

MB POWER (MADHYA PRADESH) LIMITED

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Ref. No: MBPMPL/2018-19/CERC/552

Dated: 31.07.2018

To
The Secretary
Central Electricity Regulatory Commission,
3 rd & 4 th Floor, Chandernagore Building,
36, Janpath, New Delhi- 110001

Subject: Comments on CERC Consultation Paper on Terms and Conditions of Tariff for the period commencing from 1st April 2019

Ref: CERC Notification No. L-1/236/2018/CERC DATED 24.05.2018 & 13.07.2018

Dear Sir,

This is with reference to the above notification published by Hon'ble CERC regarding "Terms and Conditions of Tariff for the tariff period commencing from 1st April 2019 – Consultation Paper" wherein Hon'ble CERC has invited comments /suggestions / objections from the stakeholders and interested persons on the above-mentioned Consultation paper.

In regard to above, we would like to provide our comments/ suggestions on the same and enclosed with this letter.

We request you to kindly consider our comments / suggestions favourably.

Thanking you,

Yours faithfully,
For **MB Power (Madhya Pradesh) Limited**


Dinesh Batra
Vice President
(Business Development & Commercial)

DRAFT COMMENTS ON CERC CONSULTATION PAPER ON TERMS AND CONDITIONS OF TARIFF FOR THE PERIOD COMMENCING FROM 1ST APRIL 2019

Sr. no	Clauses	Detail	Remarks/Recommendation
1	Tariff Design: Generation & Transmission	<p><u>Para 7.2.4 7.2.6</u></p> <p><i>“7.2.4 Possible three-part tariff (Fixed, Variable and Energy Charges) structure for thermal generating stations, as two part tariff structure is optimum during power deficit scenario however, for cases where power demand is low for procurer, portion of fixed charges could be linked with actual dispatch and balance AFC to availability.</i></p> <p><i>7.2.6 The recovery of fixed component could be linked to target availability, whereas variable component could be linked to the difference between availability and dispatch. Fuel charges could be linked with dispatch</i></p>	<p><u>Remarks:</u></p> <p>Most of the existing operational projects have achieved financial closure based upon the current two-part tariff structure where the Capacity (Fixed) Charges provides for the recovery on investments in terms of return on equity, fulfilment of debt obligations in terms of repayments and interest on loan & O&M expenses.</p> <p>Such change in the tariff structure would lead to insufficient cash flows creating financial risks for the debt holders as well as equity shareholders of the project.</p> <p>In view of current scenario of the projects slipping into stressed category and the reasons thereof in terms of lack of long term PPAs, fuel tie up and fuel shortage, this change will further worsen the financial viability of the existing projects.</p> <p><u>Recommendations:</u></p> <p>The Tariff structure should be retained as two-part tariff of thermal generation projects.</p>
2	Deviation from Norms	<p><u>Para 8.1 – 8.4</u></p> <p><i>8.4 Possible option could be to develop for incentive and disincentive mechanism for different levels of dispatch and specifying the target dispatch expanding the scope of Regulation 48 for 2014-19 period</i></p>	<p><u>Remarks:</u></p> <p>No additional incentive may be doled out for utilities/discoms for resorting to optimum scheduling by them; however to ensure operation of thermal generating stations at optimum levels, the discoms/utilities are required to schedule power at normative availability levels. For this purpose, a balanced compensation mechanism has already been approved by CERC in terms of 4th Amendment to IEGC dated 06.04.2016 followed by detailed operating procedure issued by CERC on 05.05.2017. this</p>

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			<p>approved mechanism may be suitably incorporated in the proposed regulations FY 19-24.</p> <p>Recommendations: We must not introduce any such norm that impacts the current financial position of private generators which are facing huge stress.</p>
3	Optimum Utilization of Capacity	<p>Para 10.3 "10.3 (a) Flexibility may be provided to the generating company and the distribution licensee to redefine the Annual Contracted Capacity (ACC) on yearly basis out of the total Contracted Capacity (CC), which may be treated as guaranteed contracted capacity during the year for the generating company and the distribution licensee and the capacity beyond the ACC may be treated as Unutilized Capacity (UC). The Distribution Licensee will have right to recall Unutilized Capacity during next year and for securing such rights, some part of fixed cost, say 10-20% or to the extent of debt service obligations, may be paid;</p> <p>(b) Such unutilized Capacity may be aggregated and bidded out to discover the market price of surplus capacity. The surplus capacity may be re-allocated to the distribution licensee at market discovered price."</p> <p>Para 11.9</p>	<p>Remarks: This methodology is not practical because it will cause various regulatory issues, considering the fact that existing PPAs do not provide for the ACC & UC.</p> <p>Also any nonpayment of the Fixed charges on account of UC & ACC would lead to unviability of the project which have already achieved financial closure based upon certain assumptions due to existing regulatory framework.</p> <p>Recommendations: It is a dangerous move and may likely become one of the key reasons for the power projects slipping into financial distress in future.</p>
4	Capital Cost	<p>"11.9.....The return on additional equity may be restricted to the extent of weighted average of interest rate of loan portfolio or rate of risk free return.</p> <p>Incentive for early completion and disincentive for slippage from scheduled commissioning can also be introduced."</p>	<p>Remarks: Most of the power projects in India (completed or under construction phase) are facing various implementation/construction risks leading to cost as well as time overrun. These risks range from land acquisition risks, political risks, economic risks, statutory and environmental risks etc.</p> <p>Restricting the return on the additional equity infused above the normative equity to the extent of rate of risk free return will lead</p>

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			<p>to the financial unviability of the project and will lead to the risk of becoming a stressed asset for the banks.</p> <p>Recommendations: The Regulators should allow the return on additional equity above the normative equity to the extent of weighted average of interest rate of actual loan portfolio of the Project.</p>
5	Debt Equity Ratio	<p>Para 16 <i>Proposal of debt equity ratio of 80:20 for future projects</i></p>	<p>Remarks Keeping in view the current scenario of power projects becoming stressed assets in light of inadequate PPAs, FSAs, shortage of coal supply, the lenders may be reluctant to fund the thermal power projects to the extent of 80% of the power project cost.</p> <p>Recommendation The normative debt equity ratio for existing as well as new projects should be retained as 70:30</p>
6	Return on Equity	<p>Para 18 <i>"18. Review the rate of return on equity considering the present market expectations and risk perception of power sector for new projects.....</i> <i>(g) Reduction of return on equity in case of delay of the project"</i></p>	<p>Remarks Most of the power projects in India (completed or under construction phase) are facing various implementation/ construction risks leading to cost as well as time overrun. These risks range from land acquisition risks, political risks, economic risks, statutory and environmental risks etc. Hence reduction of return on equity in case of delay in commissioning of power project shall lead to financial un-viability of the project as well as loss in investors' confidence.</p>

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7	Interest on Working Capital (IOWC)	<p>Para 20 “20.3 (a) Assuming that internal resources..... (b) As stock of fuel is considered for working capital, a fresh benchmarking may be fixed or actual stock of fuel may be taken.....”</p>	<p>Recommendation</p> <ul style="list-style-type: none"> The provision of normative working capital requirement linked to normative availability should be retained as per previous Regulations 2014-19
8	O&M Expenses	<p>Para 21.7 “ 21.7 Review the escalation factor for determining O&M cost based on WPI & CPI indexation as they do not capture unexpected expenditure .. Address the impact of installation of pollution control system and mandatory use of treated sewage water by thermal plant on O&M cost.”</p>	<p>Recommendations:</p> <ul style="list-style-type: none"> Unexpected O&M expenditure (if any) should be allowed to be pass through subject to prudence check;
9	Fuel GCV	<p>Para 22.8 “22.8.(a) Specify normative GCV loss between “As Billed” and “As Received” at the generating station end and identify losses to be booked to Coal supplier or Railways.”</p>	<p>Recommendations: Generators are already facing financial losses due to GCV loss. Creating accountability for Coal company and Railways is beyond the control of Generators since they are monopolies.</p>
10	Fuel- Blending of Imported coal	<p>Para 23.6 “23.6 Normative blending ratio may be specified for existing plant as well as new plants separately in consultation with the beneficiaries.”</p>	<p>Recommendations Blending ratio depends upon the actual coal supply and the actual GCV received and fired at the plant site. Blending is also restricted by the technical parameter and design of the Boiler. Such benchmarking would not be workable under the real scenario.</p>
11	Landed Cost of Fuel	<p>Para 24.5 “24.5 All cost components of the landed fuel cost may be allowed as part of tariff. Or alternatively, specify the list of standard cost components may be specified”</p>	<p>Recommendations All cost components of the landed fuel cost to be allowed as standard cost components which may vary subject to various modification by the coal companies, government policies etc.</p>

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			<p>The source of coal, distance and quality are beyond the control of the generator and therefore can not be fixed or specified.</p>
12	Operational Norms	<p>Para 26 “..... <i>SHR</i> Approach for determination of SHR may need review including the criteria for specifying heat rate of old plants, continuation of relaxed norms for specific stations and possible changes required in the existing norms given in Tariff Regulation 2014-19 Aux Consumption- Generating stations which have less auxiliary consumption than the norms, are able to declare higher availability by making adjustment of difference between actual (lower) and normative auxiliary consumption. Further, colony consumption is not a part of auxiliary consumption w.e.f. 1.4.2014 and therefore, the same cannot be accounted for against auxiliary consumption while declaring availability. Methodology of declaring availability after reduction of normative auxiliary consumption and colony consumption need elaboration.”</p>	<p>Recommendations</p> <ul style="list-style-type: none"> SHR higher than norms to be allowed in case where discoms are scheduling power lesser than the norms. As less scheduling causes in-efficient operation of the plant causing additional financial burden which is not recovered in the existing methodology. Similarly, in case of Auxiliary consumptions norms should be increased in case there is lesser scheduling by the Discoms. For this purpose, a balanced compensation mechanism has already been approved by CERC in terms of 4th Amendment to IEGC dated 06.04.2016 followed by detailed operating procedure issued by CERC on 05.05.2017. this approved mechanism may be suitably incorporate in the proposed regulations FY 19-24
13	Alternative approach to Tariff Design	<p>Para 37.6-37.9 “37.6 a Would it be advisable to undertake econometric analysis to arrive at benchmark capital cost? 37.9 a. Whether it is a good idea to determine AFC as percentage of Capital Cost on normative basis? 37.9</p>	<p>Remarks Capital cost benchmarking can only be done with respect to the Plant and Machinery cost with respect to various technologies on floor and limited suppliers. The total Capital cost including the hard cost and soft cost of the project shall not be benchmarked in view of the following - locational requirements of the project – Water sourcing, fuel sourcing etc;</p>

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		<p><i>b. What could be the possible methodology to establish the relation between AFC and Capital Cost so that it meets the interests of both buyers and sellers?"</i></p>	<ul style="list-style-type: none"> - topographical requirements – site grading and leveling, soil condition; - Land Acquisition and R&R policy of various states; - Financing arrangements <p>Recommendations As above, the credible benchmarking of the capital cost is not possible henceforth, it is not a good idea to determine AFC as % of capital cost on normative basis.</p>