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KARNATAKA POWER TRANSMISSION CORPORATION LIMITED

Corporate Identity Number (CIN): U40109KA1999SGC025521

Registered Office of the Company, Corporate Office, Kaveri Bhavan, K.G Road, Bengaluru -560009.

No. KPTCL/B36/ 45569/2022-23/ 828
Encl:

Date : 08-08-2023

**The Secretary,
Central Electricity Regulatory Commission (CERC),
3rd and 4th Floor, Chanderlok Building,
36, Janpath,
New Delhi - 110001**

Sir,

Sub: CERC Approach Paper on Terms and Conditions of Tariff Regulations, For Tariff Period from 01.04.2024 to 31.03.2029- Suggestions/ Comments- Regarding

Ref: 1. CERC Public Notice No: L-1/268/2022/CERC Dated: 03.07.2023.
2. CERC Public Notice No: L-1/268/2022/CERC Dated: 13.07.2023.

Central Electricity Regulatory Commission (CERC) vide Public Notice Dated :03.07.2023 cited under reference has sought comments /suggestions on the Approach Paper on Terms and Conditions of Tariff Regulations for the Tariff Period from 01.04.2024 to 31.03.2029.

In this regard, I am directed to enclose herewith the comments/suggestions of KPTCL on the Approach Paper on Terms and Conditions of Tariff with a request to kindly place the same before the Hon'ble Commission for incorporating the suggestions made by KPTCL in the Draft Amendment Regulations.

*"This issues with approval of
The Director (Finance), KPTCL."*

Yours faithfully,


**Financial Advisor
Regulatory Affairs**

Comments / Suggestions of KPTCL on the "CERC Approach Paper on Terms and Conditions of Tariff Regulations, For Tariff Period from 01.04.2024 to 31.03.2029".

Sl. No.	Clause No.	As per CERC Approach Paper	Comments of KPTCL
1.	7.1.1	Alternative Approach to Tariff Determination:	Approach No.2 i.e., the existing Performance Based Hybrid Approach may be continued.
2.	7.1.2	Normative Tariff :	
	3.	Whether clustering the components of AFC based on their nature to increase/ decrease will allow better projections? Any other possible method to cluster the AFC components?	It is appropriate to retain Employee cost separately (out of the cluster) and cluster the remaining components namely R&M expenses and A&G Expenses in AFC.
	4.	What other methodology can be adopted to determine the increasing/ decreasing factors?	- No Comments-
	5.	Whether the impact of additional capitalisation can also be allowed through the same indexation mechanism or through a separate revenue stream?	Additional capitalisation is incurred to increase the performance and strengthen the existing system. Hence, the same needs to be allowed through a separate revenue stream.
3.	7.1.3	Interim Tariff:	
	6.	The provisions for interim-tariff can, therefore, be continued in the next tariff period as well. However, comments and suggestions are sought from stakeholders on the continuation of the said provision.	The provisions for interim-tariff can, therefore, be continued in the next tariff period as proposed.

4.	7.1.4	Procurement of Equipment and Services	
	7.	Need to mandatorily award work and services contracts for developing projects under the regulated tariff mechanism through a transparent process of competitive bidding, duly complying with the policy/guidelines issued by the Government of India as applicable from time to time.	Presently the same mechanism has been followed in the transmission utility i.e, Equipment and Services are obtained through a process of transparent tendering mechanism as per prevailing KTRP Rules (Karnataka Transparency in Public Procurements)
5.	7.1.5	Reference Cost – Benchmark Cost V/s Investment Approval	Transmission System – Cost depends on factors such as tower design, terrain, soil type, wind zones etc. Therefore, Benchmarking cost is not serving the purpose and therefore project specific investment approvals are better with prudence check.
6	7.1.6	Capital Cost- Hydro Generating Stations	- No Comments-
7	7.1.7	Capital Cost-Project Acquired post NCLT Proceedings	Historical cost or Acquisition cost whichever is lower should be considered for the determination of tariff post approval of Resolution Plan.
	12	Historical Cost or Acquisition Value, whichever is lower, should be considered for the determination of tariff post approval of Resolution Plan.	
	13	Tariff provisions to be included to address the issue of the cost of debt servicing, including repayment, that were allowed as a part of the tariff during the CIRP process	
8	7.1.8	Computation of IDC	The same may be allowed on pro-rata basis corresponding to the delay condoned.
9	7.1.9	Treatment of LD	The same may be allowed on pro-rata basis corresponding to the delay condoned.
10	7.1.10	Price Variation	Price variation should be analyzed on case to case basis considering the delay in commissioning of the project.

11	7.1.1.11	Renovation and Modernization (R&M)	The current provisions may be continued duly ascertaining cost reasonability .
12	7.1.1.12	Initial spares	The proposal of single norm may be considered for each class of transmission asset.
13	7.1.1.13	Controllable and Uncontrollable Factors	As existing may be continued. However, delay due to forest clearance, judicial proceedings, land acquisition and obtaining other statutory approvals is not attributable to transmission licensee. Delay on account of forest clearances may be included as uncontrollable reasons provided that such delay is not attributable to the transmission licensee.
14	7.1.1.14	Differential Norms-Servicing Impact of delay	The current mechanism of treating time overruns may be continued, considering that Utilities are automatically disincentivized if the project gets delayed
15	7.1.1.15	Additional Capitalisation	Additional Capitalisation is incurred on account of uncontrollable reasons and sometimes are found to be essential for continued operations.
16	7.1.1.16	Normative –Add-Cap-Generating Stations	No Comments
17	7.1.1.17	Normative –Add-Cap-Transmission System	Additional capitalization 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.
18	7.1.1.18	GFA/NFA/Modified GFA approach	Gross Fixed Asset Approach may be continued for the reason that it provided internal resources for capacity replacement/addition through return on equity as it allows cumulative depreciation on assets going beyond the debt component.

19	7.1.19	O &M Expenses	<p>The O&M Expenses may be segregated into Two Broad Categories i.e. Employee Expenses and other O&M Expenses comprising of R&M and A&G Expenses.</p> <p>The actual wage revision can be allowed to cater the impact of pay/wage revision.</p>
20	7.1.20	Depreciation	<p>It is better to continue the tenure as 12 years only. Though long term loans are available for 15-20 years, most of the loans which are running have to be repaid. Keeping in view of the financial health of utilities, it is better not to revise depreciation tenure.</p> <p>If the depreciation tenure/rate is lowered, they will be left with lesser amount for repayment of earlier drawn loans.</p>
21	7.1.21	Interest on Loan	Weighted average actual rate of interest of the Transmission licensee may be considered.
22	7.1.22	ROE/RoCE approach	The present system i.e., ROE approach may be continued.
22	7.1.24	Tax Rate	Tax rate shall be as per prevailing Tax Law from time to time and Tax amount can be allowed as per actuals.
23	7.1.25	Interest on Working Capital	Existing norms may be retained.
24	7.1.26	Life of Generating and Transmission System	<p>The existing life of the transmission system may be continued.</p> <p>In case of Transmission Sub-stations it is observed that the assets can operate way beyond 25 years similar to transmission lines.</p> <p>It is however observed that one of the factors that has enabled these assets to operate beyond 25 years is</p>

25		regular operations and maintenance carried out by the utilities. The Commission in the past has allowed special allowance to these assets in order to take care of the increasing need of repairs that is required to keep the equipment operating efficiently. As the need for higher repairs will still be required therefore the current dispensation of allowing special allowance may be continued post 25 years.
26	7.1.43 Decommissioning of Transmission Assets	De-commissioning of the Asset before depreciation results in cost. But, however, the Tr. Assets have some salvage value which can compensate these costs. The additional cost/burden on decommissioning due to technical obsolescence may not be significant.
27	7.1.44 Simplification of Tariff Formats	The existing Tariff Formats may be continued.
27	7.1.45 Approval process for carrying out non-ISTS lines carrying inter-state power and associated Capital Cost	The earlier approach of certification of non-ISTS lines used for carrying inter-State power may be continued and incorporated in the present Tariff Regulation.


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