141/E

Copy 1

67

एनएलसी इंडिया लिमिटेड
(पूर्व में नेयवेली लिग्नाइट कार्पोरेशन लिमिटेड)
(भारत सरकार का नवरत्न उद्यम)
पंजीकृत कार्यालय: प्रथम तल, नं 8, मेयर सत्यमूर्ति रोड, एफ एस डी, भारतीय खाद्य निगम, एग्मोर कॉम्प्लेक्स, चेटपेट, चेन्नई – 600031

NLC India Limited
(Formerly Neyveli Lignite Corporation Ltd)
Navratna – A Government of India's Enterprise
Regd. Office: First Floor, No.8, Mayor Sathyamurthy Road, FSD, Egmore Complex of Food Corporation of India, Chetpet, Chennai – 600031

CREATING WEALTH FOR WELLBEING

सी.आई.एन / CIN : L93090TN1956GOI003507
जी एस टी एन / GSTN : 33AAACN1121C1ZG
वाणिज्यिक विभाग / COMMERCIAL DEPARTMENT
निगमित कार्यालय, ब्लॉक-1, नेयवेली-607801, कडलूर जिला, तमिलनाडु
Corporate Office: Block-1, Neyveli – 607 801, Cuddalore District, Tamil Nadu
दूरभाष/Phone : 04142-253429 फैक्स /Fax : 04142-252646, 254429 वेबसाइट/Website : www.nlcindia.com ई-मेल/E-Mail : commercial@nlcindia.com

Lr.No. NLCIL/ED/Commercial/1120/Consultation paper/comments/2018 Date:24.07.2018

To

Online Ack no: 120/2018
2121/2018 Dt: 24.07.2018

The Secretary,
Central Electricity Regulatory Commission,
3rd & 4th floor, Chanderlok Building,
36, Janpath Marg, **NEW DELHI - 110 001 .**

Sir,

Sub: CERC – Consultation paper on Terms and Conditions of tariff for the control period 2019-24- NLCIL comments on the various aspects of proposal-submitted - Reg.

Ref: CERC Consultation paper on Terms and conditions of Tariff Regulations for the period 01.04.2019-31.03.2024 vide. L-1/236/2018/CERC dt.24.05.2018

Pursuant to the notification of Consultation paper on Terms and conditions of Tariff Regulations for the period 01.04.2019-31.03.2024 in CERC website, inviting comments / suggestions of the stakeholders, NLCIL is filing its comments/suggestion vide this Affidavit enclosed.

The above may please be taken on record.

के. वि. वि. आयोग
2161
27 JUL 2018
प्राप्त हुआ

Thanking you,

Yours faithfully,
for NLC India Limited

Executive Director / Commercial

सतीश
2/8
उपमुख्य (वा-I)
Governeer
21/8

Encl : As above

1

एनएलसी इंडिया लिमिटेड
(पूर्व में नेयवेली लिग्नाइट कार्पोरेशन लिमिटेड)
(भारत सरकार का 'नवरत्न' उद्यम)
पंजीकृत कार्यालय: प्रथम तल, नं.8, मेयर सत्यमूर्ति रोड, एफ.एस.डी, भारतीय खाद्य निगम, एग्मोर कांप्लेक्स, चेटपेट, चेन्नई – 600031

NLC India Limited
(Formerly Neyveli Lignite Corporation Ltd)
Navratna – A Government of India's Enterprise
Regd. Office: First Floor, No.8, Mayor Sathyamurthy Road, FSD, Egmore Complex of Food Corporation of India, Chetpet, Chennai – 600031

CREATING WEALTH FOR WELLBEING

सी.आई.एन / CIN : L93090TN1956GOI003507
जी एस टी एन / GSTN : 33AAACN1121C1ZG
वाणिज्यिक विभाग / COMMERCIAL DEPARTMENT
निगमित कार्यालय : ब्लॉक-1, नेयवेली-607801, कडलूर जिला, तमिलनाडु
Corporate Office: Block-1, Neyveli – 607 801 Cuddalore District, Tamil Nadu
दूरभाष/Phone : 04142-253429 फैक्स /Fax : 04142-252646, 254429 वेबसाइट/Website : www.nlcindia.com, ई-मेल/E-Mail : commercial@nlcindia.com

Lr.No. NLCIL/ED/Commercial/1120/Consultation paper/comments/2018   Date:24.07.2018

To

The Secretary,
Central Electricity Regulatory Commission,
3rd & 4th floor, Chanderlok Building,
36, Janpath Marg, **NEW DELHI - 110 001 .**

Sir,

Sub: CERC – Consultation paper on Terms and Conditions of tariff for the control period 2019-24- NLCIL comments on the various aspects of proposal-submitted - Reg.

Ref: CERC Consultation paper on Terms and conditions of Tariff Regulations for the period 01.04.2019-31.03.2024 vide. L-1/236/2018/CERC dt.24.05.2018

Pursuant to the notification of Consultation paper on Terms and conditions of Tariff Regulations for the period 01.04.2019-31.03.2024 in CERC website, inviting comments / suggestions of the stakeholders, NLCIL is filing its comments/suggestion vide this Affidavit enclosed.

The above may please be taken on record.

Thanking you,

Yours faithfully,
for NLC India Limited

Executive Director / Commercial

Encl : As above

INDEX

Form - 1

BEFORE THE CENTRAL ELECTRICITY REGULATORY COMMISSION

IN THE MATTER OF:

Consultation paper on Terms and Conditions of tariff for the control period 2019-24

NLC India Limited,
First Floor, No.8, Mayor Sathyamurthy Road, FSD,
Egmore Complex of Food Corporation of India,
Chetpet, Chennai-600 031. --------------- **RESPONDENT**

IN THE MATTER OF:

Submission of comments by NLCIL with respect to Consultation paper on Terms and Conditions of tariff for the control period 2019-24

THE RESPONDENT HUMBLY STATES THAT:

1.0 BACKGROUND:

- In exercise of powers conferred under Electricity Act, 2003, the Hon'ble Central Commission has published Consultation paper on Terms and Conditions of tariff for the control period 2019-24 and invited comments/suggestions from the stakeholders.
- NLCIL vide this affidavit is submitting its comments/suggestions on the said Draft regulations.

2.0 The comments/suggestions of NLCIL on the subject consultation paper are furnished below.

A. General comments:

- Bench mark cost and three part tariff would seriously **prejudice** the power sector industry's **scale of operative economics.**

- The consultation paper is tightening the noose in all fronts (viz operational norms, Capital Cost, Return on Investment, Fixed cost recovery, etc) of already mired Power Industry, **deterring power sector investment.**
- Power sector is under stress, **unable to sustain** the present technical minimum and low load scenario.
- The way ahead needs to be towards affording **stable minimum return** for power sector investment.
- The proposition in the consultation paper on one hand intends **to do away with prudence check** by prescribing normative values and on the other hand digs deeper for **intensive scrutiny**.
- Consultation paper seems to be **lopsided and biased** towards the interests of the Discoms, without concerning the woes of generators.
- Generators need to be vested with Trading of **80% of URS**, without beneficiary's consent.
- **Trading quantity** should be taken **out of the ambit of Technical minimum** quantity.
- **NLCIL Thermal Power station I** (600 MW), which would be phased out during the initial years of control period may be **allowed to continue** in 2019-24 regulation regime.
- **NAPAF** of **NLCIL NNTPP** (Neyveli New Thermal power plant 2X 500 MW) may be kept at 75% for first 3 years from COD and 80% thereafter, keeping in view that it is first 500 MW Lignite based power plant in India.

SPECIFIC COMMENTS:

B. Capital Cost (11.8) & Alternative approach to Tariff Design (37)

- As stated in the consultation paper, no mechanism for Bench mark determination is available, Linking of RoE to the base benchmark capital cost would **jeopardize financial viability** of the project.

- Bench mark cost needs to be factored in for Projects of **remote areas, coastal power plants, New technology, Fuel, Fuel Linkage(pithead, domestic, Imported) etc.,**
- Bench mark Capital Cost should factor in the **Time value of money** appropriately. Lower band Rs.3.87 Cr/MW relates to 1988 basis and trued up cost with appropriate escalation needs to be reckoned
- The time has not ripened to adopt Bench mark capital cost in so far the available **data** does not appear to be **appropriately clouded and inclusive**.
- Power sector has become stressed domain due to **ramp up and ramp down** and delayed project completion, owing to various reasons, and hence appropriate factoring in is required to be applied for determination of benchmark capital cost.
- Delay in project happens in CPSU due to reasons not generally attributable to the Generator. Hence the **date of commencement of Main Plant Package** rather than date of investment approval shall be reckoned for project delay
- **Cutoff date** needs to be allowed for **3 financial years** after COD financial year in lieu of 2 years in vogue, where **New technology** is involved.
- **Power Plants with own mines** need to be suitably rewarded due to **fuel security**

C. **<u>Three Part Tariff: (7.2.4)</u>**

- Three part Tariff leads to under recovery of fixed cost which is **deterrent** for power sector investors.
- Bifurcation of Return on Equity (risk free return & incremental return) and O & M expenses would **deny the generators**, appropriate **cost recovery** mechanism.
- AFC design needs to be in such a way that the **project viability is not vitiated** wrt pay back period.
- **O & M expenses in full** must be linked to **target availability** by virtue of it’s nature being fixed cost, especially for PSUs.

- Power industry is **not risk free** industry, especially in the current market scenario, risk free return would vitiate the project viability; appropriate **risk premium** needs to be considered for CC recovery.
- **Capacity charges** (CC) are ideally required to be recovered from the beneficiaries, once they meet the **target availability.**
- **Variable charge** is linked only to the difference between availability and dispatch, **not compensating** appropriately.
- NLCIL being **integrated lignite mining and power** company and mining CUF totally depends upon thermal utilisation, appropriate **provision/mechanism for comprehensive tariff recovery** needs to be provided.
- **Integrated mining and power companies** may be insulated with **compulsory schedule.**
- **Lignite based generating stations, being meant for base load operations** may be excluded from load curtailment.
- Keeping in view of projected All India PLF being 59%, Target availability **(NAPAF) needs to be fixed correlatively.**
- **Cost of Maintenance** due to low load operation to be considered owing to contemplated low load & ramp up and ramp down for ensuing control period.
- **Equipment degradation** due to ramp up and ramp down needs to be compensated appropriately.
- Normative **operating parameters** (SHR, AUX, SFC) need to be in **relation to technical minimum or projected PLF** on day to day basis.
- Tariff to be linked with attainment of parameters Efficiency.
- O & M cost of FGD & other statutory equipments shall be pass through
- Downtime for FGD retrofitting needs to be factored in.

D. <u>Normative Annual Plant Availability (26.3.11)</u>

- NAPAF needs to be decided after considering various factors, viz. Huge **Renewable penetration, Lower projected requirement of conventional power** for the ensuing Tariff Control period etc.,

- **NAPAF needs to be aligned with projected demand** for the ensuing control period.
- Fixed cost recovery to lower periodicity would make the process of billing cumbersome.

Determination of PAF monthly, quarterly , half yearly, peak, off peak would distort the purported intent.

E. Cost recovery AFC Multi part Tariff (37)

- AFC being **sunk cost** is required to be recovered for target availability **without** any segregation of **peak and non peak** period.
- However, in order to facilitate the grid stability during peak period, **higher PAF** during peak needs to be **suitably rewarded**, in analogy with erstwhile UI/DSM.

F. Incentive (27.5)

- In so far as PLF trajectory is declining YoY and hovering around 60%, threshold PLF for incentive computation needs to be closer to 60%.
- **Incentive** quantum needs to be **commensurate** in lieu of 50 paise per unit.
- **Incentive linking to Fixed cost** as was in erstwhile 2009-14 regulation may also be explored for incentivising the generator.
- **Differential incentives for old & new and for peak & off peak** requires further deliberation, based on the mechanism to be adopted for differential incentives for old & new and for peak & off peak
- RE Penetration is increasing year to year. Storage facilities have not been developed. Balancing is to be done necessarily by Thermal Power Plants. Hence, incentive is to be linked to NAPAF as in 2009-14 tariff regulation to have maximum availability and to balance the penetration of RE.

G. AFC as percentage of Capital cost

- **AFC** recovery in **full** needs to be linked to **projected PLF** for the ensuing control period.

- AFC needs to factor in **ramping up and ramping down** consequential financial implication due to impact on plant life, and increase in O & M cost.
- AFC as percentage of capital cost needs to be fixed in such a way that **pay back** period of the project for the investor should **not be elongated**, especially in view of mean AFC being 22.55% with Standard deviation 7.17%.
- Breaking of components of AFC into **escalable and non escalable** would culminate with prudence check, **defeating the very intent** of determining AFC as percentage of capital cost.
- Additional Capitalisation/ other reasonable expenditure recovery needs to be **dovetailed with the mechanism of recovery of AFC** as percentage of capital cost.
- Tariff principles on norms of operation ie SHR.AUX, need to be correlated to the **norms of control period** pertaining to the date of **commencement of main plant** package.
- Appropriate factored parameters are required to be prescribed for Lignite based stations.
- **Machine Design parameters** in correlation with the **different steps of load on daily scheduling** needs to be reckoned for determination of normative parameters of tariff.
- Machine design Parameters **linked to Technical Minimum** load needs to be reckoned for **determination of normative tariff.**

H. Components of Tariff (9)

- Tariff is required to determined for the **entire capacity.**

I. O & M Expenses (21)

- O & M expenses is **not variable** in correlation to the level of activity, especially for PSUs, that salaries and wages need to be paid, machine maintenance to be done, irrespective of level of activity.
- **Increased** O & M expenses for **low load/schedule operation.**
- **Deterioration of equipment** during wear and tear during ramp up and ramp down need to be reckoned.

- **RSD** mechanism for degradation should **not be nullified cumulatively**, since the **damage done to the equipment is not reversible.**
- Escalation factor to be adopted appropriately reflecting ground realities.
- **Separate norms** for vintage plants, lignite based, remote area and coastal zone plants.
- **Fly ash** sales disposal is as per statutory stipulations, in which for certain disposals only **handling charges** are collected. Hence **abatement** of O & M expenses on this account is **not appropriate**.
- Old asset is disposed as scrap, which has residual value in the books of accounts and reckoning it for reduction in O & M expenses does not seem to be correct; In case of insistence, 100% depreciation needs to be allowed.
- O & M expenses **for additional infrastructure** needs to be considered.

J. <u>Optimum utilisation of Unutilised capacity (10)</u>

- **Right to recall** may be enshrined to beneficiaries only with the payment of at least **75% of CC**, in so far as the generator has to look in for other avenues to sell the power, which would not fetch determined/contracted tariff; servicing debt service obligation in no way compensate the generator appropriately.
- Mechanism of market discovered price for unutilised capacity and reallocation to the distribution licensee require further elaborate deliberation based on the mechanism proposed.
- **No Gain sharing** for selling of Unutilised capacity.
- **No cross subsidy** for selling of Unutilised capacity.

K. <u>Rate of RoE (18.7)</u>

- RoE sensitivity analysis depicts that the return for the generators would shrink if lesser percentage is adopted.
- Review of RoE needs to be based on the present vagaries, being encountered by conventional power stations and dogged by various clearances.
- The mechanism of differential RoE for existing and new projects need to be analysed based on logical reasoning on the proposed alternatives.
- **RoE needs to be Post Tax.**

- Reduction in RoE for delay need not be resorted to since incase of delay, the generator is not permitted to recover IDC, IEDC for the delayed period. Hence, ROE reduction may result in double penalty.
- RoE during **gestation period** needs to be considered.
- RoE shall reckon **Dividend, Dividend tax and Income tax** thereon.
- **RBI norms for lending** to power sector may be reckoned.

L. Debt Equity Ratio (16)

- DE ratio may be retained for 70:30.
- 80:20 DE ratio would make debt service obligation for the generator burdensome.
- Lenders are also not willing for 80:20 ratio to the power sector, being stressed domain.
- DE ratio of **80:20**, if at all needs to be adopted, it may be adopted for **future projects.**

M. Cost of Debt (19)

- Cost of Debt needs to be based on the **actual cost of loan portfolio.**
- Normative cost based on G sec or MCLR would not serve the purported intent.
- Review of restructuring/refinancing incentive needs to have further deliberation based on the mechanism that would be deployed.
- **Normative Debt** may be adopted for regulatory certainty, which would afford incentive to generator.

N. Depreciation (14.6)

- Continuing of present methodology of depreciation is advocated.
- **Depreciation for elongated life would affect NPV of revenue.**
- **Increase of useful life** of well maintained plant would **defer** the depreciation recovery to the generator, thus **punishing for well maintaining the plant.**

- **Reassessing** life at the **start** of every **Tariff control period** and depreciation based on it would be a **cumbersome** process.
- It appears that the Commission on one hand attempts to avoid prudence check by fixing normative percentages and on the other hand making the process tedious and cumbersome.

O. Interest on working capital (20)

- Working capital needs to be **dynamic**, given the fact that the prices of fuel are varying; adoption of rates at the **last three months of the previous control period**, for the **ensuing five years** of the tariff control period would hamper the working capital requirements of the generator.
- Fuel stock may be reviewed considering the present scenario of demand supply gap and also distance between mines and generator.
- IF maintenance spares cost is to be delinked from the O & M expenses, appropriate factors like old or new, type of fuel like lignite requiring high maintenance spares thereof needs to be attached for determining the cost of maintenance spares; In any case **Maintenance spares need to be reckoned for IoWC.**
- Working capital requirement needs to be linked to Target availability, lest its meaningful purpose would be defeated.

P. Station Heat Rate (26.3.6)

- Appropriate norms need to be provided for NLCIL Lignite based power plants, being unique in nature of it's operation.
- Station Heat rate norms, marginal factor need to be **linked to the date of main plant package commencement** to which Tariff Regulation period relates to.

Q. Secondary fuel oil consumption (26.3.7)

- Present practice of **SFC for Lignite based power plants need to continue**.

- **Increased SFC due to partial loading owing to frequent ramp up and ramp down/ renewable penetration.**

R. <u>Auxiliary Energy Consumption (26.3.10)</u>

- Present practice of **APC for Lignite based power plants** needs to continue.
- **Increased APC for FGD, Desalination, remote area and Coastal power plants.**

S. <u>GCV (Gross calorific Value) (22)</u>

- Standardisation of GCV computation method and normative loss need to be prescribed as balancing approach commensurate with source, distance etc.,
- Requires further deliberation based on the mechanism that would be adopted for normative GCV loss between “As received “and “As Fired” and Standardisation of GCV computation method on “As Received” and “Air Dry basis” for domestic and international procurement.
- Generator doesn’t have any control over GCV & transportation losses from dispatch to receiving end. Hence, GCV & transportation loss from dispatch to receiving end are to be made as pass thro’ items.

T. <u>Fuel (Landed Cost) (24.5)</u>

- **All the cost components** including taxes and duties are to be allowed as pass through.
- Fixation of price with source, distance and quality through prediction for a minimum period would only hamper the process.

U. <u>Renovation and Modernisation (12)</u>

- Allowances hitherto in vogue, may be continued.
- While doing away with all allowances, mechanism needs to be put in place to **compensate the generator** appropriately for expenditure incurred on account

of the purpose (Additional Cap, Compensation allowance, Special Allowance) for which it was **intended** to.

- **LEP Capital cost** needs to recovered from beneficiaries within the **balance life** of the plant through **annuity.**

V. Transit and Handling loss (26.3.16)

- Mechanism requires further deliberation based on the algorithm of normative loss computation.
- Methodology for **compensating the generator for actual losses over and above the normative loss.**

W. Gross Fixed Asset Approach (15)

- The present practice needs to be continued, since proposed modified GFA would tantamount to shrinking the returns for the generator.
- **Modified GFA would deter Power sector investors.**

X. Gain Sharing of controllable parameters (29)

- Ratio needs to be determined with a view to incentivise the generator to beneficiaries say 70:30.
- Graded percentage of sharing may also be considered i.e. increased percentage of sharing for generator towards increased efficiency.
- **Reconciliation mechanism requires further deliberation.**
- Gain sharing mechanismneed a relook on monthly sharing with annual reconciliation, since adoption difference between generators.

Y. Late Payment Surcharge & Rebate (30)

- Present rate 1.5% p.m may continue, as it would serve as **deterrent for non payment.**
- LPS if linked to MCLR, it needs to be **padded with appropriate premium.**
- Modus operandi for bill presentation would facilitate making the system robust.

- **Payment priority mechanism may be incorporated in the Regulation.**

Z. <u>Tariff Mechanism for Pollution Control System(New norms)(33)</u>

- Equipments installed in compliance of **pollution control** norms need to be linked to **balance life** of the plant for recovery through annuity.
- **Increased Auxiliary consumption** due to the installation of pollution control equipment needs to be provided.

AA. <u>Relaxation of Norms(39)</u>

- FGD, Desalination, increased water conductor/carrier system expenditure shall be considered in **full for recovery from beneficiaries**.
- Coastal zone, Lignite based, remote area power plants need to be provided with **relaxed norms for aberrations.**

BB. <u>Merit Order Dispatch (40)</u>

- MOD needs to factor in the aspects of old **plant having lesser CC** and a comprehensive approach needs to be adopted for balancing approach.

CC. <u>GST(42)</u>

- Being statutory variation, it needs to be **allowed as pass through.**

DD. <u>RENEWABLES TWO Part Tariff: (7.6.3)</u>

- Projects were implemented based on Single part tariff, which necessarily **need to continue.**
- **Must run status** needs to be conferred; Lest Project viability at stake; otherwise to be compensated fully.
- Renewable developers are denied RoE and O & M expenses by shifting to variable cost, which could not be fully recovered due to back down.
- **Flexibility scheduling with Renewable power** may be provisioned.

- Further deliberation is required based on the modus operandi on proposed bundling options, scheduling, dispatch, pre specified factor for combined availability, combined AFC, tariff and RoE, Land cost, O & M Cost for renewable capacity.
- Deliberation: integration of renewable with Lignite; renewable to be supplied thro the existing tariff for the contracted capacity under PPA, tariff of renewable is the energy charge. Higher target availability for AFC and higher PLF for incentive; tariff recovery and operational norms separate.

3.0 PRAYER

NLCIL humbly requests the Hon'ble Commission

1. To take on record the views of NLC submitted vide this affidavit as stated above.
2. To pass such order (s) as deemed fit by the Hon'ble Commission.

RESPONDENT

Date

<u>FORM 2</u>

<u>BEFORE THE CENTRAL ELECTRICITY REGULATORY COMMISSION</u>

IN THE MATTER OF:

Consultation paper on Terms and Conditions of tariff for the control period 2019-24

NLC India Limited,
First Floor, No.8, Mayor Sathyamurthy Road, FSD,
Egmore Complex of Food Corporation of India,
Chetpet, Chennai-600 031. --------------- **RESPONDENT**

IN THE MATTER OF:

Submission of comments by NLCIL with respect to Consultation paper on Terms and Conditions of tariff for the control period 2019-24

Affidavit verifying the Petition:

I, A.Ganesan son of Shri. Alagarsamy, aged 57 years, residing at 14, Type IV Quarters, BLOCK- 16, NEYVELI-607 801, do solemnly affirm and say as follows:

I am the Executive Director / Commercial of the NLC India Limited., the Respondent in the above matter and am fully conversant with the facts and make this affidavit**.**

- *Hon'ble Central Commission has published Consultation paper on Terms and Conditions of tariff for the control period 2019-24*
- *Hon'ble Central Commission has invited comments / suggestions of the stakeholders on the same on or before 15.07.2018 for which NLCIL is submitting its comments/suggestions vide this affidavit.*

The statements made in FORM 1 enclosed, containing a total number of -- pages of the reply herein now shown to me are true to my knowledge and based on information and I believe them to be true.

Solemnly affirm at NEYVELI on this day of **.07.2018** that the contents of the above affidavit are true to my knowledge, no part of it is false and no material has been concealed there from.

A.Ganesan
Executive Director / Commercial / NLC India Ltd.

Identified **before** me by