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Ref. No. GM / Comm. /	**Date :**

To,
The Secretary
Central Electricity Regulatory Commission
Chanderlok Building,
36 Janpath,
New Delhi – 110001, Fax no. - 011-23753923

Sub: GUVNL Comments on the CERC Staff Consultation Paper on Terms and Conditions of Tariff Regulations 2019 - 2024.

Sir,

This has reference to Hon'ble CERC's public notice dated 24th May 2018 inviting concerns / suggestion / comments from various stakeholders on the Staff Consultation Paper on Terms and Conditions of Tariff Regulations 2019 – 2024.

In this regard, GUVNL's views / comments are as follows:

1. Three Part Tariff Structure

Comments: GUVNL supports the initiative of CERC to have three part tariff. However, there should not be any increase in total fixed cost on account of the Variable charge which should be linked to the actual dispatch and not the difference between availability and dispatch.

As regards to the units which have completed 25 years or are likely to complete 25 years, it is to submit that the procurers may be left with the option as to whether they want to continue with the PPA and go for replacement of inefficient sub-critical units by sub-critical units / renovation or surrender the share after completion of 25 years. The capacity surrendered by a beneficiary may be first offered to the other existing beneficiaries of the project and only the balance capacity which is not tied up by the existing beneficiaries shall be available for market disposal. Moreover, in case of renovation / replacement of old units, while determining the tariff for such new units / renovation, commission may pass on the benefit towards land cost and usable infrastructure to beneficiaries.

2. Transmission Tariff

Comments: It would be appropriate to have the transmission charges in two part i.e. based on access and transmission service. The access charge should be linked to the entire capacity of the power project whereas transmission service charge should be only for the capacity for which LTA is sought. The access charge shall include the annual fixed cost of lines constructed for granting connectivity to generator / beneficiaries, annual fixed cost of the elements developed for system strengthening for enabling connectivity. The transmission charge shall include the annual fixed cost of the pooled assets.

Hon'ble Commission is requested to provide the methodology for differing the cost of the huge redundant transmission assets which have been set up to overcome the issue of RoW or considering scale of economy etc. The cost of such assets should not be passed only to the existing beneficiary, otherwise it would lead to cross subsidization by the existing beneficiary for the benefit of future users. One of the option may be that the cost of such redundant capacity should be serviced from PSDF and may be recovered gradually in future as per utilization of the redundant system.

3. Renewable energy generation tariff structure

Comments: GUVNL is of the view that the tariff for thermal projects and renewable projects should be separate. Moreover, recently, Ministry of Power, Govt. of India vide notification dated 5.04.2018 has issued a mechanism for flexibility in generation and scheduling of thermal power stations to reduce emission guidelines wherein conventional generators are allowed to substitute conventional generation with renewable generation at their own cost, however benefit if any is to be shared with the beneficiaries.

4. **Component of Tariff:** Determination of tariff of generating project having part capacity tied up under Section 62 and part under Section 63.

Comments: Commission may determine the tariff for the entire project if the units are of similar size and the tariff on pro-rata basis may be made applicable for the capacity tied up under Section 62 whereas the capacity tied up under Section 63 shall be as per the provisions of PPA between the generator and beneficiary.

5. Optimum utilization of capacity :

Coal based thermal generating station : The Consultation Paper provides for flexibility for redefining the Annual Contracted Capacity on yearly basis out of the total Contracted Capacity. The Annual Contracted Capacity shall be treated as guaranteed capacity during the year and the balance capacity shall be considered as unutilized capacity.

Comments: It is not clear from the paper as to how the pooled cost of unutilized capacity will be shared amongst beneficiaries. GUVNL is of the view that the cost of entire unutilized capacity may be pooled at regional level and apportioned to the beneficiaries who actually utilize such capacity.

Gas based thermal generating station : The Consultation Paper provides for scheduling and dispatch of gas based generating station at regional level primarily for the purpose of balancing.

Comments: GUVNL is of the view that the CERC Ancillary Service Regulation which is presently in place takes care of the balancing and hence there is no need of any new Regulation. However, Commission may allow the participation of state owned STU connected gas based generating capacity through appropriate modification in the CERC Ancillary Service Regulation

6. Capital Cost.

Comments: The Commission may continue the present methodology for determination of Capital Cost with prudence check as is being presently carried out.

7. Renovation and Modernization

Comments: As is conveyed above at Sr. no. 1, the procurers may be left with the option as to whether they want to continue with the PPA and go for renovation and modernization. The capacity surrendered by a beneficiary may be first offered to the other existing beneficiaries of the project and only the balance capacity which is not tied up by the existing beneficiaries shall be available for market disposal.

Moreover, special allowance towards R&M may not be continued for new generation / transmission projects.

As regard to the R&M of transmission assets, the same can be undertaken only if there is enhancement in the useful life. Cost for such R&M may be decided by CERC following prudent practice.

8. Depreciation.

Comments**:** Hon'ble Commission may allow charging of depreciation only upto the useful life of the project / asset and no life extension shall be considered for depreciation purpose. Otherwise, it tantamounts to extension of contract period without the consent of beneficiaries.

9. Debt Equity Ratio.

Comments**:** Various projects have been financed by financial institutions on Debt Equity Ratio at 80 : 20. Therefore, for tariff determination, Hon'ble Commission may consider the Normative Debt Equity Ratio at 80 : 20 (equity at 20% or actual whichever is lower). Further, for the existing projects, Hon'ble Commission may consider for reduction in Equity equivalent to depreciation after repayment of loans so as to reduce it to 10% for the purpose of tariff determination. Developers are getting back their capital cost by way of depreciation from the beneficiaries. After repayment of loan, the beneficiaries are repaying the Equity component, however the present regulations allows ROE to developer on perpetual basis till the life of project. Therefore, in order to have a balanced view, it is requested that Equity may be reduced to 10% for the purpose of tariff determination in case of existing projects.

10. Rate of Return on Equity

Comments**:** Considering the prevailing cost of fund in the market and returns on the capital, Hon'ble Commission may not allow Return on Equity more than 14% plus actual tax on RoE. Further, the guaranteed return for fixed cost may be considered at the rate of Government securities say 7 – 8% and the balance may be considered towards variable component of tariff.

11. Cost of Debt

Comments**:** Hon'ble Commission may continue with the existing approach of allowing cost of debt on the actual weighted average rate of interest on normative loan. However, Commission may consider the rate of interest at 1 year SBI MCLR or actual whichever is lower while working out the weighted average of the loans.

12. Interest on Working Capital

Comments: Considering the factual position prevailing across the country that adequate coal stock is not maintained by the generating stations around the year, Commission may reduce the period for which stock needs to be maintained to a weeks' time while computing the working capital requirement. Further, the maintenance spares @ 15% of O&M while calculating the working capital requirement may not be considered as the spares are already part of O&M or Capital. Moreover, Hon'ble Commission may consider 1 year SBI MCLR for the purpose of Interest on Working Capital.

13. Operation and Maintenance (O&M) expenses:

Comments**:** Hon'ble Commission may continue with the methodology for working out the O&M. Further, the escalation may be continued to be linked to WPI & CPI index. However, items which are not covered viz. wage revision etc. may be considered during the true up process. Moreover, while carrying out the truing up and passing the burden of increase in cost of items which are not covered, Commission may also consider the savings in other items. Further, in case of multiple generating units in a power plant, the multiplying factor may be used for rationalization of O&M (More the nos. of units, lower the multiplying factor).

As regard to the O&M cost towards meeting the requirement of Environment Pollution norms and usage of sewage water, the same requires a detailed study. Hon'ble Commission may carry out the study in consultation with CEA and the report may be circulated for comments of stakeholders.

Hon'ble Commission may appropriately adjust the O&M charges towards the Taxes, Cess and Duties which are subsumed in the GST regime. Commission may also consider the other non regulatory income while working out the O&M expenses.

Moreover, Hon'ble Commission has notified mechanism for compensating the generator for degradation of Heat Rate, Auxiliary Consumption and Secondary Fuel Consumption. Therefore, while working out the O&M for the next control period, the impact of degradation on account of lower dispatch may not be considered.

14. Fuel – Gross Calorific Value (GCV):

Comments**:** As regard to the GCV of fuel for determining the energy charge, it is to submit that it is the generators responsibility to ensure that the fuel received is commensurate to the quality and quantity for which payment has been made. Presently, CIMFR is undertaking the third party sampling of coal and the test results are considered for payment to the fuel supplier. Therefore, the GCV certified by CIMFR should be considered for working out the energy charges with adjustment of transit loss.

15. Fuel – Blending of Imported Coal and Alternate Source :

Comments: In order to meet the shortfall in availability of fuel from the primary source, generators are using costlier imported coal / coal from alternate source for blending. Hon'ble Commission is requested to incorporate in the Regulation that generator may declare separate availability on domestic as well as imported coal / coal from alternate source in line with the availability declaration by gas based generating stations. This will also enable the beneficiary to schedule power based on their Merit Order.

16. Operational Parameters

Comments**:** Hon'ble Commission has notified mechanism for compensating the generator for degradation of Heat Rate, Auxiliary Consumption and Secondary Fuel Consumption. Therefore, while fixing the Normative operation parameters, Commission may exclude the impact of degradation.

As regard to the Normative Plant Availability Hon'ble Commission is requested that for the generating plants the present Normative Availability may be continued. It has been observed that generators declare higher capacity even upto 100% during low load period (monsoon) whereas lower availability is declared during high load period which leads to lower utilization of power and the generator uses the excess declaration made during the low demand period to compensate the lower declaration during high load period to ensure availability for recover capacity charges. In order to avoid such scenario, Hon'ble Commission is requested to have separate Normative Availability for Peak period (8 Months) and Off Peak period (4 Months) and both should be achieved separately. Regional Power Committee should notify the period at the beginning of the financial year in consultation with beneficiaries.

17. Transmission Availability Factor and Transmission Loss

Comments**:** Hon'ble Commission may consider increasing the Normative Transmission Availability Factor in case of HVDC from 95 to 98 in line with AC line for computation of incentive and recovery of fixed cost.

As regard to the Transmission Loss, Hon'ble Commission may determine Normative Transmission Loss for the system and if the actual loss is greater than the Normative Transmission Loss then the incentive % should be reduced or a dis-incentive may be levied.

18. Incentives:

Comments: In case of generating plants, the existing methodology for giving incentive based on actual scheduling may be continued.

19. Sharing of gain in case of controllable parameters:

Comments**:** Hon'ble Commission is requested to allow the gain in the ratio of 50 **:** 50 instead of 60 **:** 40

20. Energy Storage System

Comments**:** The energy storage system is required to store the electricity from the energy sources which are generating infirm power or by Distribution Company for flattening their load curve. Therefore, it would be appropriate that the Energy Storage System is at Distribution level because the capacity of battery will be net of transmission loss. Moreover, being a nascent technology it should be developed through Competitive Bidding rather than cost plus approach.

21. **Alternate Approach to Tariff** – Benchmarking of Capital Cost and Normative Tariff by fixing AFC as a percentage of Capital Cost

Comments**:** The Commission may continue the present methodology for determination of Capital Cost and determination of tariff with prudence check as is being presently carried out.

22. Other Points:

There has been significant capacity addition on both conventional and renewable front as against the demand growth. During low demand, beneficiaries have to put units under Reserve Shut Down (RSD). However, Central Generating Companies (CGS) are operating the plants on Technical Minimum against requisition of small quantum from a single beneficiary and other beneficiaries have to compulsorily avail their share though not requisitioned leading to issues of load management. Therefore, CGS may be directed to put their units under RSD in such condition or schedule the entire technical minimum to the beneficiary requisitioning the power.

Thanking You.

Yours faithfully

(K.P. Jangid)
General Manager (Commerce)