shall be reduced from the operation & maintenance expenses.”</i></p>	<p><i>To allow generating companies to offset any actual additional O&M expenses over the normative from the income on account of sale of gypsum and other by-products before passing on the benefits to the consumers.</i></p>	<ul style="list-style-type: none"> ➤ In case the actual expenditure made by the generating company cannot be contained within the normative O&M Expenses set by the Hon’ble Commission for each year of the period FY 2019-24, the losses would be borne by the generating company. ➤ Simultaneous commissioning of similar limestone-based emission control systems by majority Generators in 2022 may pose a challenge for marketability of gypsum as a by-product. ➤ In absence of marketability of the entire gypsum produced, disposal of by-product will be required through filling of abandoned mines or such other method as maybe approved by CPCB. Disposal of by-product will require additional transportation and disposal costs, which may be allowed to be recovered additionally.

Issue 5: Amendment to Regulation 42 of the Principal Regulations : Computation & Payment of Capacity Charges for Thermal Generating Stations

Proposed Amendment	HEL Comments/Suggestions	Rationale
<p><i>Clause (5) of Regulation 42 of the principal Regulations along with the proviso of the said clause shall be substituted as under : -</i></p> <p><i>(5) The plant availability factor for a month (PAFM) shall be computed in accordance with the following formula :</i></p> <div data-bbox="85 822 834 1036" style="border: 1px solid black; padding: 10px; margin: 10px 0;"> $PAFM = 10000 \times \sum_{i=1}^N \frac{DC_i}{[N \times IC_x (100 - AUX_n - AUX_{en})]} \%$ </div>	<p>In case of existing generators retrofitting emission control system, for calculation of annual PAF for the particular year(s) of commissioning and stabilization period, ,availability loss due to:</p> <ul style="list-style-type: none"> ➤ shut down for connection of FGD to existing plant. ➤ related forced outages post commissioning may be allowed to be excluded from calculation of actual availability for the recovery of fixed costs. 	<ul style="list-style-type: none"> ➤ Existing generators retrofitting emission control system may lose capacity charges during the year of installation & commissioning due to prolonged shut-down. ➤ Lack of experience of operating the FGD plant by O&M engineers specially initial period.

Issue 6: Amendment to Regulation 49 of the Principal Regulations : Norms of Operations

Proposed Amendment	HEL Comments/Suggestions	Rationale
<p><i>A new sub-clause, namely, sub-clause (bb) shall be inserted after sub-clause (b) of Clause (E) of ... as under:</i></p> <p><i>“(bb) Auxiliary Energy Consumption (AUXe) on account of emission control system of thermal generating stations:</i></p> <p><i>.....</i></p> <p><i>Wet Limestone based FGD system (without Gas to Gas heater) – 1.0 % AUXen (as % of gross generation)</i></p> <p><i>.....</i></p> <p><i>Provided that where the technology is installed with Gas to Gas heater, AEC specified as above shall be increased by 0.3% of gross generation”</i></p>	<ul style="list-style-type: none"> ➤ Increment in Auxiliary Energy Consumption of wet limestone based FGD system (without Gas to Gas heater) may be allowed to 1.5 % (as % of gross generation) at normative PLF. ➤ Compensation for higher auxiliary consumption at lower PLF may be allowed. ➤ Additional 0.5% auxiliary consumption for unit size of 210/250/270/300 MW or lower. 	<ul style="list-style-type: none"> ➤ Additional power consumption is required on account of treatment of process make up water for FGD including operation of RO system in case of HEL as the intake water is brackish in nature. ➤ Auxiliary consumption at lower PLF will be higher than that at normative PLF. ➤ Unit of smaller sizes consume more auxiliary power in comparison to higher size units.



Thank You