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Date – 31.07.2018

To,
The Secretary
Central Electricity Regulatory Commission
Chanderlok Building
36, Janpath,
New Delhi – 110001

Subject - Comments/suggestions on Consultation paper on the terms and conditions of Tariff for the tariff period commencing from 1st April, 2019 to 31st March, 2024.

Dear Sir,

This is in response to the public notice dated 24.05.2018 seeking comments/suggestions on the consultation paper for Terms and Conditions of Tariff for the tariff period commencing from 1st April, 2019.

Please find enclosed, the comments on the consultation paper on behalf of Essar Power, Mumbai.

Thanks and regards,

Sandeep Sahay
(Chief Commercial Officer)

A. 7.2.5 – Thermal Generating Stations Tariff Structure

3 part tariff seems to be highly skewed in favour of the discoms and would encourage them to provide lower off take schedules. Return on Equity only to the extent of risk free return would put further pressure on generator already reeling under huge financial stress.

Suggestion – It is suggested to continue with current tariff structure.

B. **7.2.6 – Inter State Transmission system - Tariff Structure**

Variable component in the transmission charges and linking its recovery by transmission licensees to the power flow under long term open access might lead to under-recoveries due dearth of long term tenders in the market. Due to force majeure issues like lack of fuel and dearth of long term power procurement tenders in the market, many generators have opted for relinquishment of Long term access. Discoms are preferring to procure power under short term and medium term.
The utilization of the transmission line is beyond the control of the transmission licensee.

Further, there was no variable component of annual transmission charges at the time of award of license to the existing transmission licensees. The transmission lines which have already achieved CoD should not fall under 2 part tariff. Investment were made based on the existing tariff structure at that time. Lenders have appraised and disbursed the fund based on estimated cash flow as per the tariff structure prevalent at that point of time.

Suggestion – It is suggested to continue with current tariff structure.

C. **10.3 – Optimum utilization of Capacity Coal based Thermal Generation**

The clause should not be applicable to the PPA's u/s 63.. Annual redefining of ACC would lead to financial uncertainty and affect the ability of the project to service debt. Firm Financial projections are critical to any organisation's stability. The unsold power out of redefined ACC would have to be sold in ever fluctuating short term power market.

1. Additionally, if the plant has tied up for 100% capacity then it may not be able to give unutilized capacity in the following year.

2. Further, there are plants having a single long term PPA with discoms and having some merchant capacity. If the redefined annual ACC is below the technical minimum, it would result in huge loss to the generator. Substantial investments have already been done on the basis of future projections based on firm contracted capacities.

Suggestion – Terms of already concluded PPA's including the contracted capacity should remain firm throughout the tenure of the PPA's.

D. **15.3 – Gross Fixed Asset (GFA) Approach –**

For projects which are implemented under GFA approach under the Tariff Regulations and their tariff revisions are due, shifting from GFA to NFA is not be feasible and the same shall create financial uncertainties. Any change in the approach retrospectively on such a fundamental principle would severely affect the cash flows of already stressed power sector companies.

Suggestion – The current gross fixed assets approach should continue.

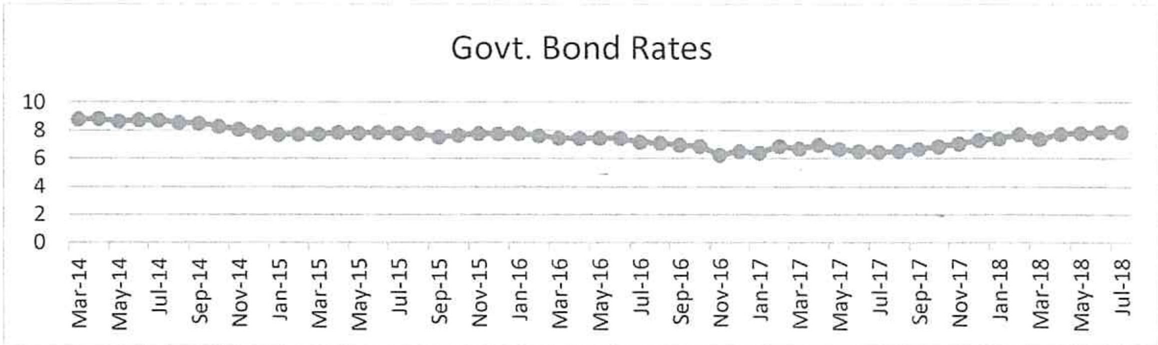
E. 16. – Debt:Equity Ratio

For existing projects, the current provision of 70:30 should be continued to provide regulatory certainty. Additionally, owing to huge debt exposure to the power sector companies, generally no funding is made to the companies in the ratio of 80:20.

Suggestion – The current D/E ratio of 70:30 should be continued.

F. 18 – Rate of return on equity –

The thermal companies in the sector are reeling under huge financial stress due to lack of fuel and PPA's, hon'ble CERC should provide for upward revision for the return on equity. The cost of capital is increasing. The stressed capacity due to the above factors are at an all time high.



The Govt. bond rates are increasing since past 1 year. The bond rates have risen from 6.46% in July'17 to 7.90% in July'18.

Suggestion - Hon'ble CERC should consider revising upward the return on equity.

G. 19.5 – Cost of Debt

The existing method should continue, which assure the generators to recover actual rate of interest (on weighted average basis) in every year. Further, linking the cost of debt to certain benchmarks may result in unpredictability of gain or loss for the generators and transmission licensees. It is not in the interest of generators or transmission companies to create huge interest burden, and further every attempt is made to reduce it. The chargeable interest rates by banks are beyond the control of the companies. The interest rate charged by the banks also depend upon the credit ratings of the companies.

Suggestion – The current method of calculation of weighted avg. rate of interest calculated on the basis of actual loan portfolio should continue.

H. 21.7 – O&M Expenses –

To avoid mismatch between the CERC parameters and actual O&M expenses, a mid-term review of normative O&M expenses is necessary. The uniform escalation rates for a 5 year period do not precisely estimate the actual incurred operational and maintenance expenses. A mid-term review during the tariff period will allow correction for the expenses. The mid term review would align the expenses to a more realistic figure, which may move both upwards and downwards.

Some of the transmission licensees have built 1-2 transmission lines. The normative O&M provided by CERC is generally the average of transmission companies with multiple project assets, who have economies of scale and thus their O&M charges are low. The current normative O&M charges are not sufficient and actual expense is more for stand-alone transmission companies.

Suggestion – It is suggested to provide a factor of 20%-30% for standalone companies over the charges provided by CERC.

I. 22.8 a – Gross Calorific Value (GCV) –

The normative GCV loss between "as billed", "as fired" and "as received" might not be helpful as the losses vary on case to case basis. Various factors like distance, mode of transport, no. of re-handling vary on case to case basis

Suggestion - The billing should be done on actuals basis as per the testing done by independent third party agencies.

J. 24.5 (a) All cost components of the landed fuel cost may be allowed as part of tariff.

Suggestion- the actual cost incurred on the fuel should be reimbursed/ allowed as a part of tariff else the generator will not be able to recover these charges leading to loss of revenue.

K. 26.3.1 - Station Heat Rate

For sub critical plants, 500 MW and above, the specified norm as per 2014-19 regulations is 2375 Kcal/kwH. However, on actuals it is observed that the SHR is around 2400 Kcal/Kwh. OEM also guarantees 2400 Kcal/Kwh.

Suggestion – It is suggested to increase the SHR of sub critical plants 2400 Kcal/Kwh.

L. Transit and Handling Losses.

The current norm of 0.2% for the pit head station and 0.8% for the non-pit head stations as loss in transit and handling proves to insufficient.

The pithead plants also have to do multiple handling of coal from mines to the plant. In such cases where there are multiple handling of coal, the norm of 0.2% is not sufficient.

Suggestion – For every subsequent handling by Road/Rail, an additional 0.2% loss should be granted.

M. 26.3.7 Specific Secondary Fuel Oil Consumption

26.3.7 The existing norm for the Secondary Fuel Oil Consumption is 1.00 ml/KWh for lignite based CFBC technology with some exception in case of TPS-I and 0.50 ml/KWh for Coal based project with the provision for sharing of savings with the beneficiaries. ...

Suggestion – The PLF of thermal generating stations are reducing due to reduction in offtake by Discoms under the PPA. Due to lower offtake by Discoms, the load of thermal generating stations are many times around technical minimum, in this condition the Secondary Fuel oil is required for stabilization of unit. The lower load has increased the Secondary Fuel Oil consumption, therefore the specified secondary fuel oil consumption norm is not sufficient and there should be increase in the secondary fuel oil consumption norms.

N. 26.3.10 Auxiliary Energy Consumption

Suggestion - Partial loading due to lack of fuel and PPA's cause an increase auxiliary power consumption. Thus there is a need for upward revision of normative auxiliary power consumption.

Further, the norms of Auxiliary power consumption for the power plants with additional environmental protection facilities viz., FGD may be specified separately.

O. 26.5.6 - Transmission Losses

Suggestion - In the current mechanism of PoC, there is wide variation of losses upto 2% among the 9 specified slabs, *thus we support specifying norms for inter-state transmission losses.*

P. **27.5 Incentive** –

The annual fixed charges go on decreasing with in each subsequent year. Thus the quantum of incentive also decreases. Despite having a target availability greater than 98%, the transmission companies are not incentivized due to decreasing AFC.

Suggestion – It is suggested to increase the margin of incentives applicable to the transmission companies.

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Q. 28.2 – Implementation of Operational Norms

Suggestion - The operative norms for the new tariff period should be implemented from the effective date of control period. This would lessen the uncertainty as well as financial liability for over/under recovered amounts.

R. 35.5 - Issue of acceptance of COD of transmission line if the generating project or upstream/ downstream transmission assets are not commissioned

Genuine Force majeure issues non supply of fuel, coal block cancellations, non grant of statutory clearances etc should be considered and thus no liability should be accrued to the generator.

Suggestion – No liability should be accrued on the generator under genuine force majeure issues.

35.5 a. Addressing the shortcomings in existing methodology for the trial run of generating station and trial operation for transmission element through appropriate regulatory mechanism;

Suggestion- For generating stations the condition of 72 hours trial run should be relaxed to 24 hours in view of scarcity of coal and to reduce the cost for achieving COD.

S. Goods and Service Tax

There are various cases where transmission licensees award PGCIL deposit works contract for construction of bays, tie bays etc. This contract is awarded to PGCIL since bays etc are located at the already existing substations of PGCIL As these bays are located within the premises of existing PGCIL substations, O&M of these bays are necessarily to be done by PGCIL. As these are service contracts, GST is applicable on such services. As this GST is over and above the O&M charges, this GST paid by licensees is currently not recovered by the licensee. CERC may consider allowing GST as pass through under the PoC mechanism.
Suggestion – GST charged by PGCIL under O&M service contract to the transmission licensees should be made pass through.

T. 37. Alternative approach to tariff design

Suggestion – The current tariff design of prudence check on case to case basis should continue. For a transmission line, the RoW cost forms a substantial component of the capital cost. The RoW issues may accrue on any stretch without anticipation. These costs are unforeseen and cannot be predicted for normative basis. Similarly the cost of debt varies on case to case basis.