PHD CHAMBER

PROGRESS HARMONY DEVELOPMENT

Estd. - 1905

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DIRECTOR

IP-15- 1904
24th November 2016

Dear Madam,

Sub: Comments on Draft CERC (Sharing of Transmission Charges) Regulations, 2016 by Members of PHD Chamber of Commerce and Industry

This has reference to the Public Notice dated 28 October 2016 on the subject-matter inviting comments / suggestions / objections from the stakeholders on the draft regulations by 15.11.2016.

Kindly find attached our detailed comments as **Annexure 1 & II** for kind consideration of the Honorable Commission.

Yours sincerely,

(Dr. Ranjeet Mehta)

25/11
Chief (Engg.)
1904 | Engg | 29/11/16

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"Transforming India: Together We Can & We Will"

ANNEXURE -1

Comments of our Members on Draft Central Electricity Regulatory Commission (Sharing of inter-State Transmission Charges & Losses) (Fifth Amendment) Regulations, 2016

At the outset, it is submitted that any increase STOA charges devoid of economic rationale will impact the short term market adversely and will also have a cascading impact on the short-term market development.

Further, such an initiative is also contrary to the principles of competition, open access, market development as enshrined under the Electricity Act 2003, National Electricity Policy and several rules and regulations thereunder.

Below, we share out detailed comments for kind consideration of the Honorable Commission:

1. **Need to Promote and grow short-term market:**

The exemplary capacity addition in the country over the last few years, better fuel and transmission availability have had a positive impact on the short-term market development. Over the last eight years, Power Exchanges as marketplace have built liquidity and facilitated lower/ competitive prices discovery which benefitted the distribution companies immensely who could then pass on/share these gains with the end consumers. Thus competitive prices on the exchange have acted as catalyst for the distribution companies to serve the consumer demand in the most cost-effective manner.

Over the last few years the distribution companies have not been coming with long-term power purchase agreements (case1/case2 bids) and without such agreements it will not be viable for the generators to sign / service the long-term transmission agreements. Thus, the need of the hour is to have distribution companies come out with bids for long-term power purchase agreements. Any increase in STOA transmission charges goes against what is required at this hour.

Today only 10% of generation is traded in the short-term market. With almost 40 GW of merchant capacity in the country, our endeavor should be to expand the competitive short-term market to at least 20% of total energy consumption (against current 3%) so that distribution companies and end consumers can derive benefit of the competitively priced power.

Further, to achieve integration of the ambitious renewable energy capacity addition target of 175 GW by year 2022 as set by the Government of India, promotion, growth and development of short term market is a key imperative to enable the DISCOMs to manage the infirm and intermitted renewable energy generation.

Therefore strengthening the short-term market is necessary for overall growth of the sector.

2. **Expedite introduction of General Network Access (GNA) :**

The Honorable Commission is already in the process of framing of regulations pertaining to implementation of GNA which inter-alia would address the issue of building transmission capacity based on demand and supply scenario without any discernment to type of access.

The changes proposed in the present draft regulations are not desirable and would have an adverse impact on the present and future development of power market. Introduction of GNA should be expedited and competition and short-term market should be promoted as provided in the Electricity Act 2003.

3. **No long-term PPA by Discoms is key reason for underbuilding of transmission capacity**

It is important to note that there has not been any major increase in power demand seen in the past and several States are already in surplus power situation. As per 18th EPS projection by CEA, almost 200 GW of peak demand was forecasted while the actual peak demand recorded as of September'16 has only been 158 GW, almost 42 GW lower than anticipated. With more capacity available within States, States have not been forthcoming with the new case 1 case 2 bidding. This issue was also deliberated and recognized in the recently held meeting of the Central Advisory Committee (CAC) and nowhere the Committee mentioned about STOA as the reason for lack of LTAs.

The Discoms and open access consumers largely avail STOA to meet their immediate requirements. In fiscal 2015-16, IEX average MCP was is Rs 2.39/kWh which is much below the total cost of several generating stations and in a few cases close to the variable cost. The generators have been selling power in short term market using STOA out of compulsion and not by choice. They are not making undue profits by selling under STOA at these prices.

4. **No economic principle for increasing STOA Charges:**

There is no transmission capacity reserved for STOA and this segment is being given the residual capacity in the system having last priority for allocation and the highest priority for curtailment. Therefore short term market operates in a scenario of Low Priority and High Risk. Therefore the STOA transmission charges should actually be lower than LTA charges and in no case should exceed the LTA charges.

Taking case of Railway Ticket Booking, a certain percentage of seats are reserved for the Tatkal Category and a premium is charged for the same and in case of cancellation there is no discrimination between normal booking and tatkal booking. Contrary to such principle, in the present structure STOA has lowest priority among LTA, MTOA and STOA and highest priority for curtailment. Therefore, there is as such no rational or economic principle of raising STOA Charges.

5. Cascading Impact of increase in STOA charges on State level Charges

The Honorable Commission raised STOA charges in steps, started with very nominal STOA charges in 2004 @ 25% of the regional transmission charges and then

increased @ 50% of the regional transmission charges in 2015, @100% in 2010 of LTA charges. The STOA charges which were as low as 3 Paise has now increased to almost 50 Paise by combining injection and drawal.

In the past, CERC regulations have been used as guiding principles by SERCs. Whenever STOA charges were increased by the Honorable Commission, most of the SERCs adopted similar trend in determining STU and wheeling charges. Now with the proposed increase in STOA charges by 35%, similar increase is likely to be done by SERCs. In such a scenario, Open Access will virtually become unviable.

Below, we cite how increase in STOA charges will have cascading impact in cases of some States:

	Punjab		Gujarat		West Bengal		Karnataka		Assam	
(In Rs/KWh)	Existing	1.35 Times	Existing	1.35 Times	Existing	1.35 Times	Existing	1.35 Times	Existing	1.35 Times
CTU Charges	0.12	0.16	0.21	0.29	0.21	0.29	0.26	0.35	0.26	0.35
STU Charges	0.23	0.31	0.12	0.16	0.08	0.11	0.08	0.11	0.42	0.57
Wheeling Charges	1.32	1.78	0.14	0.19	0.83	1.12	0.14	0.19	0.22	0.30
Total	1.67	2.25	0.47	0.64	1.12	1.52	0.48	0.65	0.90	1.22
Net Increase	0.58		0.17		0.39		0.17		0.32	

Though the increase on account of revision in regional STOA charges would be Rs 0.10 per unit but the total impact due to cascading at State level would be exponential.

- As may be seen from above, total impact on short-term transaction considering only Withdrawal PoC Charges would be in the range of 0.17 Rs./Kwh to Rs. 0.58 Rs./Kwh, Impact on total transaction charges considering injection and Withdrawal would be in excess of Rs 1.00 per Kwh. This is almost 40% of the current prevailing price of the power i.e 2.5 Rs./Kwh.

- Such measures would adversely impact short-term market rendering it unviable across all the states. The Honorable Commission is already aware that, the short term market is already facing several tariff and non-tariff barriers which are threatening the very existence of power market in the country.

6. Basis for PoC Charges for STOA need change

While calculating per kWh PoC charges for STOA, the charge calculations are currently being done on LTA and not total forecast load of the State as validated by validation committee. This results in higher per unit PoC charge. We take case of a State whose peak demand in a quarter is say 7000MW whereas, its LTA is 5000MW. Total charges payable by the State is currently calculated by using 5000MW of LTA whereas it should have been calculated using 7000MW which will give lower per unit PoC Charge.

	Present Method			Proposed Method	
	PoC Charge Rate (Rs/MW/month)= 140.75/5000			PoC Rate (Rs/MW/month)= 140.75 /7000	
	MW Approved	Per unit charge	Charges payable	Per unit Charge	Charges Payable
LTA	5000	281492 Rs/MW/month	Rs 140.75 Crs	201071 Rs/MW/month	Rs 100.54 Crs
MTOA	1000	281492 Rs/MW/month	Rs 28.15 Crs	201071 Rs/MW/month	Rs 20.11 Crs
STOA	1000	21.34 p/kWh	Rs 15.88 Crs	15.24 p/kWh*	Rs 11.34 Crs
Adjustments in later bill			(-) Rs 44.03 Crs		Rs 8.76 Crs
	7000		RS 140.75 Crs		Rs 140.75 Crs

Assumption: Peak Demand assessed by validation committee = 7000MW and LTA = 5000MW
*proportionately reduced

It can be concluded from calculations in above table; effective PoC rate charged from the State is much higher, 40% for above State. This percentage of higher markup will depend on ratio of LTA/STOA entered by the State and State with higher STOA will pay much higher effective PoC rate.

We request Honorable Commission to change the methodology for PoC calculations as proposed above. This method is revenue neutral for the transmission licensee whereas payments are duly recovered from respective segments namely MTOA/STOA and LTA.

7. Adjustment of STOA Quantum against LTA - Amendment to Clause (9) to Regulation 11 of the Principal Regulations:

a. Regulation proposes to adjust quantum of STOA in the following month against the quantum of LTA to target region. It is submitted that adjustment of quantum should be done in all the cases (including identified beneficiary) and should not be limited to only "quantum of LTA to target region". **Adjustment of both injection and withdrawal quantum should be done from the total LTA & MTOA quantum**.

b. Similarly for Power Exchange transactions, adjustment of withdrawal quantum to be done where net withdrawal is less than the approved withdrawal. States have taken LTA for drawing power from ISGS and UMPPs average drawl is less the contracted quantum due to partial operation on account of outages, maintenance etc. **It is proposed that withdrawal quantum availed by states under STOA should offset against the total LTA quantum thereby avoiding duplication of charges.**

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ANNEXURE-II

Comments received from the Members of PHD Chamber of Commerce and Industries on CERC (Sharing of Inter State Transmission Charges and Losses) (Fifth Amendment) Regulations, 2016

Point 4- Amendment to Regulation 9 of the Principal Regulations

The transmission charges for STOA customers who are not availing LTA to target region for the capacity under STOA shall be charged 1.35 times of the normal STOA POC rates as notified by the Commission from time to time.

Comments

Short-term transactions should be encouraged rather than discouraging them. The above amendment proposed seems to have been formulated keeping interest of LTA customers. This however, is not in line with the National Tariff Policy (NTP), 2016 (excerpts below) which stipulate development of transmission network ahead of generation and promotion of efficient utilization. The short term transaction does exactly that. It promotes efficient utilization of resources. Neither Act nor Policy stipulates that LTA should be a pre-condition for development of network. Increasing cost of doing Short term transaction will disincentivise ST transactions and therefore competition which has given huge benefits to the sector in terms of efficient utilization of cheaper generation will be adversely affected.

NTP 2016, Section 7: *"Ensuring optimal development of the transmission network ahead of generation with adequate margin for reliability and to promote efficient utilization of generation and transmission assets in the country"*

Transmission for Short term transactions gets residual capacity, so should be at discount. The margins available in ISTS is by (a) Inherent design margins, (b) margin available due to variation in power flows and (c) margins available due to in-built spare transmission capacity created to meet future demand or generation addition. That is, no investment is made for set of consumers with MTOA and STOA.

As per the submission, the residual capacity after utilization of ISTS by LTA consumers is then allocated to the MTOA and STOA consumers. No Augmentation is carried out for consumers other than ones with LTA, although, this approach is not aligned with NTP 2016.

Thus, the allocation to the MTOA and STOA is just incidental and is neither reserved nor planned. On account of this, MTOA and STOA transactions are enabling optimal utilization transmission assets, the revenue generation from these transactions are in a source of additional revenue or incentive. Such incentive rates should be lower than normal charges. Therefore STOA/MTOA charges should be less than LTOA or at maximum may be equal, but never more than LTOA charges.

Economic Rationale. The economic rationale for increasing STOA charges have not been made. A study or analysis is warranted for taking any decision in this matter. These decisions have long-term impact on the market design. Thorough analysis and economic study may be carried out by the staff for proposing any change. Any increase in price should be justified by equivalent economic benefit to the sector at large not to a segment.

While STOA is not granted any priority rather it is granted on residual basis. On the other hand, for curtailment, the STOA is first curtailed. In both above cases, capacity reservation for short term transactions is least firm and most uncertain, then why should it attract any premium for reservations. Therefore, we strongly oppose such move.

Build capacity for STOA and then we can relook for premium on STOA. Total charges of the transmission network are recovered from DICs availing LTA. Charges recovered from MTOA & STOA transactions are over and above. There is provision of offsetting of MTOA & STOA quantum from LTA quantum in the regulations. Excess revenue collected is distributed to all DICs in proportion to their LTA quantum which essentially means that additional revenue is not used for augmentation of transmission capacity. Hence by increasing these charges we are not directly helping building of transmission capacity.

There has been no major leap in the generation of the country; neither the share of short term transactions has increased over the past 5 years. While short term transactions are last resort to schedule power by generators and for buyers to meet shortages, the transmission capacity is allocated only from the margins. Further, STOA is the first to face curtailment in transmission capacity allocation despite demand.

NTP 2016, Section 7.1.4: "....CTU/STU should undertake network expansion after identifying the requirements in consonance with the National Electricity Plan and in consultation with stakeholders and taking up the execution after due regulatory approvals. For smooth operation of the grid, efforts should be made to develop transmission system ahead of generation."

Cheaper power to Discom and industries through ST markets creates competition and encourages Discom to reduce tariff. The Discoms and Open access consumers largely avail STOA to meet their immediate requirement. The power market prices are definitely below the total cost of generating station in most of the cases and below variable cost for some other generating stations.

Generators are forced to sell under Short-term rather than by choice. The generators who are selling power in short term market using STOA are not selling it by choice to make undue profit but by compulsion as the last resort to schedule its generation. This is because States are not inviting Long term tenders.

Thus, the assumption in the explanatory memorandum that generators do not apply for LTA and evacuate power under MTOA & STOA may lead to shortage in building capacity under long as term well as inefficient transmission planning, is not true.

Pancaking of OA Charges compounds the overall cost of doing transactions. Industries availing open access are embedded in STU & Discom network. Apart from POC charges, they have to bear charges & losses of STU & Discom network also. States further discourage Open Access by levying high Cross Subsidy & additional Surcharge. All these charges put together are so high that Open Access has become unviable in most of the states. It is desirable that these charges are slowly brought down and this can happen by better asset utilization.

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