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MEGHALAYA POWER DISTRIBUTION CORPORATION LIMITED
LIGHTING UP YOUR LIFE
Office of the Superintending Engineer (RA)
Lum Jingshai; Short Round Road; Shillong – 793 001
CIN: U40101ML2009SGC008394; Phone: 0364-2590610;Extn 374; E-mail: se_rafd@yahoo.co.in

No. MePDCL/SE (RA)/90/2018-19/5 Dated 25th July 2018

To

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

Sub: Comments on the consultation paper on the "Terms and Conditions of Tariff for the tariff period commencing from 1st April 2019.

Ref: Public Notice No. L-1/236/2018/CERC dated 24th May 2018.

Sir,

With reference to above, and on behalf of Meghalaya Energy Corporation Limited (MeECL) and its subsidiaries, namely Meghalaya Power Distribution Corporation Limited (MePDCL), Meghalaya Power Generation Corporation Limited (MePGCL) and Meghalaya Power Transmission Corporation Limited (MePTCL), I am directed to submit before the Hon'ble Commission the comments on the consultation paper on the "Terms and Conditions of Tariff for the tariff period commencing from 1st April 2019. The comments is appended as Annexure-I.

Yours faithfully

25/7/18

(P. Sahkhar)
Superintending Engineer (RA)

Memo No. MePDCL/SE (RA)/90/2018-19/5(a) Dated 25th July 2018

Copy to:

1) The P.A. to the Chairman-cum-Managing Director, MeECL for kind information of the Chairman-cum-Managing Director.
2) The Director Corporate Affairs, MeECL, for kind information.
3) The Director (Finance), MeECL, for kind information.
4) The Director (Distribution), MePDCL, for kind information.
5) The Director (Generation), MePGCL, for kind information.
6) The Director (Transmission), MePTCL, for kind information.
7) The Joint Secretary to the Government of Meghalaya, Power Department, Shillong.

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Annexure I

Comments on CERC consultation paper by MeECL, Shillong

Para	Finding in Existing Regulations	Proposal	Comments
7.2	Thermal generating station: 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 generated and the payment of energy cost for procuring each unit of electricity. Two part tariff operates well in power deficit scenario. Due to low demand, coal based power plants are running at a PLF of around 60%. The possible options for tariff structure could be to offer to the procurers having low demand a menu of options for ensuring dispatch by linking a portion of fixed charges with the actual dispatch and balance of AFC to availability.	The tariff for supply of electricity from a thermal generating station could comprise of three parts, namely, fixed charge (for recovery of fixed cost consisting of the components of debt service obligations allowing depreciation for repayment, interest on loan and guaranteed return to the extent of risk free return and part of operation and maintenance expenses), variable charge (incremental return above guaranteed return and balance operation and maintenance expenses) and energy charges (fuel cost, transportation cost and taxes, duties of fuel)	We are in agreement with the proposal of the Commission
7.3	Thermal Generating Stations – Older than 25 years:	Possible options could be i. replacement of inefficient sub critical units by super critical units, ii. phasing out of the old plants, iii. renovation of old plants or extension of useful life, etc.	We are in agreement with the proposal of the Commission.
7.4	Hydro generating stations: The two-part tariff structure of hydro generating stations seems adequate in present scenario. However, in view of large capital cost, hydro generating stations often find it difficult to get dispatched due to resultant higher energy charges. In order to address this issue, for the hydro generating stations, the fixed charges and variable charges may need to be reformulated	The fixed component may include debt service obligations, interest on loan and risk free return while the variable component may include incremental return above guaranteed return, operation and maintenance expenses and interest on working capital.	We are in agreement with the proposal of the Commission
7.5	Inter-State Transmission system Single part Tariff - At present, there is no distinction between access service and transmission service. This philosophy is good for long term open access. The emerging requirement is to recognize the access service separately, independent of the quantity for which transmission service is availed.	Transmission tariff can be on two-part basis, wherein the first part can be linked with the access service and second part can be linked with the transmission service	We are in agreement with the proposal of the Commission

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	The transmission access may be treated as right to access the transmission system and transmission service may be treated as the right to transfer the electricity through the transmission system.		
7.6	Renewable Energy generation: The feed-in tariff structure does not offer the advantage of economic efficiency. Further, the feed-in structure has its limitations	There can be Two part tariff structure for renewable generation covered under Section 62 of the Act, which comprises fixed component (debt service obligations and depreciation) and variable component (equal to marginal cost i.e O&M expenses and return on equity) - fixed component as feed-in-tariff (FIT) and variable component equal to capacity augmentation such as storage or back up supply tariff.	We are in agreement with the proposal of the Commission to have different tariff for supply of power from renewable generation and thermal power generation. However, the operational norms for recovery of tariff may have to be specified separately. **Statement of reason:** Tariff of renewable energy sources are usually higher than the thermal energy resources. Thus allowing different tariffs for thermal and renewable energy sources will provide a level playing field, and will ensure the viability of renewable projects, **even in case of bundled power**.
8	Deviation from Norms: Once the power purchase agreement is secured, there is no framework for competition of dispatch. The distribution licensees follow merit order based on the tariff agreed under PPA. For various reasons, out of tied up capacity by the distribution licensee, some of the capacity often remains undispatched over large part of the year. Since the tariff determined by the Commission acts as ceiling, there is no embargo on the generating stations or the transmission licensee to charge lower tariff.	Possible option could be to develop for incentive and disincentive mechanism for different levels of dispatch and specifying the target dispatch	We are in agreement with the proposal of the Commission.
9	Components of Tariff: Unlike the Central Generating Stations, for privately owned generating stations, not all the generating capacity may have tied up power purchase agreements	One approach could be to determine the tariff of the generating station for entire capacity and restrict the tariff for recovery to the extent of power purchase agreement on pro-rata basis and balance capacity will be merchant capacity or tied up under Section 63, as the case may be	We are in agreement with the proposal of the Commission.
10	Optimum utilization of capacity: The unutilized capacity due to partial or less demand has impact on the recovery of the cost by the generating plant. At the same time, the	Flexibility may be provided to the generating company and the distribution licensee to redefine the Annual Contracted Capacity (ACC) on yearly basis out of total Contracted Capacity (CC), which may be based on the	We are in agreement with the proposal of the Commission. However the following modifications are proposed • Flexibility to redefine the Annual Contracted

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	distribution licensee may be impacted by way of liability of fixed charges without availing dispatch from the generating station. If the unutilized capacity of the generating station is allowed to be utilized by other distribution companies or through open market, the obligations of the distribution companies may reduce to the extent of utilization	anticipated reduction of utilization	Capacity on yearly basis may be extended only to the generating stations which have completed their loan tenure, in order to avoid any uncertainty in debt servicing and payment of interest • While spreading the depreciation cost over the useful life of the project, the depreciation rate during loan tenure should be sufficient to meet the requirement of debt servicing
10.4	Useful life of Hydro generation:	Extend the useful life of the project up to 50 years from existing 35 years and the loan repayment period up to 18-20 years from existing 10-12 years for moderating upfront loading of the tariff	We are in agreement with the proposal of the Commission.
11	Capital cost: The existing regulations allow capital cost for the new projects (to be commissioned in the control period) based on the expenditure incurred as on date of commercial operation (COD), duly certified by the Auditors after prudence check.	In new projects, the fixed rate of return may be restricted to the base corresponding to the normative equity as envisaged in the investment approval or on benchmark cost. 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. Further, incentive for early completion and disincentive for slippage from scheduled commissioning can also be introduced	It is of the view that it may not be possible for new projects to restrict the fixed rate of return to the base corresponding to the normative equity as envisaged in the investment approval or on benchmark cost. **Statement of reason:** Benchmarking of capital cost based on the technology used and similar system incorporated earlier will be daunting task. Moreover, the NE States may have some higher buffer than other states during benchmarking (In NE States setting up a generation plant/ transmission system cost can face hindrances like RoW, topography issues, weather and other unforeseen exigencies more than other regions). It is difficult to complete the scheduled generation and transmission works for places like NE States(with targets set in line with the best performing utilities can be unrealistic for NE State Utilities) on time due natural causes right of way (ROW) issues and environmental clearances compared to other regions. Hence, disincentives for utilities on this line may be avoided.
12	Renovation and modernisation: At times the generating companies file their petitions for renovation and modernisation without giving estimated life extension period, which makes it difficult to carry out cost benefit	The Commission may allow Renovation & Modernisation (R&M) for the purpose of extension of life beyond the useful life of transmission assets. Alternatively, the Commission may allow special	We are in agreement with the proposal of the Commission.

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	analysis.	allowance for R&M of transmission assets.	
13	Financial parameters: Components like return on equity, operation & maintenance expenses and interest on working capital have been specified on normative basis whereas cost of debt has been allowed based on actual rate of interest on normative debt.	While continuing with the hybrid approach, more weightage may be provided for normative parameters to induce greater efficiency during operation as well as in development phase.	The existing methodology for allowing normative costs may be continued. However, the norms may be reviewed based on the actual performance and latest benchmarks. **Statement of reason:** The normative parameters will result in improved operational and financial efficiency.
14	Depreciation: Depreciation rate is arrived at by considering normative repayment period of 12 years to repay the loan (70% of the capital cost)	To keep the tariff on lower side, the depreciation rate for hydro stations could be spread over the entire useful life i.e. 35 years. Similarly for thermal stations, the life may be more than 25 years and the International experience in this regard needs to be looked into to bring further improvements	We are in agreement with the proposal of the Commission.
16	Debt: Equity ratio: The capital cost for generation and transmission projects commissioned after 1.4.2019 is considered to be financed through a debt equity ratio of 70:30	For future investments, modify the normative debt-equity ratio of 80:20 in respect of new plants, where financial closure is yet to be achieved	We are in agreement with the proposal of the Commission, provided that the treatment of equity infused above 20% may be clearly specified and some normative return may be allowed on the same (normative loan). **Statement of reason:** The proposed Debt Equity ratio will encourage new capacity addition, as the equity investment required would be lower. It will reduce the burden on the beneficiaries, with the return on equity going down as the equity infused will be lower than the existing norm.
18	Rate of Return on equity:	Different rate of return for new projects (where financial closure is yet to be achieved), may be thought of, with different rates for generation and transmission projects	The rate of return may be reviewed and benchmarked with the latest interest rates and bond yields existing in the market. **Statement of reason:** The Indian power sector is no longer facing the challenge of capacity addition, rather in the recent years the sector has witnessed higher capacity addition. Moreover, the interest rate has been declining in last five years. The yield on 10 year benchmark Government Bond has come down to 7-7.5% during 2018 as compared to 8-8.5% during 2014. The RBI repo rate, interbank rate and SBI

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			base rate have also come down during this period. This market dynamics seems to favor reduction of rate of return. However, any reduction in return on equity will have an immediate negative impact on under construction and existing projects. Thus different rate of return can be considered only for new projects, which are yet to achieve financial closure.
19	Cost of debt: The cost of debt thus arrived at is applied on the normative outstanding loan to compute the annual interest expenses of the utility which is given a pass through in the tariff. This approach does not provide incentive to the utility to lower the cost of borrowings, as even higher rates are given as pass through in tariff.	Continue with existing approach of allowing cost of debt based on actual weighted average rate of interest and normative loan, or to switch to normative cost of debt and differential cost of debt for the new transmission and generation projects	We are in agreement on the proposal for giving incentives to restructure the loan, which is a welcome proposal. However, linking cost of debt to market parameters such as MCLR & G-sec will bring a degree of unpredictability since it keeps on changing based on market economics. **Statement of reason:** In lending institutions like REC, PFC, risk involved is higher than the govt bonds and policy repo rates. Rates go up down based on market scenarios. Hence basing the cost of debt for utilities on market parameters like MCLR & G-sec will affect the interest & finance charges (fluctuate based on market economics, create an air of uncertainty). The extra risk accounted in taking loans from REC, PFC as well the unpredictability compared to Govt bond yields as well repo rates has to be taken care of as well while determining the rates for these loans
20.3	Interest on Working Capital: The existing Tariff Regulations provides the definition of bank rate as the Base Rate of interest specified by the State Bank of India (SBI) from time to time or any replacement thereof for the time being in effect, plus 350 basis points.	In case of wide variation between the plant load factor and the plant availability factor, the normative approach of linking working capital with "target availability" can be reviewed	It is suggested that the maintenance spares may be included separately under the working capital head and may not be considered in the O&M expenses. **Statement of reason:** Maintenance of spares forms the part of both O&M expense and IWC. This redundancy can be avoided by delinking Maintenance of spares from O&M and only considering it as a component of IWC. Further, large employee base of old hydro power plants result in higher O&M expenses, which increases the cost for "Maintenance Spares", and the overall IWC.
21	O&M Expenses: Presently O&M expenses have been specified on	(a) Review the escalation factor for determining O&M	We are in agreement with the proposal of the

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	per MW basis for generation and per bay basis for the transmission system	cost based on WPI & CPI indexation (b) Address the impact of installation of pollution control system and mandatory use of treated sewage water by thermal plant on O&M cost. (c) Review of O&M cost based on the percentage of Capital Expenditure (CC) for new hydro projects; (d) Review of O&M expenses of plants being operated continuously at low level (e) Rationalization of O&M expenses in case of the addition of components (f) Have separate norms for O&M expenses on the basis of vintage of generating station and the transmission system. (g) Treatment of income from other business (e.g. telecom business) while arriving at the O&M cost.	Commission. It is of the view that while calculating O&M based on WPI:CPI indexation, there can be buffer of 10% O&M on the O&M calculated to account for the changes in inflation in the economy. From FY 2012-13 to FY 2016-17 the WPI rate has been in the range of 2.4% to 6.3%.
22	Fuel – Gross Calorific Value (GCV):	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. b) Similarly, specify normative GCV loss between "As Received" and "As Fired" in the generating stations. c) Standardize GCV computation method on "As Received' and "Air-Dry basis" for procurement of coal both from domestic and international suppliers.	We are in agreement with the proposal of the Commission.
24	Fuel - Landed Cost	a) 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; b) The source of coal, distance (rail and road transportation) and quality of coal may be fixed or specified for a minimum period, so that the distribution company will have reasonable predictability over variation of the energy charges.	We are in agreement with the proposal of the Commission
27	Incentive: Generation - During the Tariff Period 2014-19, incentive for coal based generating plant was again linked to normative PLF of 85% @ 50 paise and generation beyond the design energy is paid at 80 Paise/kWh in case of hydro generating station Transmission – Incentive is being recovered only through monthly formula of billing and collection of transmission	In view of the introduction of the compensation mechanism for operating plants below norms i.e.83-85%, there may be a need to review the incentive and disincentive mechanism with reference to operational norms. The concept of NATAF specified by the Commission in Tariff Regulations, 2014 requires review	We are in agreement with the proposal of the Commission

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	charges		
28	Implementation of operational norms: The operational norms notified by the Commission in new tariff regulations take effect much after the date of coming into force of new tariff regulations. Consequently, the benefits of the improved operational norms are passed to beneficiaries only after time lag of few months	Whether the operational norms of the new tariff period should be implemented from the effective date of control period irrespective of issuance of the tariff order for new tariff period	The operational norms of the new tariff period may be implemented from the effective date of control period irrespective of issuance of the tariff order for new tariff period. Because if the operational norms notified by the Commission in new tariff regulations take effect much after the date of coming into force, the generating utilities or licensees will lose the benefits of the improved operational norms for the duration of time lag.
30	Late payment surcharge: The present regulatory framework provides for late payment surcharge at the rate of 1.50% per month for delay in payment beyond a period of 60 days from the date of billing.	In view of the introduction of MCLR, the rate of late payment surcharge may need to be reviewed. One option is to add some premium over and above MCLR	A reduction in the late payment surcharge is required keeping in view the reduction in interest rates over the last few years.
37.3	Normative Tariff by Benchmarking of Capital Cost	Capital cost is the starting point for tariff fixation. Therefore, the first question that arises is as to whether the capital cost could be determined on normative basis as against the existing practice of detailed cost component wise examination.	It is of the view that benchmarking of capital cost will have a negative impact on project development in North Eastern Region. Hence capital cost shall not be determined on normative basis, and shall be continued to be determined as the existing practice. **Statement of reason:** Calculating capital cost on normative basis is a daunting task since the generation and transmission systems in India are present in different sizes, different land and different weather. (Reasons like differences in cost of land & site development, project specific Sub/Super critical status of the Plant, technology & equipment and material handling system which includes distance from the Coal Mine etc. at different geographies). Capital cost per MW, per CKM, per MVA will vary with high standard deviation at different geographies. Creating common norms for them will be difficult and risky since the aim of this creation is to base the tariff on the normative capital cost.
37.18	Principles of Cost Recovery - Approach towards Multi-Part Tariff	Principles of Cost Recovery - Approach towards Multi-Part Tariff	We are in agreement with the proposal of the Commission.

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