



Maharashtra State Electricity Distribution Co. Ltd.

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Ref. No: CE/PP/Draft Second Amendment/**12046**

Date: **30 June 2020**

To,
The Secretary,
Central Electricity Regulatory Commission
3rd & 4th Floor, Chanderlok Building,
36, Janpath, New Delhi – 110 001.

Subject: Comment on Draft Central Electricity Regulations Commission (Terms and Conditions of Tariff) (Second Amendment) Regulation, 2020.

Reference: CERC' Public Notice L-1 /236/2018/CERC dated 1.06.2020.

Sir,

This is with reference to CERC's public notice under reference with regard to seeking comments and suggestions of stakeholders on "Draft Central Electricity Regulations Commission (Terms and Conditions of Tariff) (Second Amendment) Regulation, 2020". MSEDCL welcomes Hon'ble CERC's steps with positive gestures for involving DISCOMs which is major stakeholder in the process of tariff determination.

However, while framing regulations, there is a need to consider the factors such as impact of same on DISCOM and its end user. Considering the significance of certain key points of the proposed Regulations, MSEDCL hereby submits its comments/suggestion in order to ensure addressing of the same in final CERC (Terms and Conditions of Tariff) (Second Amendment) Regulation, 2020.

It is requested that the same may please be taken on record and to be considered while deciding the principle and methodology to be adopted for tariff determination as proposed in the Amendment.

Thanking you,

Yours faithfully,

-sd/-

Chief Engineer (Power Purchase)
MSEDCL

Clause Reference	Clause Text proposed as per Draft	Comments/Suggestions
3 (40)	Provided further that in respect of the integrated mines, funding and timeline for implementation shall be indicated separately and distinctly in the Investment Approval.	It is to submit that Investment Approval should be supported with relevant justifications, cost benefit analysis, financial impact etc. The framework for filing Investment approval needs to be defined.
5 (3)	The date of commercial operation in case of an integrated mine, shall mean the earliest date amongst the following: a) First date of the year succeeding the year in which 25% of the Peak Rated Capacity as per the Mining Plan is achieved; or b) First date of the year succeeding the year in which the value of production estimated in accordance with Regulation 7A of these regulations, exceeds total expenditure in that year; or c) Date of two years from the Date of Commencement of Production;	It is understood that the regulation is as per Coal India's practice of COD declaration. However, MSEDCL likes to highlight the basic difference between Coal India's mines and integrated mine of a power plant. While Coal India's mines are designed to serve Peak Rated Capacity irrespective of the power plants it is selling to whereas Integrated mines might be in a position to supply coal required for power plant operations even without reaching 25% of the peak rated capacity. Thus, it should be ideally in relation with the plant's requirement and the mine's Peak Rated Capacity and not a pre-defined percentage.
11(2)	(2) The generating company undertaking any additional capitalization in integrated mine on account of change in law events or force majeure conditions may, after intimating the beneficiaries, file a petition for in principle approval for incurring such expenditure, along with underlying assumptions, estimates and justification for such expenditure, if the estimated expenditure exceeds 10% of the admitted capital cost of the integrated mines or Rs.100 crore, whichever is lower;"	MSEDCL welcomes the provision of consideration of '10%' or Rs.100 crore, whichever is lower as the tolerance limit for change in law or force majeure event. This would bring a benchmark and equal tolerance for all the integrated mines irrespective of the scale and capital cost size. It is suggested that framework for such in-principle approval may specified. Further the estimates may be based on certain budgetary offers and not on internal assessment.

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13(1a)	<p>(1a) The input price of coal and lignite from the integrated mines of the generating station for the period 2019-24 shall be trued up for:</p> <p>a) the capital expenditure including additional capital expenditure incurred up to 31.3.2024, as allowed by the Commission;</p> <p>b) the capital expenditure including additional capital expenditure incurred up to 31.3.2024, on account of Force Majeure and Change in Law, as admitted by the Commission.”</p>	<p>MSEDCL suggest that additional capital expenditure may be supported with detailed justification for each scheme and not mere information in tariff formats. The generator needs to submit cost benefit analysis, replacement cost of such assets, technical details, useful life of assets etc.</p>
36(3)	<p>The generating company shall, after the Date of Commercial Operation of the integrated mine till the input price of coal is determined by the Commission under these regulations, adopt the notified price of Coal India Limited commensurate with the grade of the coal from the integrated mine, as the input price of coal for the generating station</p>	<p>This Regulation should in accordance with Regulation 7A(a) wherein lower value of the notified price of Coal India Limited for the corresponding grade of coal supplied to the power sector and the price available in the investment plan. Till price determination both options should be explored, since the capital cost has not yet been verified and it would be prudent to link the cost with the investment plan rather than comparing with Coal India’s prices due to the case specific price estimation in the plan.</p>
36(3)	<p>The generating company shall, after the Date of Commercial Operation of the integrated mines, till the input price of lignite is determined by the Commission under these regulations, fix the input price of lignite for the generating station at the last available pooled lignite price as determined by the Commission for transfer price of lignite</p>	<p>This Regulation should in accordance with Regulation 7A(b) wherein lower value of the last available pooled lignite price as determined by the Commission for transfer price of lignite and the price available in the investment plan. Till price determination both options should be explored, since the capital cost has not yet been verified and it would be prudent to link the cost with the investment plan rather than</p>

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		comparing with pooled prices due to the case specific price estimation in the plan.
36H (3)	<p>(3) The salvage value of an asset shall be considered as 5% of the capital cost of the asset: Provided that the salvage value shall be:</p> <ul style="list-style-type: none"> i. zero for IT equipment and software; ii. zero or as agreed by the generating company with the State iii. Government for land; and iv. as specified by the Ministry of Corporate Affairs for v. specialized mining equipment. 	MSEDCL request Hon'ble Commission to consider 10% salvage in line with the power sector's practice. It is prudent to observe the fact that the mining assets are usually designed for long life than 25 years considering the reserve situations of the mine and consideration of 5% salvage is lesser to the fact that the machinery and other major equipment would still be in working condition at the end of 25 years.
36J(1)(ii)	(ii) Consumption of stores and spare including explosives, lubricants and fuel @ 15% of operation and maintenance expenses, excluding mining charge of Mine Developer and Operator or annual charges of any agency other than Mine Developer and Operator, engaged by the generating company;	As per proviso to clause 1 of 36I engaging Mine Developer and Operator, or an agency other than Mine Developer and Operator, any capital expenditure incurred by Mine Developer and Operator or such agency shall not be included for working out the Operation and Maintenance Expenses. However, while calculating Working capital this is being considered (charges of Mine developer and operator engaged by the generating agency). This needs to be excluded from the working capital requirement.
36J(2)(ii)	Consumption of stores and spare including explosives, lubricants and fuel @ 20% of operation and maintenance expenses, excluding mining charge of Mine Developer and Operator or	MSEDCL request Hon'ble Commission to consider 15% of Operation and Maintenance cost for consumption of stores and spare including explosives, lubricants and fuel. It is to

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	annual charges of any agency other than Mine Developer or Operator, engaged by the generating company; and	<p>submit that 20% is too high as there is no need to provide WC for consumption of stores and spares. Funding is already available for some of the spares of capital nature. Further O&M expense of 1 month is also provided under WC. Hence, this may be reduced to 15%.</p> <p>As per proviso to clause 1 of 36I engaging Mine Developer and Operator, or an agency other than Mine Developer and Operator, any capital expenditure incurred by Mine Developer and Operator or such agency shall not be included for working out the Operation and Maintenance Expenses. However, while calculating Working capital this is being considered (charges of Mine developer and operator engaged by the generating agency). This needs to be excluded from the working capital requirement.</p>
36I	(1) The Operation and Maintenance expenses of integrated mine for the tariff period ending on 31 st March 2024 shall be 2%, escalated at the rate of 3.5% per annum, of the average capital expenditure up to the end of each year of the tariff period as admitted by the Commission towards mining, crushing, transportation, handling and washing subject to true up:	During truing-up, Hon. Commission is requested to have prudent check of Operation and Maintenance expenses along with supporting relevant justifications.
36M	Provided that where energy charge rate based on input price of coal from integrated mine exceeds by 20% of energy charge rate based on notified price of Coal India Limited for the	The integrated coal mines have been allocated to the generating companies for specified end use generating stations, whose tariff is determined by the Commission under Section 62 of the Act. Also, integrated lignite mines have been

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	<p>commensurate grade of coal in a month, prior consent of the beneficiary(ies) shall be required;</p>	<p>allocated to other generating companies for which tariff is determined by the Commission and lignite extracted from these mines have been used for running lignite-based thermal generating stations. The proposed regulatory framework has been devised for computation of the input price of coal or lignite supplied from integrated mine to determine energy charge component of the tariff.</p> <p>As the integrated mines are owned by the generators, it is expected that the expenditure towards coal and lignite will be reduced resulting in reduction of ECR. Thus, the tolerance of 20% in ECR for prior consent of the beneficiary(ies) is very high. MSEDCL suggests that prior consent of the beneficiary(ies) should be required if rise in ECR based on input price of coal from integrated mine exceeds 10% of the ECR based on notified price of Coal India Limited for the commensurate grade of coal in a month.</p>