ANDHRA PRADESH POWER COORDINATION COMMITTEE

From
Chief General Manager,
APPCC,
Vidyut Soudha,
Gunadala,
Vijayawada.

To
The Secretary,
CERC,
3rd & 4th Floor, Chanderlok Building,
36, Janpath,
New Delhi- 110001.

Lr.No.CGM(PP)/APPCC/GM(PP)/DGM(Coordn.)/F.No.IMP/D.No. 111 /23, Dt: 28.07.23.

Sir,

Sub: CERC - Approach Paper on Terms and Conditions of tariff regulations for the Tariff Period 1.4.2024 to 31.3.2029- Submission of views/comments – Reg.

Ref: File No. L-1/268/2022/CERC, Date: 13th July, 2023.

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With reference to the subject matter, the views/comments of APPCC/APDISCOMs are herewith enclosed for kind consideration while issuing draft regulation please.

Encl: As above.

Yours faithfully,

D. [signature] 28/7

Chief General Manager
Power Purchase/APPCC

Copy communicated to:

The CGM (IPC,PP&RAC)/Corporate Office/APEPDCL/ Visakhapatnam.
The CGM(IPC,PP&RAC)/Corporate Office/APSPDCL/ Tirupathi.
The CGM(IPC,PP&RAC)/Corporate Office/APCPDCL/ Vijayawada.

Comments of APPCC/APDISCOMs on the CERC Approach Paper on Terms & Conditions of Tariff Regulations for the Tariff Period FY 2024-29:

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1. **ECR of Thermal Stations to be calculated based on Billed GCV with allowable Norms for GCV Loss for Stacking.**

a) Presently, as per the existing procedures the buying entities /DISCOMs do not have any control on the quality of coal being procured by Thermal Generating stations and ultimately Grade Slippages and tested value of the Gross Calorific Values (GCVs) are manoeuvred to the disadvantage of the DISCOMs and ultimately the end consumers are bearing the burnt in terms of increased variable costs. It is observed that, third party testing is being done at mine end during loading of the coal and billing is happening based on such testing. DISCOMs do not have any say in the terms & conditions contained in the Fuel Supply Agreements (FSA) the Generators have with Coal Suppliers. The billing to the DISCOMs is carried out based on GCV testing carried out by the Generators at the plant end as incorporated in Form-15.

b) In view of this, the DISCOMs request that the GCV to be taken shall be based on third party testing values at Mine end / Loading end as per the billing with allowable slippages of loss of GCV during stacking .The GCV testing is to be carried out at sending end /mine end itself through a reputed third party testing agency as may eb empanelled by the Hon'ble CERC. Plant level testing on "as received basis" shall be dispensed with. Form-15 for estimation of ECR shall be based on billed GCV with allowable margin for GCV loss. The onus on grade slippage or proper loading at the sending end shall be looked after by the developers and risks if any are to be covered in FSA between Coal supplier and Generator and shall not be transferred to DISCOMs.

2. **Norms for Coal Transportation shall be Fixed**:

a) There are no norms for transportation cost of coal. This is a major portion in ECR for non-pithead stations. Generators are resorting to different modes of transport like All Rail (AR), Rail Sea Rail (RSR), Rail Road (RR), Rail Sea Conveyor (RSC) and a combination of these modes. Since these charges are pass through in the Regulated Tariff Regime determined under section 62 of the act, there is a possibility for misrepresenting the facts or manipulating the costs. If transportation costs on per km rail route, per km Road route or per km sea route are benchmarked, this will be helpful to the DISCOMs to optimise the power procurement costs which is very much essential to keep the retail supply tariffs to the end consumers at competitive level.

b) Due diligence of Competitive Bidding (CB) Projects (u/s 63) while determining completed capital cost of Regulated Tariff Mechanism (RTM) Projects (u/s 62).

3. Switch over to Net Fixed Assets (NFA) based approach or allow Equity depletion in the present method, in determination of Fixed Charges:

a) In the present GFA based methodology the equity continues to attract the specified Return on Equity (ROE) even after recovery of 90% of capital cost. But actually, after repayment of loans (including normative loan) the depreciation gets accrued for repayment/ depletion of equity too, where as the (RoE) is continued to be claimed on the full value of the equity.

b) Investment interest in the sector shall not be the sole consideration, the way and means of reducing the Costs transferred to end consumers is also critical and important. The present approach is allowing the Generation & Transmission Utilities to whom the tariff are determined in Regulated mechanism to record super normal profits at the cost of DISCOMs and end consumers.

c) After loans/normative loans are fully repaid with accrued depreciation, the subsequent annual depreciation is supposed to be used for repaying back the equity. It is suggested that after the loan is repaid through depreciation, equity amount to be serviced should be reduced as per the depreciation paid every year till 90% of the capital is repaid through depreciation. Thus the equity is to be reduced in commensurate with the annual depreciation so that after the Asset is fully depreciated, the value of the equity would remain 10% of the original value of the asset.

d) In the early years of Reform process the GFA approach might be reasonable because at that time it was necessary to attract investment. In the present era of tariff based competitive bidding scenario, the incentive/return on cost plus/regulated schemes should be reviewed.

e) If instead of GFA, NFA approach is followed duly resetting the NFAs at the start of every control period, with distinct specification for RoE and Interest on Debt, this will take care of debt repayment obligation of the entities and provides the reasonable return on investment as well.

f) If the complete switch over to NFA approach is difficult, at least, the RoE shall be allowed on the diminishing value of the equity after Loans/Normative Loans are fully paid. This will certainly relieve burden on the DISCOMs which are mandated to provide 24X7 quality power supply at affordable prices as per several directions/ guidelines of MoP.

4. Condense the RoE to 14% instead from 15.5%:

a) Presently the RoE is specified to be 15.5% in the current tariff period. This is in force for the past two/three control periods. Duly considering the present trends of inflation, risk free returns on Govt. Securities and the required compensation for risk in power sector investment, the Hon'ble Commission may explore the possibility of reducing the RoE to 14%.

b) Since, Income Tax on RoE is also made pass through, it is felt that 14% is more reasonable and appropriate.

5. Consider Capital Cost of similarly placed Projects selected through Competitive Bidding while determining Completed Capital Cost (CCC) of regulated mechanism Projects:

a) Under the RTM, the Hon'ble Commission is required to determine the completed capital cost of the projects for which the tariff is determined under section 62 of the act. While doing that exercise, the Hon'ble Commission may examine the capital cost of similarly placed projects selected recently through competitive bidding under section 63 of the Act so as to benchmark the Capital Cost in a most prudent manner.

6. Admission of Additional Interest During Construction (IDC) or Capital Cost on account of uncontrollable factors to be limited to 50%.

a) Several projects under Regulated Tariff Mechanism are suffering Time & Cost overruns and are not getting completed within the scheduled time. This is resulting in incurring additional costs on account of price escalation on materials, increase in labour & Transport Costs and importantly increase of Interest costs during construction period which is charged to the capital account.

b) Taking cognizance of the reasons / justification for delay in project execution on account of so called uncontrollable actors, the Hon'ble Commission is condoning the delays and thus admitting the Capital Costs to almost full extent of filings. The additional capital cost thus admitted is forming part of the tariff and putting lot of burden on the consumers. Now as per the approach paper the Land acquisition & Forest Clearance are also proposed to be treated as Uncontrollable factors.

c) Improper project management or imprudent implementation practices are not attracting any penalty. In view of this, it is requested that the Commission may set the maximum additional fixed cost to be allowed on account of delay in project execution shall be limited to 50% of claim of such additional costs.

7. Benchmark the Interest on Debt to be allowed instead of allowing actual interest incurred:

a) It is observed that the present practice of admission of interest on debt doesn't incentivise the utility to go for a better loan portfolio by making use of various avenues available in the market, to reduce the interest burden.

b) Loan swapping for interest rate reduction or currency swap with proper hedging are to be encouraged to reduce the overall burden of fixed charges. The Hon'ble Commission may explore the possibilities while framing the draft regulations.

8. Benchmark the Capital Costs for Pumped Storage Projects (PSPs):

a) Grid parity energy storage systems of 1000 MWs scale are essential for grid balancing and addressing the intermittency issues and fluctuations caused by the Renewable Energy Sources particularly Wind & Solar Projects. With the ambition of the Country to achieve 500 GW RE capacity by 2030, the need for such storage plants is double emphasized. Out of the energy storage systems available on commercial lines in the World pumped hydro storage is the time-tested, technically feasible and commercially viable option with almost 60 years life. The country has a large number of potential sites too.

b) The Indian Government has also recently revised its figure of pumped storage hydropower potential from 96 GW to 106 GW. Having identified the need and the potential, the next step is to create the market to make these projects viable. A new policy on PSPs was also notified by Govt. of India.

c) In view of the above, the draft Regulation may specify the treatment for PSPs based on Hydro power for proper harnessing of the potential for the benefits of the Grid. These projects shall be encouraged with special treatment:

9. Consider Energy Banking as a distinct activity / service and specify Regulations:

a) Energy banking is widely used by RE generators involved in Open Access transactions. In view of the enhanced penetration of RE generation as of now and its likely increase on exponential basis in the years to come as per the ambitious targets of GoI, proper balancing of the Grid is a dire requirement.
b) The impact of Balancing the grid to completely absorb the RE generation as it is conferred Must Run status and the associated costs involved in frequent ramp up/down or partial load operation of thermal generating plants to accommodate these wild variations imposed by RE projects, needs a critical study.
c) Regulations shall need to consider Banking as a separate activity and the facility of banking is to be extended with a cost.

10. Extension of Life of Plants:

a) It is good move to extend the life of the plants in view of the optimizing the capacity addition in meeting future energy requirements. But the PPAs should not deemed to be increased and are subject to the consent of parties of PPAs for extending the PPA duration after the completion of already committed duration of 25 years. Allowing Renovation and modernization expenditure after the period of 25 years needs due-diligence as to justify the extension of the life of thermal plants.

11. Rate of Interest in Working Capital:

a) It is proposed in the approach paper that the interest rate on working capital could be present MCLR+350 basis points. All the Distribution companies are in distress financial condition and are not in a position to bear this interest rate. Central Power Utilities (CPUs) by virtue of their good credit rating are enjoying interest rates at a lower side. In view of the above, DISCOMs suggest that the Rate of Interest on Working Capital can be pegged at MCLR+150 basis points.