

BEFORE THE CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI

Filing No. _____

Case No. _____

IN THE MATTER OF

Comments and suggestions to the Consultation
Paper on Terms and Condition of Tariff
Regulations for Tariff Period 1.4.2019 to
31.3.2024

AND

IN THE MATTER OF

Torrent Power Grid Limited (TPGL)
"Samanvay", 600, Tapovan,
Ambawadi, Ahmedabad – 380 015

.....APPLICANT

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.....FILED BY

Torrent Power Grid Ltd

Ahmedabad

Date: 13.07.2018


Represented by Chetan Bundela

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Affidavit verifying the Petition

I, Chetan Bundela, son of Sh. Manharlal Bundela, aged about 46, residing at Ahmedabad do hereby solemnly affirm and state as follows:

1. I am duly authorised by the Company to make this affidavit.
2. That the facts stated in the submissions are based on the records and files of the Company and they are true and correct to my knowledge, information and belief and I believe the same to be true and correct.

Solemnly affirmed at Ahmedabad on this _____th day of July, 2018.

DEPONENT

VERIFICATION:

Solemnly affirm at Ahmedabad on this _____th day of July, 2018 that the contents of the above affidavit are true to my knowledge and belief and no part of it is false and nothing material has been concealed therein from.

DEPONENT

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IN THE MATTER OF Torrent Power Grid Limited
“Samanvay”, 600, Tapovan,
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.....APPLICANT

**TORRENT POWER GRID LIMITED RESPECTFULLY SUBMITS AS
UNDER:**

- 1 Torrent Power Grid Limited (“TPGL/ Company) originally incorporated under the provisions of the Companies Act, 1956 as Torrent Power Transmission Private Limited (TPTPL), having its registered office at “Samanvay”, 600, Tapovan, Ambawadi, Ahmedabad 380 015, is a SPV floated as a joint venture between Torrent Power Limited (TPL), a Torrent Group Company, and Power Grid Corporation of India Limited (PGCIL). Torrent Power Limited holds 74% equity stake in the Company, whereas PGCIL has a 26% share.

- 2 The Hon'ble Commission in exercise of its powers conferred under Section 61 of the Electricity Act, 2003 (36 of 2003) issues multi-year tariff regulation for determination of tariff. A Staff Consultation Paper on Terms and Condition of Tariff Regulations for Tariff Period 1.4.2019 to 31.3.2024 (hereinafter referred to as Consultation Paper) was published on Hon'ble Commission's website vide notice dated 24th May 2018.
- 3 In this regard, Torrent Power Grid Limited is submitting its comments/suggestions for the kind consideration of the Hon'ble Commission:

3.1 Alternative approach to Tariff Design: The consultation paper at Para 37 has enumerated alternative approach to tariff design.

In one of the options of alternative approach to tariff design, the consultation paper discusses **benchmarking of the capital cost**. We understand that this proposed benchmarking of capital cost is meant for only future projects and not for the existing projects (as per Table 13 of the Consultation Paper). The existing projects have been financed & commissioned by the Developers/ FIs based on the then prevailing financial criteria. Changing of such criteria mid-way through the life of the project would impact financial health of the project and will have issues on the viability of the entity. Therefore, same should not be changed.

TPGL submits that the transmission systems are to be laid down in various geographical locations based on the system strengthening, access and evacuation requirements. It would therefore be improper to generalise various factors affecting the execution and performance of transmission systems such as hilly terrain, weather conditions, wild forest zone, ROW clearances, etc. If such factors were normalised to arrive at benchmark cost

then also few entities would stand benefited from such generalisation while others would be at loss. In addition, equipment and construction costs vary considerably within the period of 5 years (which is the Tariff Control period) due to cyclic changes in the global market & economic scenario of the country. Hence, the whole concept would not be helpful especially in transmission sector wherein further investment in the network is the essential requirement to meet the future load growth. It may kindly be noted that any project gets financed based on certainty of future cash flow and investments required to fund the project. For the reasons detailed hereinabove, the capital cost of project may be higher than the benchmarked capital cost. In such scenario, the investor will have no option but to bear the losses and investor will not be willing to take such additional risk. This will impact the future investment in the power sector.

Also, the consultation paper talks about other options of considering **Annual Fixed Cost (AFC) as per centum of capital cost or fixing components of AFC as per centum of total AFC**. In this regard, we would like to state that such options would lead to generalisation of AFC that could put some entities at an advantageous position over others. In addition, generalisation of cost would not factor in the changes in the AFC components such as inflation and its effect on O&M expenses, variation of interest rates, etc. It would also be difficult to generalise cost for projects already commissioned, as depreciation would have to be adjusted as per the life of the assets. Similarly, the applicable interest rate would be different. Changing such fundamental principles would also alter the level playing field between projects that have completed most of its useful life and the ones commissioned afterwards. All of this would eventually lead to unpredictable return to the investors. This will affect the financial viability of the current projects which have been executed as per the then prevailing

regulations. In addition, estimating viability of future projects having unpredictable returns would become a huge hurdle, which would negatively affect the process of raising capital. All of these would eventually work towards hindering the growth of the sector rather than achieving the progress that the Hon'ble Commission is striving through multi-fold measures across the board.

Hence, it is **requested to consider AFC and capital cost as incurred with adequate prudence check.**

3.2 Depreciation: The consultation paper at Para 14 has enumerated various options for depreciation.

We would like to state that depreciation helps the entity in meeting with its repayment obligation. Any mismatch in the depreciation being allowed in tariff and actual repayment of loans affects the entity's cash flow negatively. It is worthwhile to note that current rates of depreciation allowed by the Hon'ble Commission are adequate to service the present debt repayments. Increase in useful life of the asset will result into deferment of the recovery of depreciation under AFC. Any such deferment and thus reduction in depreciation will adversely affect the repayment capacity of developer and will have negative impact on its debt servicing capacity. Thus, we request the Hon'ble Commission to **continue with the current rates adopted for depreciation as per the CERC (T&C of Tariff) Regulations, 2014.**

3.3 Debt Equity Ratio: The consultation paper at Para 16 has detailed various options available for passing through cost of debt.

In the current economic scenario, which has large amounts of distressed assets in the power sector, developers are finding it difficult to raise finance for power projects. With the proposed changes of further tightening of the norms, as suggested in the consultation paper, the risk on developer increases and returns are expected to come down which will make the lenders more cautious towards lending in power sector. It may happen that lenders propose to reduce their exposure in the projects to make the project viable for funding. Hence, the ratio of 80:20 would become financially unviable to the developers especially when the additional equity above normative is being considered as loan. On the other hand, it may also happen that lenders increase the rates of lending in return of additional lending. It is worthwhile to note that **increase in interest rates would negate out the impact of having lesser equity, even with reduced returns, and would increase the tariff eventually**. Rather than increasing the exposure of lenders, and putting them under further risk, it is suggested that developer who is putting incremental equity above normative should be allowed the actual level of equity in tariff. As it not only incentivises the private players by giving them adequate return from investing in the power projects, it would also reduce the overall burden on the lenders and thus on economy in general which is saddled with stressed power assets.

3.4 Return on Investment and Rate of Return: The consultation paper at Para 17 &18 has detailed various options available for allowing return to the developers.

We are of the view that Return on Equity approach should be continued. Benchmarking of ROCE is difficult in current unstable Indian financial

markets. Any variation in cost of debt would add to the risk profile of the developer. Hence, the ROCE approach should not be considered.

Under ROCE approach the benefits of reduction in interest does not pass on to the beneficiaries. The existing **ROE approach avoids regulatory uncertainty for investment to be made or planned** and also allow to pass on benefit to beneficiaries in terms of refinancing of debt. In case of ROCE approach, ROCE should be calculated from the date of financial closure to COD and accumulated ROCE up to COD should be added in total capital employed. If ROCE approach is to be employed, cost of equity should be higher than cost of Equity in ROE approach considering higher risk in ROCE approach. The risk premium should be worked out accordingly. The ROCE approach would depend on volatile debt and equity market conditions. Unpredictable market conditions are likely to affect the cash flows and could make lenders vary of lending debt to projects. We, therefore, suggest to continue with the existing approach of ROE.

Economic slowdown, change in Interest Rates and uncertainties w.r.t. land acquisition, etc. have led to an increase in the level of risks for the Developers. Factors like construction period, risks associated with the projects and the need to incentivize new investment should determine project returns. The current rate of return on equity of 15.5% gives adequate premium over the incurring costs. In addition, higher ROE should be given to the developers considering no return is given during gestation period and prevailing high uncertainty and risk in the Indian power sector.

Further, regarding the issue of post-tax or pre-tax RoE, it is humbly submitted that the Hon'ble Commission allows pre-tax RoE after by

applying tax rate. We submit that the post-tax RoE is a methodology for reimbursement of income Tax that is complex. When the unit or the plant is part of any generating company or the transmission company carrying on many businesses apart from the Regulated business, the Income tax liability should be computed on a standalone basis. However, the proposed change may give different income tax liability, attributable to such transmission network on a standalone basis, which would have been required to be paid, had the transmission company been a separate business. Therefore, TPGL requests the Hon'ble Commission to **continue the existing approach as it removes the above-mentioned complexities to segregate the "Income Tax paid" in "Core" and "Non-core" business activities**, which is required to claim reimbursement of tax from Beneficiaries under the proposed "Post tax" approach.

3.5 Cost of Debt: The consultation paper at Para 19 has detailed various options available for passing through cost of debt.

In this regard, TPGL submits that **benchmarking of debt will be difficult** since the debt market in India is still in developing stage. Further, cost of debt is decided by the lenders based on a range of consideration including specific risk profile of the project, credit rating of agencies, etc. Allowing normative rate of interest will lead to under or over recovery of interest cost. Hence, the present practice of passing on actual interest rate should be continued as it allows any variation in interest, including benefits of reduced rates, to be passed on to the end user.

We welcome the suggestion regarding revisiting the current incentives available for restructuring of the loan portfolio. Currently the benefit of refinancing is directly available to beneficiary, by way of reduction in

AFC, but there is not enough incentive available to transmission entity to exercise this option. Such change would encourage more entities to work on refinancing options and would help in reducing the burden on the end users.

3.6 Modified Gross Fixed Assets: The consultation paper at para 15 has proposed to base the returns on the modified gross fixed assets arrived at by reducing the balance depreciation after repayment of loan in respect of original project cost.

In this regard, TPGL submits that the Concept Paper contemplates a concept of reducing depreciation, over and above 70% repayment of loan, from GFA to arrive at a new base to compute debt and equity. The projects have been commissioned keeping the parameters set at the then prevailing time. Changing of such criteria mid-way through the life of the project would impact financial health of the project and may have detrimental effect on the viability of the entity. Moreover, projects that have completed 20-25 years of life as per the GFA concept would have availed full depreciation whereas the projects that have been commissioned in the past 8-10 years would suffer from such changes. Thus, such changes would distort the level playing field between the existing network developers. Therefore, any revision in GFA concept will have adverse impact on large-scale investment committed in the sector.

Therefore, TPGL **requests the Hon'ble Commission to continue the existing approach of GFA** and if any change in the said concept is to be introduced, same may be introduced for new projects and not for projects already commissioned.

3.7 Two part Tariff structure for Inter-State Transmission System: The consultation paper at para 7 has discussed the proposal to implement two part Tariff structure for Inter-State Transmission System, wherein the first part can be linked with the access service and second part can be linked with the transmission service. Further, the Hon'ble Commission had issued draft regulations for the transmission network access being CERC (Grant of Connectivity and General Network Access to the inter-State transmission system and other related matters) Regulations, 2017.

In this regard, TPGL submits that present system also levies one-time access and connectivity charges for seeking open access along with Point of Connection (PoC) charge mechanism. Draft GNA regulations speaks about levying network access as well as PoC charges. The current consultation paper also discusses about segregating AFC into access and utilisation charges. If the Hon'ble Commission wishes to implement two-part tariff, then we request the Hon'ble Commission to kindly provide **further clarity on the implementation and recovery of AFC along with GNA mechanism in totality**.

3.8 O&M Expenses: The consultation paper at para 21 has detailed out various issues arising out of deriving normative O&M expenses.

In this regard, we would like to state that the Hon'ble Commission determines the O&M expenses on the basis of normalization of actual expenses of PGCIL along with due consideration to the increase in the size of network of PGCIL. We would like to state that every asset has different life and characteristics based on the geographical location and area of operations. Further, PGCIL being a large player in transmission segment would have a volume of network and economies of scale that would not be

relatable to the operations of fixed length projects such as TPGL. Hence, there is a **need to give separate considerations to the licensee like TPGL.**

In reality the O&M expenses for Transmission line are increasing significantly year on year at a significantly higher rate. It is well known that O&M is important for transmission line as proper O&M will help to minimise outages of line and reduce the restoration time. This would improve reliability and quality of power. TPGL would like to submit that it is able to maintain high line availability as a result of prudent O & M practises.

Hence, TPGL earnestly request to consider the actual expenses of current control period (which reflects the cost of full year of the operation of all elements of the transmission network) as the basis for determination of O&M expenses for the next control period.

O&M Expenses of Bays: It may kindly be noted that as per the MOU with the PGCIL, TPGL is required to pay the O&M charges at the rate determined by the Hon'ble Commission towards the maintenance of bays (2 Nos.) installed at PGCIL substation. However, TPGL is also required to pay the Goods and Service Tax (GST) of 18% on payment of such O&M expenses to PGCIL. It may also be noted that material for maintenance of bays is also being used of TPGL and hence consumption of such material should be considered on actual over and above the charges payable to PGCIL for maintenance of bays. Hence, TPGL requests the Hon'ble Commission to give due consideration to such additional expenses.

O&M Expenses of Line: TPGL requests the Hon'ble Commission to consider the actual expenses incurred for current control period as the basis and to allow increase for the new control period considering the recent trend of WPI and CPI.

Accordingly, TPGL requests the Hon'ble Commission to kindly review the proposed O&M expenses applicable to TPGL.

3.9 Working Capital Requirement: The consultation paper at para 20 has detailed out various options for deriving normative Interest on Working Capital.

In this regard, TPGL submits that from the above it can be seen that the Hon'ble Commission has specified the receivables as equivalent to two months. However, at present under the pooling mechanism the payment is received beyond the time period of two months. Accordingly, TPGL requests the Hon'ble Commission to kindly specify the receivables as equivalent to three months of fixed cost.

3.10 Bad Debts: The consultation paper at para 31 has proposed to consider the Non-Tariff Income for reducing O&M Expenses.

In this regard, TPGL would like to state that the recovery of Bad Debts would be one of the components of the Non-Tariff Income. Further, the transmission charges of the transmission assets of the ISTS licensee is required to be recovered in accordance with the CERC (Sharing of Transmission charges and losses) Regulations, 2010. As per the Sharing Regulation, PGCIL raises invoices to DICs on behalf of ISTS licensees and disburses the amount received from DICs to ISTS licensees from time

to time. TPGL would like to submit that about 98% to 99% of amount of invoices is being realised as per the track record of receipts. In other words, around 1%-2% of transmission charges/billed amount are not received from DICs that result into bad debts. Further, bad debts written off and income arising out of recovery of bad debts should be considered at par. Therefore, if non-tariff income is adjusted from AFC then we request the Hon'ble Commission to allow bad debts written off as a component of AFC in order to bring parity to the treatment of income and expenses related to Bad Debts.

3.11 Incentive: The consultation paper at para 27 has discussed prevailing incentive mechanism.

In this regard, TPGL would like to submit that the prevalent CERC (Terms and Conditions of Tariff) Regulations, 2009 provides the NATAF for recovery of Annual Fixed Charges and the incentive consideration at 98%. The Clause 5.11 (f) of the National Tariff Policy provides that the operating parameters in tariffs should be at “normative levels” and not at “lower of normative and actuals”. If NATAF for incentive consideration is further tightened then there will be no margin for the transmission entities to improve their performance. Therefore, TPGL suggests that the NATAF for incentive consideration should be specified at the level of NATAF for recovery of Annual Fixed Charges of transmission system in line with the prevalent Regulations.

3.12 Implementation of Operational Norms: The consultation paper at para 28 has discussed the instance at which operational norms should be made applicable.

In this regard, TPGL would like to submit that as specified at Point No. 16 of Table 13 of the Consultation Paper revised Operating norms for any new control period should not be made applicable to the existing plants. If the norms are changed, then it would be desirable that new norms are implemented along with tariff order for new tariff period.

PRAYERS:

It is respectfully prayed that the Hon'ble Commission may be pleased:

1. To consider the submissions made hereinabove.
2. To condone any inadvertent omissions/ errors/ shortcomings.
3. To grant any other relief as it deems fit and appropriate under the circumstances and in the interest of justice.

.....FILED BY
Torrent Power Grid Ltd

Ahmedabad

Date:

Represented by Chetan Bundela