CAPTIVE POWER PRODUCERS ASSOCIATION

(Registered U/sec. 25 of Company Act 1956 & Certificate of IT 12AA
CIN: U91990MH2003GAP141611)

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Vikas Patangia
PRESIDENT

To,

Date: 31st July, 2023

Secretary
Ministry of Power
Shram Shakti Bhawan,
Rafi Marg, New Delhi-110011
Email: secy@cercind.gov.in; tariff-reg@cercind.gov.in

Subject: Suggestions –CERC Approach Paper on Terms and Conditions of Tariff for the period commencing from 1st April, 2024

Dear Sir,

Captive Power Producers Association ("CPPA") is representing the interest of Industries in various States and UTs having captive power plants at their industries in fulfilling the energy requirement of their industries through captively produced power.

In response to your public notice dated 26th May -2023 inviting suggestions and comments from the stakeholders on 'Approach Paper for deciding principles and methodologies to be adopted for determination of Terms and Conditions of Tariff for the period commencing from 1st April, 2024', We would like to submit our comments as per the enclosed Annexure-I for your kind consideration.

Thanking you.

Yours faithfully,
For Captive Power Producers Association

Annexure-I:- Suggestions –Approach Paper on Terms and Conditions of Tariff for the period Commencing from 1st April, 2024

SL. No.	Para No.	Suggestion/Comment
1.	**4.10.2 Normative Add-Cap – Transmission System** *“ Unlike generating stations, additional capitalisation post cut-off date is rarely required in the case of transmission systems unless due to completion of useful life, performance degradation, the need for induction of new and efficient technology, Obsolescence of assets, or the absence of support from Original Equipment Manufacturer (OEM). Therefore, for Transmission Systems, additional capitalisation post cut-off date may be allowed on technological obsolescence, change in law, force majeure, or due to replacement as presently allowed under Regulation 26 and 27 of the CERC Tariff Regulations, 2019.”*	**Suggestion:** We Request the honourable commission that the additional capitalisation for Transmission Systems may be allowed post cut-off date on technological obsolescence, change in law, force majeure, or due to replacement, subject to examination if such expenses are: i. beneficial/essential for continued operations and reduce the future operating costs, ii. incurred because of unforeseen event (s) of changes in the law, iii. will bring efficiency and performance improvement.
2.	**4.13 Depreciation** *“…It is observed that while specifying the depreciation rate, the tenure of the loan considered is 12 years, whereas the life of most of the assets is between 25 and 40 years. It is observed that shorter loan duration and higher depreciation in the initial years have resulted in front loading of tariffs. Considering that nowadays loans are available for 15-18 years, the possibility of increasing the loan tenure for the computation of depreciation rates needs to be explored. Excessive front loading of tariffs increases resistance to future investments. For example, external loans have much lower interest rates, therefore, spreading depreciation over longer periods in the case of external loans can be a viable option for reducing costs in the initial years, which shall, however, include FERV*	**Suggestion:** We request the honourable commission, as proposed in the para 4.13, the depreciation rates for generating and transmission should be specified considering a loan tenure of 15 years instead of the current practice of 12 years. Further, additional provisions may also be specified that allow lower rate of depreciation to be charged by the generator <u>and transmission licensee</u> in the initial years if mutually agreed upon with the beneficiary (ies).

SL. No.	Para No.	Suggestion/Comment
	factor and other financing cost. Therefore, there is a need to create a balance and align the depreciation rate with the actual loan tenure and life of the assets. <u>*In view of the above, a depreciation rate may be specified considering a loan tenure of 15 years instead of the current practice of 12 years. Further, additional provisions may also be specified that allow lower rate of depreciation to be charged by the generator in the initial years if mutually agreed upon with the beneficiary (ies).”*</u>	**Rationale:** While specifying depreciation rates for generation and transmission assets may require a different and practical approach as the useful life of the assets can be different in both cases. By increasing load duration for the purpose of calculation of depreciation rate will result in much reduced tariffs in the initial years.
3.	**4.16.2 Differential RoE Generation and Transmission Businesses with a reduction in RoE for Transmission Business** *“Further, Forum of Regulators, in its Report on “Analysis of Factors Impacting Retail Tariff And Measures To Address Them” with regard to RoE, has recommended as follows.* *‘In the entire value chain, transmission business has the lowest risk. The RoE for transmission companies should therefore, be reviewed immediately. RoE for generation and transmission should be linked to the 10 year G Sec rate (average rate for last 5 years) plus risk premium subject to a cap as may be decided by Appropriate Commission. For a Discom, the RoE could be fixed based on the risk premium assessed by the State Commission. Income tax reimbursement should be limited to the RoE component only.’* <u>*FOR has recommended differential RoE for Generation and Transmission Businesses with a reduction in RoE for Transmission Business.*</u>	**Suggestion:** The proposal of differential RoE Generation and Transmission Businesses with a reduction in RoE for Transmission Business is a welcome move and the same is required to reduce the overall average cost of electricity. We request the honourable commission to consider the said proposal while framing the tariff regulation.

SL. No.	Para No.	Suggestion/Comment
4.	***4.16.4 Methodology for Calculation of ROE*** *" It is further observed that even though the present Tariff Regulations, specify* <u>*RoE @ 15.50%,*</u> *considering the gestation period involved, the effective IRR works around 12%. While IRR of 12% is considered reasonable, the effective return is adversely impacted with delay and even if the entire delay is condoned, the effective return keeps on reducing."*	**Suggestion:** The specified RoE at an assured rate of 15.5% is adequate to attract investment in the sector. The Forum of Regulators, in its report *"Analysis of Factors Impacting Retail Tariff And Measures To Address Them"*, has recommended for differential RoE for Generation and Transmission Businesses with a reduction in RoE for Transmission Business. We request the honourable commission to consider specifying reduced RoE for Transmission Business as compared to generation business while framing the tariff regulation.