INSTITUTE FOR SUSTAINABLE DEVELOPMENT AND ENERGY STUDIES
In-SDES Campus, Paruthipra P.O., SHORANUR, Palakkad Dt., Kerala - 679 121, Mail: info@insdes.in
Director Ph: +919447768810, Mail: director@insdes.in, Registrar Ph: +919495072007, Mail: registrar@insdes.in

Comments/suggestions on CERC Consultation paper on terms and conditions of tariff regulations for tariff period 1.4.2019 to 31.3.2024

Institute For Sustainable Development And Energy Studies (In-SDES) is a study and research organisation Of Kerala State Electricity Board Officers Association which is a major organisation of officers of KSEB Ltd, formed during the year 2015.Electricity sector is one which has many complexities relating to its policies and technical aspects

In-SDES intends to take up studies and research activities in matters related to policies,technology and developmental programs to ensure energy security for the sustainable development of the society.

On behalf of In-SDES, Shornur, Kerala, I am furnishing herewith the following para wise comments and suggestions on the consultation paper on Terms and Conditions of Tariff Regulations for tariff period 1.4.2019 to 31.3.2024:

Three Part Tariff for Thermal Stations

7.2.4. We are of the opinion that the proposal for differential recovery of AFC by Thermal Generating stations by segregating into peak and of peak periods, as well as provision for higher rate of recovery do not balance the need for both buyers and sellers

7.4. Hydro Generation Tariff

The consultation paper presents the two part Tariff structure of hydro generating is adequate in present scenario.Changes are not proposed in the paper

Interstate Transmission System

7.5. The proposal seems to be good for judicial sharing of costs of the system between the utilities on one side and open access players on the other side. We are supporting the proposal.

Renewable Generation

7.6. The proposals are not clear or concrete. Hence we are not in a position to offer our comments ,and request for circulation of clear proposals. Since large number of RE generation projects are coming up in the country , ranging from small KW range to large MW range projects ,and since the CERC norms may pave the way for country wide formulation of feed in tariffs by SERC's we request more detailed analysis and formulation of tariff structure.

8. Deviation from Norms

We are not agreeable to this proposal.We feel that if the entire capacity is not tied up with PPA to Discoms, the CERC should not endeavour to determine the Tariff for the project (neither fixed charges nor energy charges).The mechanism for proportionate recovery of fixed charges may lead to foul play by the generators.They will be able to declare the availability of capacity,and when the discoms under draws their share,the generator may sell the units generated from the declared capacity (tied up with ppa) in the market under favourable conditions.We do not expect the generator to share the revenue with discoms under that situation,and monitoring of such market sales will be impossible under normal conditions.

The Tariff in such cases can be made single part(per KWH Tariff),or the Tariff can be based upon bidding for long term or medium term.

The proposal "to determine the Tariff of the generating stations for entire capacity and restrict the Tariff for recovery to the extent of power purchase agreement on pro-rata basis "for contracted capacity will lead into situations where the discoms will suffer huge disadvantage and generator may make wind fall profits at the expense of discoms.

The proposal may be altered suitably as suggested above.

Components of Tariff

9.: We agree to this proposal provided that the income generated out of sales of unrequisitioned power shall be reasonably shared with the DISCOM.

Optimum Utilisation of Capacity

10.: The proposal, per se , is welcome. But the concerns expressed in the previous section above still remains and could be valid in such situations also, when the DISCOMS under utilizes their contracted capacity.

Alternatively why the Discoms could not be allowed to bid out the un utilized capacity on an annual basis and sell it out to there buyers at market discovered price ?

Hydro Generation

10.4 : We agree to the proposal if it relates only to centrally owned Hydro stations. But if it is intended for state owned stations, we feel that it is against the federal system of the constitution.

INSTITUTE FOR SUSTAINABLE DEVELOPMENT AND ENERGY STUDIES
In-SDES Campus, Paruthipra P.O., SHORANUR, Palakkad Dt., Kerala - 679 121, Mail: info@insdes.in
Director Ph: +919447768810, Mail: director@insdes.in, Registrar Ph: +919495072007, Mail: registrar@insdes.in

Capital Cost

11: The discussion never address the question as to why the existing approach should be changed but states that the high variation in actual cost components indicates a need to conduct a more rigorous component-wise analysis of Capital cost for generation as well as transmission projects and understand the deviation to figure out appropriate benchmark capital cost for thermal generation stations.

We are not agreeing to change the Capital cost calculation from the existing method to the normative method.

The CERC may consider appointing a statutory authority to verify the claims of capital cost reported by the investors , on completion of the project, and advise the Commission on the claims. The tariff has to be built up on actual capital cost incurred under all circumstances , subjected to ceilings fixed by the Commission.

We do not agree to the concept of determining the Annual Fixed Charge (AFC) as percentage of Capital Cost on normative basis as it may lead to disadvantage to Discoms and the Consumers. We are of the opinion that the Tariffs , under all circumstances, should reflect the real costs incurred by the Investors ,subject to prudential limits.

Debt:Equity Ratio

16: We do not subscribe to this view. When demand for capacity addition is low the Regulator should not expect that new investments are to be more and more funded by Debt (from public money). The market forces should be allowed to play .Investors who are not willing to commit their own funds for investments (up-to 30%) need not put up generating stations. Public money can better be used by Public sector to create assets. The banking sector is already reeling under heavy NPA created by power sector and ultimately the general public are the losers. The proposal to change the Debt : Equity ratio to 80:20 cannot be approved.

Rate on Return on Equity

18: ROE : On the Rate of Return we favor the continuation of the existing rates and methods.

Cost Of Debt

19 : DEBT : The cost of debt is pass through, and the options available for regulatory framework are either to consider normative cost of debt based on market parameters or actual cost of debt based on loan portfolio. The regulatory approach evolved so far has

been to allow the cost of debt based on actual loan portfolio. This does not incentive the developers to restructure the loan portfolio to reduce the cost of debt. The current incentive structure should be reviewed to encourage developers to go for reduction of cost of debt. We propose to switch to normative cost of debt for the new transmission and generation projects to incentivise the investors to restructure their loan portfolio to reduce the cost of debt.

Principles Of Cost Recovery

37.20: The proposal shall be suitably modified to take care of the daily system peak and better availability during daily system peak. It should be ensured that the burden of the DISCOM should not be increased by providing higher realization during the peak periods.

GENERAL COMMENT

While preparing draft regulations illustrative examples may be given for the changes proposed. So that it can be well understood for giving comments.

K A Sivadasan
Registrar
In-SDES
Shoranur,Palakkad
Kerala 679121