PAF Of Irrigation Based Hydro Power Stations

- The Draft Regulations are for dedicated Hydro Plants. However, in case of irrigation based Hydro Power Plants, which are operated as per the instructions of Irrigation Department of State Governments, should be allowed to recover full costs – on availability of machines irrespective of its operation during Peak Hours.

Sale of infirm power:

- We are of the opinion that the regulation no. 12 of the draft proposed needs to be further clarified with respect to the amount that can be added to or reduced from the capital cost of the project. The Hon. Commission may kindly consider to clarify that if the cost of fuel incurred by the generator for generating infirm power is higher than the UI rate received by them, then the balance that is the loss incurred by the generator shall be added to the capital cost and if the cost of fuel is less than the UI earned by the generator then the net revenue shall be applied for reduction in the capital cost.

O & M Charges-Water cost

- It seems that the Water Charges have been included in the norms of O&M Expenses. However, the tariff for Water charged by the State Government differ from state-to-state. It is therefore suggested that Water Charges included in the O&M expenses may be shown separately and should be paid at actuals. The rate of Water Charges should be from a Government authority only and not a private supplier to avoid the manipulation and higher cost.

Transit Losses

- Under Draft Regulation 22(1)(C) the Hon. Commission has prescribed a transit loss of 0.6% for non-pit head generating stations irrespective of the distance of the power station from the mines. There is no control of either the generator or Railway Authority over the theft and pilferage of coal. With a bench mark of distance, longer the distance, higher the Transit loss should be provided as all power stations at various distances can not be dealt at par. Also, difference between norms for pit head and non- pit head station itself shows that distance does make a difference. Hence, the Hon. Commission is requested to consider the following norms for non-pit head generating stations:
- Distance upto 500 KM - 0.6%
- Distance from 500 to 1000 KM - 1.00%
- Distance from 1000 to 1500 KM - 1.5%
- Distance above 1500 KM - 2.00%.

RETURN ON EQUITY

- GSECL supports continuation of RoE approach
- However, rate proposed by CERC is not in line with market expectation
- Investors expectation for return is higher because of –
  - Risk associated with power sector
  - Long gestation period
  - Long pay back period of 25-35 years

RETURN ON EQUITY CONTD.....

- GSECLproposes to adopt Capital Asset Pricing Mechanism to arrive at appropriate RoE as this will be more scientific method followed by the regulators world wide.
  - CAPM is more appropriate as utilities in future will depend on financial market for raising capital.
  - There should not be any problem of getting appropriate data with respect to market premium and beta of the power sector companies. Number of companies like CESC, erstwhile BSES, Torrent Power, GIPCL, Tata Power are being traded for the past 15-20 years. NLC, NTPC and PowerGrid scrip are also being traded for past 2-5 years.
  - Even if any regulated utility is not listed, CERC can adopt power sector beta as risks associated with the sector is similar.
  - SERCs can adopt the return decided by CERC

RETURN ON EQUITY CONTD…..

YEAR	10 YEAR G-SEC	SBI PLR	ROE	Ratio of ROE to G-Sec	Ratio of ROE to SBI PLR
2001	7.9	11.5	16	2.0253	1.3913
2004	6.6	10.25	14	2.1212	1.3659
2008	8.5	13.75	14 (CERC)	1.6471	1.0182
ROE for 2009-14	8.5	13.75	18.405	18.030 (8.5*2.12)	18.780 (13.75*1.36)

Return of 18% is justified based on both G Sec as well as SBI PLR

DEPRECIATION

- CERC Proposal will put utilities in disadvantage
  - Loan with 15 year repayment period are not available, Utilities will have to refinance loans at their risk & cost
  - In case 70% depreciation plus AAD has been recovered in first 10 yrs then no depreciation would be allowed for next 5 yrs.
  - Gas stations life is only 15 years, hence need for higher depreciation
- Tariff Policy provides for uniformity of depreciation in tariff as well as accounting.
- Tariff Policy also provides that AAD should be dispensed with.
- Since for accounting depreciation rate has to be as per Companies Act, same may be allowed for tariff.
- GSECL proposes to provide depreciation @ 5.28% up to 95% of capital cost in line with the Companies Act. Alternatively existing provision of AAD with 10 years loan repayment may be continued.

INTEREST ON WORKING CAPITAL

One month O&M expenses to be retained

- Repair & M expenses, employee related expenses such as on medical, travel etc, incurred through out the month
- Expenses on insurance, consumables, stationeries are incurred in advance
- As billing is done on 6th of each month, case for additionally service all elements of WC for 6 days more
- One month O&M expenses need to be retained in working capital.

Receivables to be retained at 2 months

- Surcharge proposed only after 60 days from billing, then corresponding receivables (i.e. 60 days) have to be provided in WC
- Rebate is financed out of receivables.
  - Rebate on prompt payment has been retained at 2%
  - To incentivise beneficiaries, higher rebate and corresponding receivables needed in the tariff
  - Due to higher rebate provision beneficiaries are presently making prompt payment. Reduction may lead to default.

INTEREST ON WORKING CAPITAL

Need for higher Maintenance Spares in Receivables

- Norms for maintenance spares need to be enhanced to support enhanced availability norm of 85% from existing 80%
- GoI also provided 40% of O&M cost as spares in the working capital

Need for escalation in the Working Capital

- Rebate on billing is based on actual fuel price, generation and incentive whereas receivables is not indexed to fuel cost variation and allowed upto a generation level of Target Availability
- Fuel prices have increased by almost 40% and SBI PLR by 30% in the past 4 years
- Provision of indexation of WC with actual fuel price and with SBI PLR prevailing on 1st April of respective years is required.

INTEREST ON LOAN

- **Regulations w.r.t computation of IoL has been changing in each tariff period leading to uncertainty**
  - **2001-04: Normative repayment & AAD limited to 1/12 of Gross loan**
  - **2004-09: Normative repayment & AAD limited to 1/10 of gross loan & Depreciation considered as deemed repayment in case of moratorium**
  - **2009-14: Repayment being linked with depreciation**
- **CERC proposal of adjusting cumulative depreciation in excess of cumulative loan repayment against outstanding loan in the first Year will amount to change in approach of the normative repayments adopted in tariff so far.**
- **ATE has already given order for not linking loan repayment with depreciation.**

INTEREST ON LOAN CONTD.....

- **GSECL Proposal**
  - **De link depreciation from repayment**
  - **Normative repayment**
  - **Interest rate to be calculated on day basis as applied by lenders**
  - **Utility to refinance costly loan and cost of refinancing to be borne by beneficiaries**
  - **Net benefit of refinancing of costly loans shall be shared.**

TAX ON INCOME

- GSECL agrees with the CERC proposal of post tax return
- However, treating net UI & Incentive differently than other tariff elements is not appropriate.
- At present, GSECL is working out income tax for the Company as a whole after consider tax holidays, higher depreciation from new units.
- Tax benefits under Section 80 IA to promote investment is also directly passed on to beneficiaries.

SP. OIL CONSUMPTION

- **Coal quality deterioration**
  - **Variation in coal VM results in combustion instability requiring oil support**
  - **Increased erosion of coal burners causes flame instability**
  - **Increase in number of trippings on flame failure.**
  - **Increased erosion of pressure parts leading to more no of unit outages due to tube leakages.**
  - **Frequent soot blowing with proper ignition support.**
- **To prevent the unsafe operation (explosion) of boiler continuous oil support is to be kept in service as per NFPA 85 D code on Boilers under such conditions.**

SP. OIL CONSUMPTION

- **R&M of 200/210 MW units involve commissioning activities and stabilization.**
- **Boiler is designed for coal from linked mines. Currently, percentage of coal from unlinked mines had increased to 27% - 55%. Coal from non linked mines is generally of inferior quality**
- **GSECL Proposal -**
- **In view of the above, norm of 2.00 ml/Kwh for sp. oil may be fixed for 500 MW & 200 MW units.**
- **For OTEHRS , the existing norm may be continued**

AUX. ENERGY CONSUMPTION

Increase in Auxiliary power consumption is expected due to

- **Coal Quality has deteriorated with increasing Ash Content and Moisture Content from 03-04 and is expected to deteriorate further as predicted by MOC.**
- **Poor coal quality leads to increase in auxiliary power due to**
  - **extra mill requirement**
  - **higher coal handing**
  - **Higher ash handling**
  - **higher air flow handling**
- **Unit tripping due to poor coal quality are on increase.**
- **APC also Increases with ageing, part load operation.**
- **Auxiliary Energy Consumption as % of generation level is not appropriate as PLF is likely to go down with non-availability of coal. At present there is large coal shortage leading to partial loading & higher APC**
- **GSECL proposes that existing norms may be continued for 2009-14.**

INCENTIVE

- With proposed increase in Availability norm from 80% to 85%, the quantum of energy/availability for incentive is reduced.
- Moreover, with Income Tax on incentive to be borne by GSECL , effective rate of incentive has reduced.
- Existing regulation provides 25p/kWh on Scheduled PLF.
- With new proposal the effective rate for will be 21.5 p/kWh for coal stations.
- GSECL will be eligible for lower incentive
- GSECL proposes that incentive for stations having age less than 10 years should also be on pro rata basis

THANK YOU