

Comments on ‘Terms and Conditions of Tariff for the period commencing from 1st April, 2024 – Approach Paper Thereof’ from AERC.

1. In 2012, the Commission has acknowledged inefficient operations in coal handling leading to huge loss in GCV from mine end to production of electricity and its unwarranted burden on public. Accordingly, amended CERC (Terms and Conditions of Tariff) Regulations, 2009 for computation of ECR and cost of coal, and moved from ‘GCV as fired’ to ‘GCV as received’. The same was continued in CERC (Terms and Conditions of Tariff) Regulations, 2014 and observed that the loss of GCV from mine end to plant end is very nominal and any loss beyond the certain limit, the generating companies are entitled for compensation from coal companies in terms of FSA. Accordingly, observed that any loss of GCV beyond a certain limit shall be settled among Coal Company, Railways and Generating Company. Subsequently, in order to avoid disputes between coal company and generating companies and fix the responsibility thereof, third party sampling was mandated by Ministry of Power, Government of India. However, abnormal loss in GCV is continued to prevail due to various factors such as lack of skilled man power with third party, influence of coal companies and generating companies on this party, lack of accountability of third party, non-transparent practices by coal companies and generating companies, etc, leading the public to bear this loss. On the other hand, it is also observed that the loss of GCV allowed by CERC is much more than SERCs and further this issue very prominent with certain entities. Thus, there is a need for fixing the responsibility of coal company, railways, third party and generating companies in this process to relieve consumers from this unwarranted burden.
2. In regards to determination of ECR, it is noted that the entities are submitting forms (data) in variance with the prescribed forms such as inclusion of opening stock, other charges, irrelevant claims, particularly, unaudited and without any supporting bills. Further, generators are claiming landed cost of fuel with higher imports than consumption i.e. blending ratio. Therefore, any deviation from prescribed format shall be liable to rejected. Further, as per model PPA, the fuel charges are purely a pass through but not for business or profit, however, it is observed that the generating companies are accustomed to make business / profit out of this. In order to address this issue, the GCV and landed cost of coal shall be determined based on annual audited statements along with bills w.r.t.. coal quantity, GCV, charges paid to coal company, Railways, third party, etc, rather than few selected months in a year.
3. It is noted that with the development of sector, the debt equity ratio was changed from erstwhile 50:50 to 70 : 30 in 2004. After this, the sector had rampant growth, become a prominent attractive sector, cash flows were increased and the projects under cost plus had lowest risk ever, however, neither equity has been lowered down nor return on equity has been reduced. As the banks / Financial Institutions are ready to grant the loans beyond 30 %, there is a need to revisit limit of equity as well return on equity. Further, the RoE of 15.5 – 16.5 % was decided way back, when the interest rates were sky ricketing at around 12 %, but this rate continued the same even though the interest rates are in the range of 7 – 9 %. Thus, the existing percentage of RoE need to linked with bank rate / repo rate.
4. In the past, it is observed that the actual useful life of units / projects is more than the life defined in the prevailing regulations. Accordingly, useful life needs to be redefined

and the rate of depreciation shall be reviewed and reduced to align with practical useful life. Further, 90 % of asset value is recovered as a depreciation by the completion of existing useful life, irrespective of R & M, the project cost shall be brought down to salvage value. On the other hand, the total depreciation recoverable may be either restricted to loan amount or it shall be adjusted in RoE i.e. depreciation allowed shall be adjusted either with loan and or with equity. Otherwise, 20 % of asset value as a depreciation is doubly benefitting the owners of generator and transmission companies.

5. It is noted that the existing norms allowed for SHR and Auxiliary Consumption are over and above the designed parameters. As these have a lot impact on the working capital and ECR, gradually these norms shall be brought down for all plants w.r.t existing norms. In case of the plants, whose boiler efficiency is lower than 85 % (as specified by CEA) and turbine heat rate is more than 1945 kCal / kWh, SHR shall be restricted to maximum of norms or design heat rate (without any margin), so that it will be level playing field to generators as well as consumers.
6. As the assets of generating station are being fully depreciated by the end of PPA period, the beneficiaries shall have the first right to refusal or to continue i.e. exit option. Further, as facilitated the relinquishment charges in transmission, surrendering of power shall be allowed during the period of PPA, with some penalty.
7. As per the prevailing regulations the IDC and IEDC are capitalized and leading to higher capital cost and higher RoE thereof, the existing approach is encouraging and incentivizing delay in execution of projects (upto 12 years), the fixed charges are allowed upto 15 Cr / MW and increasing the unwarranted load on public. In order to restrict this, bench mark cost shall be established and cost of new projects shall be restricted to the same. Further, as the depreciation shall be accounted only for assets in use rather than complete capital cost, after prudence check, the IDC and IEDC may be reimbursed rather than capitalizing. In addition, penalty, deduction in RoE, may be levied on delayed projects.
8. In spite of various additional capitalization under Change in Law allowed such as zero liquid discharge, reduction in water consumption, ash transportation etc, the additional capitalizations part of original scope of works, which are redundant are also continued to be allowed, to enhance the capital and RoE as much as possible. On the other hand, outcome of expenditure under Change in Law i.e. intended target and actual savings achieved on this account are neither emphasized nor passed on to beneficiaries. Therefore, prudence check shall be made prior to allow of the original scope of works. Further, the Petitioner shall be directed to submit existing specifications and envisaged specifications for detailed analysis, prior to taking a decision on the matter.
9. In order to bring transparency in expenses incurred, billing and collection, the concerned utilities shall be directed to provide expenses incurred, utility wise amount billed and received shall be made available in public domain on monthly basis.