

6/02/2018/CRU-CERC

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Speed Post

Ref: CERC/ LPGCL/Suggestions/2019-24/001

Date: 31-07-2018

The Secretary
Central Electricity Regulatory Commission
3rd and 4th Floor, Chandralok Building,
36, Janpath,
New Delhi

Reference: Your Public Notice no. L-1/236/2018/CERC dated 24th May and 13th July 2018

Sub: Comments/Suggestions on Consultation Papers- Terms and Conditions of Tariff for the Tariff Period 2019-24

Sir,

In connection to your public notice, we hereby enclose 3 sets of hard copies of our Comments / Suggestions on Terms and conditions of Tariff Period 2019-24. We have already sent you e-mail on 31st July 2018

Kindly acknowledge on its receipt.

Should you require any clarification on our Comments/suggestions, we will be happy to provide.

Thanking You,

Yours Sincerely,

(Aditya N Mishra)

Executive Director (Projects/Coal Logistics)

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Encl : 3 Sets of our Comments/Suggestions.

1.0 Cost Recovery

CERC in its approach paper has proposed to introduce differential Annual Fixed Charge (AFC) recovery linked to peak and off-peak period. The commission has proposed 80% recovery of annual fixed charges (AFC) upon declaration of 80% PAF (plant availability factor) during the year and remaining 20% of AFC on achieving 95% availability during the peak period (say in 4 months). As an incentive to declare higher PAF in peak period, commission has proposed a higher peak price (25% over off-peak price). This is applicable to both “existing” and “new” generating stations

Differential peak period PAF of 95% for the period of 4 months would mean storage of sufficient coal stock for the same which looks to be very difficult under the present coal supply scenario & not possible.

Commission has also proposed shifting of fixed cost recovery from “Annual cumulative availability basis” to lower a periodicity of “Monthly” or “Quarterly” or “Half Yearly”. Presently any shortfall in PAF due to fuel availability in a particular month gets adjusted in other months due to annual cumulative approach.

The new approach of differential and reduced periodicity of AFC recovery will severely impact the earnings of existing generating stations. Also the entire fuel sourcing strategy has to be reoriented to differential cost recovery method. Considering the coal availability scenario in the country and the coal evacuation constraints (Railways logistics, port etc.), the developer may not be able to recover full fixed charges and debt service obligation may also be severely impacted.

The fixed cost is a sunk cost as the asset is created to service the buyer on long term basis and there is a need for certainty of recovery of investments. Any such reduction in recovery of fixed charge will have negative impact on the earning of the existing generating assets in the country, creating further stress on the ailing power sector.

Hence system of one Annual Normative Availability Factor for Annual Fixed Cost recovery may be maintained for the tariff period 2019-24.

2.0 Three part tariff

The commission has proposed three part tariff structure for generating stations.

A. Fixed cost: Proposed to be linked to target availability

- i) Guaranteed Risk free return (r_f)
- ii) Depreciation
- iii) Interest on loan
- iv) Part of O&M expenses
- v) Interest on Working Capital

B. Variable cost: - Proposed to be linked to the difference between availability & dispatch

- a) Incremental Return above Guaranteed returns [$\beta (r_m - r_f)$]
- b) Balance O&M expenses

C. Energy Charges:

Fuel cost Coal, transportation cost and taxes & duties of fuel- **Linked to the dispatch**

The two part tariff structure for generating station provides the right to use the infrastructure on payment of fixed component irrespective of quantum of electricity. By making 3-part tariff, the part of the component on Return on Equity is being made variable. It may be clarified under the category of fixed charge which are RoE, Depreciation, O&M Expenses, Interest on Working Capital and Interest on Loan are required to be incurred to declare availability and hence cannot be treated as variable. Further the FC is function of the Capital investment which once incurred can't be variable. Hence breaking the fixed cost into two part namely FC & VC is against economic principles & shall give very negative signal to the sector regarding regulatory uncertainty.

The commission's proposal to change the "Rule of the game" by bifurcating RoE to two parts after the investment decision will impact the earnings of the generator and surely create further stress in the sector.

Hence present two part tariff structure may be maintained.

3.0 GCV

(a) GCV "as billed" (mine end) is based on equilibrated basis which is measured under controlled environment whereas GCV "as received" is based on actual site condition. There is a slippage of two grades between mine and power plant which is equivalent to 600 Kcal/kg. **This 600 kcal/kg may be considered as normative transportation loss between mine end & power station.**

b) A normative GCV loss between "As Received" and "As Fired" in the generating stations in the range of **150- 200 Kcal should be allowed** to take of the following

- i) The difference of moisture at wagon top and bottom, sampling error and heterogeneous nature of coal.
- ii) The storage loss due to oxidation and loss of volatile matter.
- iii) The water sprinkling to control dust emission at various location inside plant.

This above two compensations of 600 Kcal/Kg and 150-200 kcal need to be allowed by regulator for coal billing and energy billing.

c) Further In India, the domestic coal pricing is done on equilibrated GCV basis which does not reflect true heat value of coal received in the plant whereas imported coal is billed on "As received" basis with a compensation for total moisture which reflects true heat value of the coal received. It is suggested that the method adopted for procurement of imported coal should also be extended for domestic coal as well. This may require policy intervention from MOC & MOP.

4.0 Transit loss

There are two types of transit losses:

- a) **Loss due to tare weight of railway wagons**: It is an universal phenomenon that the tare weight of railway wagons have been standardised and any increase in tare weight due to any modification after its manufacturing is not incorporated in the standard weight list of wagons. This difference in tare weight is reported to be around 0.8 % on a national average.

- b) **Other Transportation loss**: In addition to above tare weight loss, a normative transmission loss of quantity should be allowed to take care of loss during transit on account of water loss, pilferage, handling loss, weigh bridge errors. This is in the range of 0.6% of weight of coal. This loss should also be specified for various mode of transport and distance between the mine and power plant.

Hence the normative transit loss for both the above should be allowed as 1.4%.

5.0 Normal Availability Factor

The present Normal Availability Factor of 85 % for annual recovery of Annual Fixed Cost is becoming difficult to be achieved due to scarcity of coal, due to less coal production at mine & logistic constraints and lower metallization of linkage coal. As a matter of fact the annual contracted quantities against the linkage quantities agreed by Coal companies are much less than requirement for Normal Availability Factor of 85% and DISCOMs are reluctant for e-auction & imported coal. Hence there is a need of lower the target availability of 60% for all non-pit heat power stations. The PLF trend is also around 60% which will match with DC.

6.0 Fuel Landed Cost

The landed cost of fuel must be inclusive of all costs up to the delivery point of generating stations. Coal companies are allocating considerable quantity of coal by road mode. The transportation cost up to railway siding should be allowed at actual, as it will be difficult to fix up any standard or benchmark for these transportation cost and they need to be discovered by market mechanism only.

7.0 GFA approach

Under NFA approach stake of the project developer will reduce just to residual value & developer may not be able to operate the plant efficiently & may not invest in R &M which will make plant not only uneconomic but also unsafe. This was the condition prior to the formation of regulatory commission & plants were operating at low PLF with more break downs.

Any change midway, after the investment approval & commissioning of units shall erode the confidence of investors & lenders both

Hence GFA approach should be continued.

8.0 Payment of Dues

There are abnormal delays in payment of dues by DISCOMs. This is affecting the debt servicing & procurement of coal & spare which is impacting the declaration of target availability. There is need for upward revision of late payment surcharge and also upward revision of incentives for early payments to the DISCOMs.

9.0 Payment Security Mechanism (PSM)

Central utilities are protected through tripartite agreement signed between RBI, GOI & State Govt. for payment of current dues but such mechanism is not available for IPPs. In last 2 decades, substantial capacity addition has been made in power sector and huge investment has been made in form of huge exposure by banks/FIs. Similar kind of mechanism should be extended to protect IPPs and the stakeholders' interest to avoid creation of stressed assets.