



KERALA STATE ELECTRICITY BOARD LIMITED

Incorporated under the Companies Act, 1956

Corporate identity Number: U40100KL201 ISGC0272424

Regd Office: VidyuthiBhavanam, Pattom, Thiruvananthapuram – 695004

Office of the Deputy Chief Engineer, Tariff and Regulatory Affairs Cell

IX Floor, Phone (O) +91 471 2514617, 2514317, 2514650

E-mail: trac@kseb.in, web: www.kseb.in

KSEB/TRAC/CG/Approach paper 2024-29/2023-24/ 301

01 8-2023

To

The Secretary,
Central Electricity Regulatory Commission

Sir,

Sub: Approach paper on Terms and Conditions of Tariff Regulations 2024 – Remarks –reg:

Ref: 1. Approach paper notified by CERC vide No.L-1/268/2022/CERC .

Kind attention is invited to the approach paper on Terms and Conditions of Tariff Regulations, 2024 notified by CERC vide reference. The comments of KSEBL on the same are enclosed.

Yours faithfully,


Chief Engineer (Commercial & Tariff)

	Comments
<p>3.1 Tariff determination - General Approach</p> <p>Approach -1 : Normative tariff</p>	
<p>1) 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?</p>	<p>Normative tariff approach will not help in correct cost recovery and it can always lead to over and under recovery of cost. Every cost item shall be accountable before passing through to the beneficiaries. Therefore prudence check is mandatorily required along with truing up of cost. Normative tariff approach will not lead to prudent cost recovery. Through this approach, Hon'ble Commission is trying to dispense away the truing up process with respect to the capital cost. It is proposed that Post expiry of each tariff period, the Commission shall call upon relevant data (on weighted average rate of interest and Interest on Working Capital, Working Capital) and revise only the indexation factor pertaining to "AFC excluding O&M component" approved at the time of tariff determination for each Project for each year. Therefore, this approach proposed to reduce the regulatory exercise of prudence check may kindly be avoided. It is proposed under this method that there shall be no revision to the indexation with regard to O&M expenses pertaining to the past tariff period. Currently, O&M expenses are based on norms. Even if actual O&M expenses are above norms, the allowable O&M expenses are limited to the norms. Any gain due to better performance have to be passed through. However, with no retrospective revision of indexation of O&M expenses, this is not achieved. Also, how wage revision in the control period is factored, is not clear as the approach paper says that there shall be no revision to the indexation with regard to O&M expenses pertaining to the past tariff period. It is further submitted that this approach will not relieve the Regulators from the burden of voluminous petitions as petitions are to be examined generating station wise to determine indexation factors for a control period and post control period also, for fixing revised indexation factors. 1.2As the operating parameters of existing generation and transmission projects are well known, the tariff of such projects may be decided by giving more weightage to actual parameters. It may be submitted that these actual parameters may be subjected to a ceiling and the ceiling values may be fixed by analyzing the previous operating parameters and performance standards of the existing stations.</p>
<p>2) What other methodology can be adopted to determine the increasing/ decreasing factors?</p>	<p>1.3Many of the operating parameters adopted in tariff determination such as auxiliary consumption, Plant Load Factor (PLF) for full fixed cost recoveries, Target Availability level for incentives, O&M expenses etc are normative values. But the actuals for years together are consistently better than the normative figures adopted by the Commission. Thus, CPSUs are allowed to make huge profit through normative values adopted by the CERC for tariff determination and such additional profit is to be borne by the utilities as it being a pass through item as per prevailing norms.</p>
<p>3) Whether the impact of additional capitalisation can also be allowed through the same indexation mechanism or through a separate revenue stream?</p>	<p>1.4One of the prime objectives of the Electricity Act-2003 and the National Tariff Policy notified by the Central Government is cost optimization, achieving better operating efficiency and providing cheaper power to the ultimate consumers. But, the proposal notified by the Hon'ble Commission has not considered the interest of the end users/ beneficiary utilities, but has ensured full protection of the interest of the CPSUs.</p> <p>1.5Hence, KSEB request before the Hon'ble Commission that more weightage to actual values so as to improve efficiency and reduction in costs and tariff of CPSUs and to pass on such benefits to the beneficiaries.</p>
<p>Approach 2: Performance Based Hybrid Approach</p>	

3.3.1	<p>With regard to Energy Charge, it is observed that the Commission has already specified an adjustment mechanism wherein Energy charges are claimed on an actual basis, however, the possibility of specifying working capital requirements on a normative basis which can factor in the variations due to actual fuel prices and interest rates to be considered for computing interest on working capital on a normative basis, needs to be explored</p>	<p>Working capital may not be fixed on normative basis. Also it is requested that while truing up along with the truing up of interest rates, the cost of fuel and the actual stock of fuel maintained by the generators may also be considered while fixing interest on working capital. As per the coal stock report published in public domain, the percentage of actual coal stock with respective to the normative coal stock for domestic coal based non pit head and imported coal based stations are only in the range of 50-60%. However, the CERC (Terms and Conditions for determination of Tariff) Regulations allows Interest on Working capital on normative basis of coal stock irrespective of whether the generator maintains coal stock or not. Non-adequacy of sufficient coal stock in generating stations have recently resulted in power crisis throughout the Country and MoP came with stringent directions to generators to blend imported coal.</p>
	<p>The Regulation at present only allows interest on normative loan capital at the actual weighted average rate of interest. It is to be analysed whether this interest rate can also be fixed with linkage to the reference rate</p>	<p>Ceiling rates of interest on loan may be fixed for interest on normative loan computation for determining tariff depending on the prevailing lending rates for long term loans.</p>
4.2	Continuation of interim tariff	
	<p>The provision 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.</p>	<p>The interim tariff provision can be continued. However, the final tariff may be fixed without delay to prevent interest burden on the utilities. Therefore, time limit may be specified within which final tariff petition has to be filed by the utilities.</p>
4.2.2 : Procurement of Equipment and Services	<p>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.</p>	<p>Yes, transparent competitive bidding duly complying with the policy/guidelines issued by the GoI may be adopted for awarding work and services.</p>
4.2.3 Reference Cost for Approval of Capital Cost – Benchmark Cost V/s Investment Approval Cost	<p>Comments and suggestions of stakeholders are invited on other efficient reference costs other than Investment Approval costs that can be considered for prudence checks</p>	<p>Considering the importance of the capital cost and its impact on tariff, the Commission shall take all possible efforts, based on the provisions in the Electricity Act-2003 to contain the capital cost within the acceptable limit. Hon'ble Commission may fix a ceiling limit on capital cost which shall be the benchmark capital cost notified by Hon'ble Commission. The CPSUs shall not be allowed to incur any amount above such approved limits. Capital cost shall not be admitted on normative basis and shall be only on the basis of audited actuals subject to capping as submitted above. While fixing the ceiling cost, Commission can consider the investment cost approved by Commission for similar projects excluding the cost due to time overrun and cost overrun.</p>
4.2.4 Capital Cost of Hydro Generating Stations	<p>Suggestions are, therefore, invited for alternate ways to bid hydro projects as per the policy/guidelines that may be specified by the Government of India from time to time</p>	

	<p>incentivise the developer if it executes the project faster/ or ahead of schedule and vice-versa if it delays</p>	
<p>4.3 Capital Cost for Projects acquired post NCLT Proceedings</p>	<p>1. Historical Cost or Acquisition Value whichever is lower should be considered for the determination of tariff post approval of Resolution Plan. 2. 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.</p>	<p>Historical Cost or Acquisition Value whichever is lower should be considered for the determination of tariff post approval of Resolution Plan.</p>
<p>4.4 Computation of IDC – Post Scheduled COD</p>	<p>1. Existing mechanism wherein the pro-rata deduction (based on delay not condoned) is done on IDC beyond SCOD. 2. Pro-rata IDC may be allowed considering the total implementation period wherein the actual IDC till implementation of the project is pro-rated considering the period upto SCOD and period of delay condoned over total implementation period. 3. IDC approved in the original Investment Approval to be considered while allowing actual IDC in case of delay.</p>	<p>Existing mechanism wherein the pro-rata deduction (based on delay not condoned) is done on IDC beyond SCOD.</p>
<p>4.4.2 Treatment of Liquidated damages</p>	<p>Necessary changes in tariff forms and regulations, if any, to provide further clarity on the adjustment of LD.</p>	<p>Yes, changes in tariff forms and regulations are required to provide further clarity on adjustment of LD. Further, supporting documents to prove the amount of LD to be furnished.</p>
<p>4.5 : Price variation</p>	<p>For allowing price variation, the utilities may be mandated to submit the statutory auditor certificate along with the petition duly certifying the price variation corresponding to delay and the same may be allowed on pro-rata basis corresponding to the delay condoned. Further, a separate form may also be specified to submit the relevant information pertaining to price variation</p>	<p>Band for allowable price variation may be fixed considering the whole sale price index variation.</p>
<p>4.6: Renovation & Modernisation</p>	<p>Continuation of the existing provisions and on the above suggestion of continuing with Special Allowance, if opted at the beginning of the tariff period for the rest of the tariff period.</p>	<p>Special Allowance may be continued. However, the utilization of special allowance granted may be examined and if it is found that the utility is not utilizing the same for R&M activities, the same may be disallowed in truing up.</p>
<p>4.7 : Initial spares</p>	<p>A single norm can be considered for each of the following classes of transmission assets: 1. Transmission Lines, including HVDC lines 2. Substations (including HVDC S/s) 3. Dynamic Reactive Compensation devices 4. Communication Systems 5. Underground cable</p>	<p>Acceptable</p>

<p>4.8 : Controllable and Uncontrollable factors</p>	<p>Continued inclusion of delay on account of land acquisition as an uncontrollable factor and on the further inclusion of delay on account of forest clearances as an uncontrollable factor.</p>	<p>Delay on account of land acquisition and getting forest clearance may not be included as an uncontrollable factor, because these delays can be avoided or minimized with proper follow up and intervention by the utilities.</p>
<p>4.9: Differential Norms - Servicing Impact of Delay</p>	<p>1. To encourage rigorous pursuit of such approvals from statutory authorities, even if delay beyond SCOD on account of clearances and approvals that are condoned, some part of the cost impact (Say 20%) corresponding to the delay condoned may be disallowed. 2. Alternatively, RoE corresponding to cost and time overruns allowed over and above project cost as per investment approval may be allowed at the weighted average rate of interest on loans instead of a fixed RoE. 3. The current mechanism of treating time overrun may be continued, considering that utilities are automatically disincentivised if the project gets delayed.</p>	<p>Time overrun and cost overrun due to uncontrollable factors may only be allowed. RoE corresponding to cost and time overruns allowed over and above project cost as per investment approval may be allowed at the weighted average rate of interest on loans instead of a fixed RoE.</p>
<p>4.10: Additional capitalization</p>	<p>A provision may be introduced to existing Regulation 26 to allow costs pertaining to Railway Infrastructure and its augmentation for transportation of coal up to the receiving end of the generating station they are found to be beneficial/essential for continued operations.</p>	<p>Railway infrastructure for transporting coal forms part of the original capital investment of a project. As these works form part of original capital investment the provision of which is already there under Regulation 24, there is no requirement for adding additional provision for the same.</p>
	<p>Additional Capitalisation within the original scope of work executed after the cut-off date, including replacement under certain conditions. (Regulation 25). generally not substantial but recurring in nature, and it has been observed that the same, for one reason or another have been recurring time and again, which is one of the prime reasons for which the entire exercise of tariff determination of hundreds of assets is done twice in the same tariff period. As the entire exercise does not have big impact on tariffs, possible options, if any, need to be explored to eliminate the need for such an elaborate exercise.</p>	<p>It is submitted that to avoid such tariff revision exercise, it is remarked that such add cap occurring after the cut-off date may be allowed only through true-up exercise.</p>

<p>4.10.1 Normative add-cap</p>	<p>Thermal Generating Stations – Based on the analysis of actual additional capitalisation incurred by such generating stations in the past (15-20 years) and co-relating such expenses to different unit sizes such as 200/210 MW series, 500/660 MW Series and different vintages (5-10, 10-15, 15-20, 20-25 years post COD), a special compensation in the form of yearly allowance may be allowed based on unit sizes and vintage, which shall not be subject to any true up and shall not be required to be capitalised.</p> <p>2. Hydro Generating Stations – As each hydro generating station is unique owing to various factors, additional capitalisation of such generating stations may not benchmarked as can be done for thermal generating stations. However, in the case of a specific hydro generating station, the additional capitalisation is recurring in nature, and hence station wise normative additional capitalisation may be approved in the form of special compensation which shall not be subject to any true up and shall not be required to be capitalised.</p> <p>3. While determining such special compensation for a thermal or hydro generating station, costs incurred towards works presently covered under Regulation 26 to Regulation 29, wherever applicable, may not be included as these expenses may be allowed separately.</p> <p>4. Further, any items that cost below Rs. 20 lakhs that may be in the nature of minor items such as tools and tackles, and those pertaining to Capital Spares may be allowed only as part of O&M expenses and may not be considered as part of additional capitalisation in case of both thermal and hydro generating stations.</p> <p>5. Further, discharge of liabilities of works already admitted by the Commission as on 31.03.2024 may be allowed as and when such liability is discharged</p>	<p>Add cap may not be allowed on normative basis. It is submitted that to avoid large number of petition for add-cap, it is submitted that special allowance may only be allowed for meeting add cap occurring after cut-off date. However, the utilization of special allowance granted may be examined and if it is found that the utility is not utilizing the same for R&M activities, the same may be disallowed in trueing up.</p>
---	---	--

	<p>Further, for generating stations whose cut-off date falls in the next tariff block (2024-29), or are expected to achieve COD after 31.03.2024, the following approach can be adopted.</p> <ol style="list-style-type: none"> 1. By extending the cut-off date from the current 3 years to 5 years, which shall allow time to close contracts and discharge liabilities and eliminate the need to allow additional capitalisation post cut-off date unless in the case of Change in Law and Force Majeure. 2. However, based on past data of similar existing generating stations, if there is a need to allow additional capitalisation that may be legitimately required post cut-off date other than those presently allowed under Regulation 26 to 29, the same may be allowed as special compensation as proposed in the case of existing station that have crossed the cut-off date. 3. While determining special compensation for a thermal or hydro generating station, costs incurred towards works presently covered under Regulations 26 to 29, wherever applicable, may not be included as these expenses may be allowed separately. 4. Further, any item that costs below Rs. 20 lakhs that is in the nature of minor assets, including Capital Spares below Rs 20 lakh, can be allowed only as part of O&M expenses and may not be considered as part of additional capitalisation in case of both thermal and hydro generating stations. Further, any major capital spares costing above Rs. 20 lakh may form part of the special compensation. 5. Further, discharge of liabilities of works already admitted by the Commission as on 31.03.2024 may be allowed as and when such liability is discharged 	<p>No extension of cut-off date may be allowed. Minor expenses may be booked under O&M expenses.</p>
<p>4.10.2 : Add cap - transmission</p>	<p>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.</p>	

4.11	GFA/ NFA/ Modified GFA approach.	<p>CERC presently following GFA approach for tariff determination except for old stations of NLC. As per the GFA, the rate base is not reduced considering the depreciation and assets written off. Hence, as per the GFA, the same equity base and return is allowed throughout the entire life of the asset.</p> <p>But, NFA approach adopts a reducing rate base considering the amount of cumulative depreciation. Reducing the depreciation from the gross capital would result in lowering the capital base and reduction in the tariff.</p> <p>The Hon. Commission has allowed the GFA approach in the all the Tariff Regulations, with an intention to allow additional resources for mobilising fund for reinvestment in power sector. But the situation has completely changed now. There is no scarcity for fund in the financial markets to invest in power sector. Hence it is not justified now in continuing the GFA approach that results into additional financial burden to the beneficiaries and ultimate consumers.</p> <p>It is requested before the Commission that, while framing the terms and conditions of Tariff, Hon'ble Commission may consider the very weak financial position of the beneficiaries and that of ultimate consumers. The Electricity Act-2003 and Tariff Policy also envisage for introducing competition and ultimately cost of power. But, most of the norms adopted by the CERC based on the 'cost plus' approach puts the mission in reverse gear which are against the interests of the beneficiaries and consumers and benefits only the central PSUs to earn immense wealth at the cost of utilities.</p> <p>Hence, KSEB recommends adopting NFA approach for tariff determination with accumulated depreciation deducted from the Gross Capital Cost.</p>
4.12.1	Segregation of Normative O&M Expenses	<p>Provision for wage revision may not be included under norms. There is no provision for revision of norms and so there will be over recovery of cost if actual wage revision is not happening in the tariff period. Therefore, wage revision may be allowed only on actual basis.</p>
4.12.2 Norms for HVDC Stations	<p>one norm for all HVDC schemes in terms of per MW considering the actual expenses incurred in the past may be specified.</p>	Acceptable
4.12.3 O&M Norms for Special Cases	<p>Whether additional O&M expenses can be given for transmission assets being operated in the North Eastern and Hilly Regions and the manner in which such additional costs can be considered.</p>	Not acceptable. The data of actual O&M expenses incurred for transmission assets operated in North Eastern and Hilly Regions are not available for assessing the same.
4.12.4 : Inclusion of capital spares	<p>If the capital spares can be projected with some degree of predictability, the same may be allowed on a normative basis along with O&M expenses.</p> <p>Alternatively, instead of including all such capital spares as part of normative O&M expenses, recurring and low value spares below Rs. 20 lakh may be made part of normative O&M expenses, while for capital spares with a value in excess of Rs. 20 lakh, utilities may submit the same on a case to case basis for reimbursement with appropriate justification for the Commission's consideration.</p>	Spares may be accounted under normative O&M expenses only

4.12.5 Impact on account of Change in Law and Taxes	Whether to include any provisions with regard to allowing impact of a change in law on O&M expenses	In the present regulatory regime, supplementary charges are allowed for installation of FGD systems, which is a change in law situation. It is submitted that change in law cases may be dealt on case to case basis and no provisions may be included for the same in O&M expenses.
4.14 Interest on Loan	To simplify the approval of interest on loans, the weighted average actual rate of interest of the generating company or transmission licensee may be considered instead of project specific interest on loans. Further, the cost of hedging related to foreign loans be allowed on an actual basis, without allowing any actual FERV.	
4.15 RoE	Proposed methodology for estimation of RoE and alternative suggestions, if any 1. Review of Rate of RoE to be allowed, including that to be allowed on additional capitalisation that is carried out on account of Change in Law and Force Majeure. 2. Whether the revised rate of RoE to be made applicable to only new projects or to both existing and new projects? 3. Whether timely completion of hydro generating stations can be incentivised to attract investments? 4. Merit behind approving different Rate of RoE to thermal, hydro generation and transmission projects with further incentives for dam/reservoir based projects including PSP. 5. Merit in allowing RoE by linking the rate of return with market interest rates such as G-SEC rates/MCLR/RBI Base Rate.	1. Allowing RoE for old projects that have completed the useful life may not be allowed. 2. Timely completion of hydro projects is already incentivized through early recovery of tariff, so no need to further incentivization. 3. KSEB feels that there is no need for a differential rate of return for the various projects and the same normative RoE can be made applicable for generation, and transmission projects as the market rate and risk premium for the above mentioned projects are not different.
4.18.1	Any modification that may be required in the WORKING CAPITAL norms.	Working capital may not be fixed on normative basis. Also it is requested that while truing up along with the truing up of interest rates, the cost of fuel and the actual stock of fuel maintained by the generators may also be considered while fixing interest on working capital. As per the coal stock report published in public domain, the percentage of actual coal stock with respect to the normative coal stock for domestic coal based non pit head and imported coal based stations are only in the range of 50-60%. However, the CERC/Terms and Conditions for determination of Tariff/Regulations allows Interest on Working capital on normative basis of coal stock irrespective of whether the generator maintains coal stock or not. Non-adequacy of sufficient coal stock in generating stations have recently resulted in power crisis throughout the Country and MoP came with stringent directions to generators to blend imported coal.
4.19 : Useful life of generating stations & transmission system	The useful life of coal based thermal generating stations and transmission sub-stations may be increased to 35 years from the current specified useful life of 25 years.	Acceptable
	As the need for higher repairs will still be required, the current dispensation of allowing a special allowance or provision of R&M may be continued after 25 years	Acceptable