

Draft Regulations on Terms and Condition of Tariff 2009-14

Regulation 8 - Capital Cost:

Proposed Regulation

- Provides for benchmarking of the Capital Cost and prudence check of the Capital Cost on the basis of benchmark cost to be published by the Commission

Suggestions

- Difficulties in applying the benchmark cost for each of the project due to various constituents and its implication on the project cost for e.g. Type of technology, associated facilities, local factors etc
- Difficulties in convincing the lenders for any deviation in the project cost if the regulations don't provide for 'in principle' approval
- Request to continue the existing provision of "in principle" approval as it helps to satisfy the lenders about the capital cost and helps in giving due consideration to the site specific issues.
- Further where the Hon'ble commission has already provided in principle approval of capital cost, the same should form basis for prudence check.

Regulation 9 – Initial Spares:

Proposed Regulation

- Specifies ceiling norms for initial spares as a percentage of the original project cost.

Suggestions

- Request to review the ceiling norms specified for the gas turbine generating stations, particularly, for the advance class machines due to unavailability of spares in the local markets and new technology.
- Request the Hon'ble Commission to consider the OEM Supplier's recommendations as benchmark in these cases.
- Further where the Hon'ble commission has already approved initial spares cost (in excess of norms) as part of in principle approval of capital cost, the same should form basis for prudence check for procurement of initial spares.

Regulation 16 – Interest on Term Loan:

Proposed Regulation

- Regulations provides for the tenure of term loans of 15 years with repayment from the first year of Commercial Operation Date.
- Rate of interest –The weighted average interest rate of the actual loan portfolio availed on the normative outstanding balance of loans

Suggestion

- Request the Hon'ble Commission to give flexibility in terms of tenure of the loan due to constraints of the existing debt market for the loan of such a long period
 - Repayment of the loan as specified in the loan agreement
 - Applicability of actual interest rate on outstanding balance as interest rate is generally specified with periodical reset provision in view of volatility in interest rates.
 - Our above suggestions will give comfort to the lenders.

Regulation 17 – Depreciation:

Proposed Regulation

- Specifies depreciation rate considering project life of 25 years for all thermal generating stations

Suggestion

- Request the Hon'ble Commission to give due consideration to actual project life i.e. Life of Gas based station - 15 years
- Request to determine the rate of depreciation so as to enable the developer to recover the total depreciation before the end of the project life
- Gas based generating station - Rate of depreciation should not be less than 6% (assuming 15 years life)
- Existing regulations of allowing "Advance Against Depreciation" –
 - Takes care of the cash flow to meet the repayment obligations
 - Any change causing negative cash flow would amount to loss of confidence of lenders particularly in respect of ongoing projects.
 - To continue the existing provision of AAD

Regulation 18 – Interest on WC Requirement:

Proposed regulation

Provides for tightening the working capital requirement

- Does not allow any price escalation in cost of fuel during the entire tariff period
- Does not allow O&M Cost
- Interest prevailing as on 1st April 2009 for the entire period
- Reduce the period of receivables from 60 days to 45 days

Suggestion

- In case of gas, liquid fuel and imported coal, the fuel price is linked with crude basket and also with exchange rate. Request to consider actual fuel cost as part of working capital to take care of higher volatility.
- O&M Cost – major item of expenditure and request to allow as part of WC
- Interest rate prevailing on 1st April of respective yr to provide for volatility
- Interest on working capital on receivables proposed to be reduced from 2 months to 45 days, but no reduction in the rebate to be given to beneficiaries on payment

Regulation 19 – O&M Cost:

Proposed regulation

- Requires the generator to ensure Plant Availability Factor (PAF) of 85% for full recovery of fixed cost, whereas it is 80% in the exiting regulations.

Suggestion

- Request the Hon'ble Commission to enhance the O&M Cost to meet with this requirement
- Request to give due consideration to the O&M cost of the gas based power stations as it differs with that of Coal based power plants
- Gas based power stations requires major overhauling at about every 25000 Equivalent Operating Hours (EOH) necessitating the replacement of various parts.
- F Class (advanced) machines having unit size more than 300 MW have not been installed in the country and therefore, it is difficult to draw any parallel.

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Suggestion

- As per OEM Supplier, the cost of the spare parts and requirement of skilled manpower with technical know-how results into higher O&M expenses for F class machines. Thus the O&M cost should be higher for these machines (about 50%).
- While perusing the O&M Cost for open cycle and combined cycle generating station mentioned at Table in Regulations 19(c), it appears that O&M cost of 2009-10 has been mentioned for 2013-14 also. Request the Hon'ble Commission to replace the same with the figures of 2013-14.

Regulation 21 — Recovery of fixed charge:

Proposed regulation

- Envisages recovery of full fixed cost at availability of 85% instead of 80% as at present.

Issue

- While the desire of tightening the norms to enforce efficiency and the lower cost can be very well understood, it is also necessary to appreciate that inspite of all the encouragement given the sector is riddled with many uncertainties.

Suggestion

- It is therefore very much desirable to allow incentive for better and efficient operations by keeping the benchmark at the same level.
- The present fuel scenario adds further risks and challenges particularly for the gas based plants.

Issues

- Due to volatility in prices and uncertainty of gas availability, the gas based plants have not been able to operate fully.
- Plants which are using only gas as single fuel may not be in a position to declare 85% availability
- In fact as indicated in media the Government has allotted KG basin gas to the power plants to allow only 66% PLF.

Suggestion

- Request the Hon'ble Commission to keep the availability at present level of 80% only though in fact there is strong case for in fact lowering the same at least for gas based plants.

Regulation 22 – Transit Loss:

Issue

- Proposed regulations provide for the transit loss of 0.2% and 0.6% for coal based pit head stations and Non-pit head power stations, respectively.

Suggestions

- In spite of all sincere and committed efforts, not possible to achieve such low level of transit losses when coal is transported over 1500 — 2000 Kms.
- Suggest that
 - (a) the losses be prescribed and linked to distance from the source of supplies and
 - (b) be revised upwards

Regulation 36 — CDM:

Proposed Regulation

- The developer endeavors to avail the benefits of CDM as per the encouragement and guidance provided by the Government under the Kyoto protocol.

Suggestion

- Availing CDM benefits imposes various responsibilities / norms on the developer as well as cost. We appreciate the proposal for sharing of benefits.
- Request the Hon'ble Commission to give due considerations to the efforts made and expenses incurred including taxes paid while sharing benefits.
- Suggest to share the benefit after providing for the taxes paid and expenses incurred and accordingly, "net proceeds" should be considered instead of "gross proceeds".

Water Charges:

Issue

- No specific mention of water charges as part of O&M Cost
- With the increasing requirement of water, all the Government authorities have been increasing the charges for drawl of water
- Different rates are levied by different authorities depending upon the availability and importance of water.

Suggestion

- To recognize water charges payable to the government authorities as separate element of cost; and
 - To allow it to be passed through as part of the variable charges.
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Miscellaneous Suggestions

Proposed Regulation 1(2):

- Proviso to the Regulation provides for determination of tariff for the part of the project as per existing regulations and balance part to be declared under commercial operation as per revised regulations.

Suggestion

- Where majority part of project achieves Commercial Operations after 1st April, 2009, the Tariff for the whole project may be determined as per the proposed new regulations instead of determination of tariff for the unit declared under commercial operation as per existing regulations only for few days of Mar 2008.
 - Request to allow the generator to file the petition for the tariff determination for the entire project instead of for part of the project.
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Miscellaneous Suggestions

Proposed Regulation 3(22):

- Definition of Installed Capacity provides for reckoning the capacity as mentioned on the Name Plate or as approved by Hon'ble Commission.

Suggestion

- Request to kindly consider the capacity deterioration of the generating station with aging while ascertaining the installed capacity.

Proposed Regulation 5(3):

- Provides for uniform tariff through out the tariff period

Suggestion

- Request to reframe the regulation in line with of Regulation 6(1) wherein the generating company or the transmission licensee have the option to revise the tariff once during the tariff period.

Miscellaneous Regulations:

Proposed Regulation 12

- Provides for sale of “Infirm Power” as UI and to be paid for from the regional / state UI pool account at the applicable frequency – linked UI rate

Suggestion

- Request the Hon’ble Commission to kindly clarify the methodology for the payment of UI charges, particularly, in the state where Intra-State ABT is yet to be implemented.

Proposed Regulation 15

- Provides for Return on equity @ 14% per annum

Suggestion

- Request to increase the rate of return to 16% considering the market expectation, risk perception and need to attract substantial investment in the power sector.
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THANK YOU
