

CENTRAL ELECTRICITY REGULATORY COMMISSION

Draft amendment to Central Electricity Regulatory Commission (Procedure, Terms and Conditions for grant of Transmission Licence and other related matters) Regulations, 2009

EXPLANATORY MEMORANDUM

Ministry of Power, Government of India had issued guidelines for encouraging competition in development of transmission projects and competitive bidding for transmission service in April, 2006 which was subsequently revised during July, 2007 with the aim of developing all transmission projects in an efficient and economical manner.

The Central Commission while considering the applications for transmission licences by various project developers observed that while the useful life of the transmission asset is normally considered as 35 years, transmission licence is issued for a period of 25 years. In other words, the transmission assets will be in service even after the initial licence period of 25 years. As there is no provision of "transfer" in the agreement, there is every likelihood that the existing licensee may continue to operate after the initial period of 25 years. Thus the question arises that what should be tariff after initial licence period of 25 years. Keeping these issues in mind, the matter was considered by the Commission and it was decided that appropriate principles/guidelines/regulations for tariff determination in such cases should be in put in place. Accordingly, statutory advice to Government of India under section 79(2) of Electricity Act, 2003 was sent to modify the Standard Bidding Document (SBD) for development of transmission lines through competitive bidding and to consider tariff period upto 35 years while bidding for the new transmission projects. At the same time, Regulation 13 of the "Central Electricity Regulatory Commission (Procedure, Terms and Conditions for grant of Transmission Licence and other related matters) Regulations, 2009 is proposed to be amended to meet the above requirement.

As per the provision of section 15 of Electricity Act, 2003, the period of

Transmission Licence shall be 25 years unless such licence is revoked earlier. The Standard Bidding Document (SBD) currently provides for the submission of bids by the bidders for 25 years. For the Transmission Projects for which bidding documents have already been issued or projects have been awarded through competitive bidding process, tariff for the period beyond 25 years would be determined on the basis of the norms specified by the Commission. This is because of the fact that the developers have already quoted their rates considering the life of 25 years during which they are expected to recover their entire investment including return. In such cases, other financial and technical norms, except the quantum of equity and depreciation, shall be governed by the norms of tariff prevalent during the said period. It is assumed that entire depreciation of the asset initially created for the transmission project would be collected during the licence period of 25 years. Hence, only salvage value to the extent of 10% may remain in the books of the accounts of the licensee. Hence, no provision of depreciation is envisaged after 25 years unless the licensee is required to go for Renovation & Modernization (R&M) on account of obsolescence, technology upgradation etc. In case the transmission licensee feels the need of R & M after end of 25 years, he shall make an application for approval alongwith the application for extension of licence period, which shall be considered by the Commission on the basis of relevant norms prevailing at that point of time. The application of licence shall ideally be made two years before the end of initial licence period of 25 years in order to maintain continuity of the licence.

Under Gross Fixed Asset Method currently followed by the Commission for the cost plus tariff, there is a provision of equity upto 30% of the gross block which remains constant during the life of the assets. The same principle is applied here. In other words, the developer would continue to get return on the actual equity invested in the project subject to maximum of 30% of the gross block after 25th year at the rate as per norms of the Commission prevalent during the relevant period.

As regards to new projects, bidders would be asked to quote their tariff considering the life of the project as 35 years although the licence would be given for 25 years. In such case, once the licence is extended for another term, the tariff quoted

for relevant years would be applicable beyond the initial period of 25 years.

In case of transmission assets where tariff has been determined by the Commission under Section 62 of the Act, the tariff of such assets beyond the period of 25 years shall be determined in accordance with the tariff regulation prevalent at that point of time.