

Central Electricity Regulatory Commission

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Press Release

CERC advice on tariff based competitive bidding

Central Electricity Regulatory Commission (CERC) has developed draft guidelines for procurement of generation on long term contracts through tariff based competitive bidding and the same have been forwarded to the Central Government as its statutory advice. Under Section 63 of the Electricity Act, 2003, Central Government is mandated to issue guidelines for competitive bidding for procurement of generation on long term contracts. Under Section 79 (2) (ii) CERC is to advise the Central Government on promotion of competition, efficiency and economy in power sector. The Commission has simultaneously engaged in consultation with stakeholders, experts to give a final shape to its advice.

Draft guidelines prepared by the CERC prescribe a broad transparent framework for competitive bidding under regulatory supervision. CERC has taken the initiative in order to achieve the main objective of the Electricity Act, which is to promote competition and investment in order to improve the availability and quality of electricity at reasonable prices.

The salient features of the guidelines are as follows:

- **The draft guidelines prepared by CERC provide for procurement of electricity in any of the following manner:**
 - For blocks of capacity without specifying type or source of generation.
 - For entire project capacity or blocks of capacity of thermal generation.
 - For entire project capacity or blocks of capacity of hydro generation.
 - For entire project capacity or blocks of capacity of fuel specific thermal generation with energy charges payable at net quoted heat rate.
- Procuring agency may be the distribution licensee, State Electricity Boards or their successor entities, State Governments, Electricity Departments and/or trading licensee individually or as a consortium who intend to or

shall be procuring electricity. Such entities may belong to one or more States or one or more Regions.

- In case of inter-State projects, the Central Government may also take the initiative to constitute procuring agency in consultation with State Governments, Central Electricity Authority, Central Transmission Utility and other stakeholders. Similarly, for intra-State projects, State Government may take initiative to form a procuring agency in consultation with distribution licensees, State Electricity Boards or their successor entities, State Transmission Utility etc.
- **The guidelines emphasize the development of large regional projects for which the distribution licensees of a region would need to come together in the form of a consortium of bulk buyers and collectively invite bids for setting up regional projects.**
- The guidelines provide for specifying essential requirements of supply, scheduling, despatch, quality and safety as per CEA standards.
- **The guidelines emphasize the reliability of supply and provide for penalties for delay in commencement of supply, non achievement of target availability and degradation of contracted capacity.**
- **The procuring agency has the choice of designing its own incentive scheme for generation beyond target availability.**
- **The tariff shall be bid in terms of Annual Fixed Charges and Variable Charges. Both Annual Fixed Charges and Variable Charges shall have indexed and non-indexed components. A part of the tariff could be quoted in US dollars. The quoted tariff shall be inclusive of all taxes.**
- **The evaluation of the bids shall be done on the basis of the Net Present Value of the Annual Fixed Charges and Variable Charges corresponding to annual energy requirement for the full tenure of the long-term agreement.**
- **The discounting factor, inflation factor and Rupees versus US dollar exchange rate variation to be considered for evaluating the Net Present Value shall be carefully chosen and clearly indicated by the procuring agency in the bid documents.**
- The procuring agency may agree to the setting up of a generating plant of capacity higher than the capacity sought in the bid. Such spare generating capacity would belong to the owner, who could use it as captive or merchant capacity or for sale as a separate power block under a separate long-term contract.

- Save for where the law otherwise provides, the Central or State Public Sector Undertakings may freely participate in competitive bidding.
- The procedure for inviting bids shall be a two stage process, the first stage being Request for Qualification (RfQ) and the second stage being Request for Proposal (RfP).
- Before floating the bid enquiry, the procuring agency shall obtain approval of the bidding documents from the appropriate Commission. Any amendments to the bid documents shall be carried out with prior approval of the appropriate Commission.
- After completing the bidding process, the procuring agency shall seek approval of the appropriate Commission for adoption of tariff.
- If the number of qualified bidders after RfQ stage is less than three, approval of the appropriate Commission shall be obtained before proceeding from RfQ stage to RfP stage. The Commission may or may not allow proceeding to RfP stage if there are only two qualified bidders. In case, there is only one qualified bidder or the Commission does not allow proceeding with two bidders, the process shall stand aborted.
- If there are only two bids in response to the RfP, the procuring agency shall furnish adequate justification for adoption of tariff. In case, there is only one bid in response to the RfP or the Commission is not satisfied with the competition resulting from two bids, the process shall stand aborted.
- All existing generators such as NTPC, NHPC, NEEPCO, State Generating Companies, SEBs, IPPs etc., shall continue to supply power as per their existing contracts and the tariffs to be recovered by them shall be no greater than those determined by the appropriate Commissions.
- The addition of generation capacity in future should be through competitive bidding as far as possible. However, some generating projects such as extension projects, on-going/already taken up projects may be set up on cost plus basis but in such cases also the procurement of plant and equipment shall be done through competitive bidding in suitable packages.

Sd/-
(A.K. Sachan)
Secretary