

BEFORE THE CENTRAL ELECTRICITY REGULATORY COMMISSION  
NEW DELHI

Filing No. \_\_\_\_\_

Case No. \_\_\_\_\_

IN THE MATTER OF Comments and suggestions to the draft Central  
Electricity Regulatory Commission (Terms and  
Conditions of Tariff) Regulations, 2019

AND

IN THE MATTER OF Torrent Power Grid Limited (TPGL)  
“Samanvay”, 600, Tapovan,  
Ambawadi, Ahmedabad – 380 015  
.....APPLICANT

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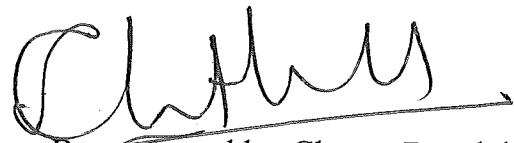
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Torrent Power Grid Ltd

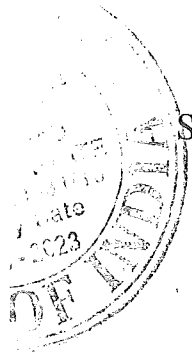
Ahmedabad

Date: 28.01.2019



Represented by Chetan Bundela





Solemnly affirmed at Ahmedabad on this 28<sup>th</sup> day of January, 2019.

DEPONENT

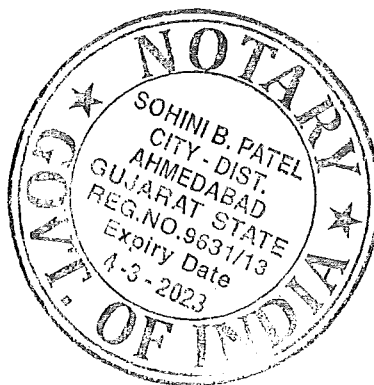
**VERIFICATION:**

Solemnly affirm at Ahmedabad on this 28<sup>th</sup> day of January, 2019 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

SOLEMNLY AFFIRMED  
BEFORE ME

SOHINI B. PATEL  
NOTARY  
GOVT. OF INDIA  
28/01/2019



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"Samanvay", 600, Tapovan,  
Aambawadi, Ahmedabad – 380 015  
.....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 178 of the Electricity Act, 2003 (36 of 2003) read with Section 61 thereof has issued the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2019 (hereinafter referred to as draft T&C Regulations) vide its draft notification dated 14<sup>th</sup> December, 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 **Running of Projects after useful life:** The draft regulations 17 (6) has proposed to adjust equity by cumulative depreciation net off cumulative repayment of loans for the projects to run after its useful life.

In this regard, TPGL submits that the draft regulations contemplates a concept of reducing depreciation, over and above 70% repayment of loan, from equity. The projects have been commissioned keeping the parameters set at the then prevailing time. The depreciation to be recovered by the developers over and above repayment of loan is one of the elements that ensures financial viability of the project. Changing of such criteria mid-way through the life of the project would have adverse impact on the financial health of the project. Moreover, projects that have completed its useful life and are running without adjusting balance depreciation would have earned RoE over a period of time without any adjustment in tariff. On the other hand, the other projects would suffer from such changes.

Therefore, TPGL **requests the Hon'ble Commission to continue the existing approach** 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.



**3.2 Return on Equity:** The Hon'ble Commission in first proviso of draft Regulation 30 (2) has proposed to allow Return on equity in respect of additional capitalization after cut-off date within or beyond the original scope at the weighted average rate of interest on actual loan portfolio.

In this regard, TPGL submits that current rate of return on equity of 15.5% should be allowed in respect of additional capitalization after cut-off date within or beyond the original scope. Economic slowdown, change in Interest Rates and uncertainties w.r.t. power sector, 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.

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 draft regulations, 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. Therefore, developer would be required to fund majority of the add cap through equity only. However, if such funding is recovered at weighted average rate of interest on actual loan portfolio then it would lead to heavy under recoveries and may discourage developer from investing in the genuine requirement of additional capitalisation. Hence, this 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.



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 and would increase the tariff eventually.** All of these 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.

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. Further, any additional capitalisation is admitted after due prudence check only. Hence, 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. This 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 that is saddled with stressed power assets.

In view of the above, we request the Hon'ble Commission to keep balanced approach i.e. allow additional capitalisation linked with actual funding and at least 15.5% post-tax RoE, if not higher.

**3.3 Working Capital Requirement & late payment surcharge:** The Hon'ble Commission in draft Regulation 34 (C) has specified the normative Interest on Working Capital.



In this regard, TPGL submits that the Hon'ble Commission has specified the receivables as equivalent to 45 days. We would like to bring to the notice of Hon'ble Commission that normally the invoices are being raised to beneficiaries once the State & Regional Energy Account is published by SLDC/RLDC. SLDC generally publishes SEA by 10<sup>th</sup> of every month (for the previous month). Hence, at present under the pooling mechanism the payment is received beyond the period of 60 days. **In view of the same, it is requested to provide at least 10 days extra in addition to 60 days of receivable provided in the existing regulations.**

In order to keep parity between provision on rebate and late payment surcharge corresponding to the provision of receivables in the calculation of normative working capital requirement, we also propose to keep 70 days period (i.e. 60 days as per the existing regulations plus 10 extra as mentioned above) as well for applicability of surcharge.

**3.4 O&M Expenses:** The Hon'ble Commission in draft Regulation 35 (3) (a) has specified the normative Operation and Maintenance (O&M) expenses. It is observed that the Hon'ble Commission has reduced the escalation rate for normative O&M expenses for Transmission line as compared to the prevailing Regulations.

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. 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.

**3.5 Non-Tariff Income:** The Hon'ble Commission in draft Regulation 72 has proposed to share certain items of non-tariff income of transmission entity in ratio of 50:50 with the beneficiaries on annual basis.

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 financials of the project. Moreover, projects that have completed 20-25 years of life would have availed major benefit of non-tariff income whereas the projects that have been commissioned in the past 8-10 years would suffer gravely now onwards from such changes. Thus, such changes would distort the level playing field between the existing network developers, which amounts to discrimination that is not envisaged under the Electricity Act, 2003.

It may kindly be noted that over and above RoE the principles laid down by the Hon'ble Commission allows the better performing utilities to achieve certain gains as well. The same is provided to encourage the utilities to out-perform the set standards that can lead to overall improvements in the performance across the power sector. These gains are already shared with the beneficiaries. **If the income earned through such gains invested by the utility is eventually required to be shared with the beneficiaries then it defeats the very purpose for which such incentive mechanism has been put in place.** This would discourage the utilities to perform better and would impact the level of performance and standard of the sector across the country. It may also be kindly noted that how the cash flow is managed by the entity is its internal matter. There can



be losses as well as gains from the decisions taken by the internal management regarding its cash flow management and investments. If the losses are not allowed to be passed on the consumers then the gains from such investments cannot be shared as well. Hence, the proposed regulation regarding sharing of income from **'interest on investments and bank balances'** is kindly requested to be removed.

Further, it is worthwhile to note that proviso to the Regulations 72 specifies that the generating companies have been exempted from sharing returns earned on RoE. It has been inadvertently missed out on specifying the exemption for Transmission entities as well. It may kindly be noted that as the regulation is common the exemption needs to be common as well and one sector cannot be discriminated over the other. Hence, the same is requested to be corrected indiscriminately.

**3.6 Deviation from the ceiling tariff:** The Hon'ble Commission in draft Regulation 76 has proposed to charge lower tariff on mutual agreement of the transmission licensee and the beneficiaries.

In this regard, TPGL submits that the tariff decided by the existing tariff regulations is actually bottom for the transmission licensee below which it will lead to under recovery. i.e. ROE is based on risk free return plus return considering the risk taken by developer, interest on loan is linked to actual weighted average rate of interest, O & M Cost is based on historical data - considering inflationary factors, etc. Further, this is in direct contraventions to the sanctity of executed/ operationalised agreements already in place. It is also humbly submitted that the same may not come under the purview of tariff determination process for transmission entities



as Section 62 of the Electricity Act, 2003 provides for ceiling tariff for generating company and distribution licensee only.

- 3.7 **Sharing of savings:** The Hon'ble Commission in draft Regulations has proposed to share the net savings in the ratio of 50:50 between licensee and beneficiaries.

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 have already impacted financials of the project. Further tightening such norms may have detrimental effect on the viability of the entity. Also, 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 and would distort the level playing field between the existing developers. These would lead to unpredictable return to the investors. 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.

Also, it is also worthwhile to note that sharing of gains in 50-50 ratio puts the **developers at disadvantage as the existing provision is not at parity i.e. loss on account of performance below normative parameters is not shared by the beneficiaries.** In view of the above, it is proposed that gains as well as losses on account of controllable parameters should be shared in the ratio of 50:50 between the developer and beneficiaries. If the sharing of loss is not acceptable then we propose to continue with existing provision



on sharing of gains in the ratio of 60:40 between the developer and beneficiaries.

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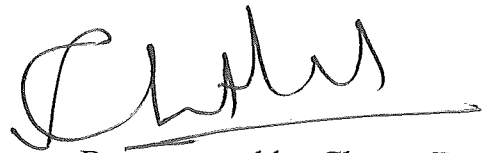
**PRAYERS:**

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



Represented by Chetan Bundela

Ahmedabad

Date: 28.01.2019