Comments/ Observations on the CERC Approach Paper on Terms and Conditions of Tariff Regulations for Tariff Period 1.4.2024 to 31.3.2029

Sl. No.	Clause No.	Existing Clause	Comments/Observations & Proposed Clause
1	***4.4.1 Computation of IDC – Post Scheduled COD***	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.	**IDC beyond schedule COD may be disallowed** and incase delay beyond SCOD is condoned for any reasons after prudent checks by Hon'ble commission, some **part of the cost impact (Say 50%) corresponding to the delay condoned may be disallowed.** **Justification**: During this delay period DISCOMs are procuring the costly power from markets and generator should also made liable for delay
2	***4.8.1 Delay towards obtaining Forest Clearance***	*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.*	This is not accepted, as regular pursuance at higher level will quickly resolve the issues; this is controllable factor. No need to consider under uncontrollable factor
3	***4.9 Differential Norms - Servicing Impact of Delay***	*Even if delay beyond SCOD is condoned for any reasons, some part of the cost impact (Say 20%) corresponding to the delay condoned may be disallowed.*	This is welcome move, this will caution generator in timely completion of project and in present scenario Planning and pursuance at higher level will get approval at within time. Cost impact may be increased to **50 % to the delay condoned may be disallowed.**

4		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.	Delay happens because inefficiency/poor planning from generator side; in view of this generator should be **disincentivised** for the same.
5	***4.10 Additional Capitalization***	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 Majeur	Cut off date may be limited to 3 years or reduced to 2 years. With current technologies, already works are well defined in advance only, no need to increase cut off date
6	***4.13 Depreciation***	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	This is welcome move, life of generation station is around 35 years; **depreciation may be extended to 18 years**
7	***4.15 Return on Equity (RoE) V/s Return on Capital Employed (RoCE)***	The present system, or RoE approach, may be continued. Comments and suggestions are, however, sought from stakeholders on the continuation of the RoE	

		approach	
8	***4.16.2 Differential RoE***	*"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."* 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	There should be differential ROE for Generation and Transmission. Further Existing ROE which is much higher need to reduced as per market trends Revised RoE to be applied for both existing and new projects.

		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.	
9	***4.18.2 Rate of Interest on Working Capital***	Bank Rate for the purpose of computing the Interest on Working Capital (IoWC) is defined as one-year MCLR plus 350 bps.	Interest on Working Capital (IoWC) should be reduced to MCLR Plus appropriate base points
10	***4.21 Sharing of Gains***	1. Due to efficiency gains related to operational parameters namely Station Heat Rate, Auxiliary Energy Consumption, SFOC which are to be shared in the ratio of 50:50. 2. Due to the refinancing or restructuring of loans, net gains are to be shared in the ratio 50:50. 3. Non-Tariff Income – The net income to be shared in the ratio of 50:50.	As the generator liabilities already paid by Licensee as per PPA tariff, any additional gain will be pass over/adjusted in payable to generator Due to efficiency gains related to operational parameters namely Station Heat Rate, Auxiliary Energy Consumption, SFOC which are to be shared in the ratio of **80:20 between beneficiary and Generators/Transmission licensee.** 2. Due to the refinancing or restructuring of loans, net gains are to be shared in the ratio **80:20 between beneficiary and Generators/Transmission licensee.**. 3. Non-Tariff Income – The net income to be shared in the ratio of **80:20 between beneficiary and Generators/Transmission licensee..**
11	**7.1.3**	**Interim tariff:**The provisions for interim tariff can, therefore, be	The provisions of interim tariff may be continued further

		continued in the next tariff period as well.	which will enable utilities to seek approval of the capital cost of new projects on an anticipated basis, which helps utilities minimise the time gap between the commissioning of the project and the generation of cash flows by means of tariff
12	**7.1.5**	**Reference Cost** – Benchmark Cost V/s Investment Approvalthat can be considered for prudence check	For thermal generating stations, Hydro generating stations and transmission systems, the cost is affected by various factors including but not limited to design, terrain, soil type, technology used, site conditions etc. Accordingly, one benchmarked cost may not be true representation of all such plants and lines. Another method may be to determine an average benchmark cost of each component based on hard cost of recently commissioned projects under different geographical locations over the period of last 5 years. This may be used as a prudence check against the investment approval cost.
13	**7.1.7**	**Capital Cost – Projects Acquired post NCLT Proceedings:**Historical Cost or Acquisition Value, whichever is lower, should be considered for the determination of tariff post approval of Resolution Plan.	Tariff under Section 62 needs to be determined on the cost-plus principle. But in the interest of the consumer, it is imperative that the lower of Historical cost or acquisition value may be considered for determination of tariff.
14	**7.1.11**	**R&M:**In view of the inherent benefits of undertaking R&M as against going for fresh capitalinvestment, the current provisions may be continued. Further, utilities that opt for special allowance for the first year of the tariff period shallhave	The energy requirement of the country is expected to rise rapidly. It is therefore necessary to improve the generation. By renovation and modernization of existing power stations extra power is generated through the

		to continue with the same for the rest of the tariff period.	existing power stations. It is therefore in the public interest that the schemes of R&M of existing power stations may be encouraged. Further, the scheme of R&M should be supported with reduction in fuel cost and extension in useful life of the plant. These aspects can be taken up while approving any proposal for R&M of old generating station. R& M activities shall be considered after proper scrutiny of cost benefit analysis by taking into consideration the improvement in the operational parameters including the reduction in Gross Station Heat Rate of the plant and with due consent of the beneficiary.
15	**7.1.12**	**Initial Spares:**single norm can be considered for each of the following classes of transmissions assets. 1. Transmission Lines including HVDC lines 2. Substations (including HVDC S/s) 3. Dynamic Reactive Compensation devices 4. Communication Systems 5. Underground cable	Existing norm defined separately for initial spares in green field and brownfield projects/assets should continue which seems practical. Further the reduction in classification of assets as proposed seems logical to further simplify the norms and make it more practical.
16	**7.1.13**	**Controllable and Uncontrollable Factors:** Delays on account of forest clearances canalso be considered for inclusion as uncontrollable factor.	Delays on account of forest clearances can also be considered for inclusion as uncontrollable factor provided that such delays are not attributable to the generating company or the transmission license. In this regard, a robust mechanism /guideline may be set up to identify the reasons/causes of delay and

			mitigate the same to ensure that the impact of cost overrun due to inordinate delays does not fall upon the consumer.
17	**7.1.14**	**Differential Norms – Servicing Impact of Delay:**To encourage rigorous pursuit of approvals from statutory authorities, even if delaybeyond SCOD is condoned, on account of any reasons are condoned, some part of thecost impact (Say 20%) corresponding to the delay condoned may be disallowed. Alternatively, RoE on Equity corresponding to cost and time overrun allowed over andabove project cost as per investment approval may be allowed at the weighted averagerate of interest on loan instead of fixed RoE. The current mechanism of treating time overrun may be continued considering thatutilities are automatically disincentivised if the project gets delayed.	It has been observed that in several cases the delays are attributable to lack of timely clearances, forest approvals, etc. which require constant and rigorous follow up. In most of these cases, it has been observed that these delays could have been restricted if the approvals were sought moreassertively instead of merely through written correspondence. Also, it is alwaysnot possible for the Commission to ascertain if adequate efforts have been made at the senior level to get the clearances. Therefore, to ensure rigorous pursuit of statutory approvals, some part of the cost impact may be disallowed. For controllable factor 100% Disallowd and uncobtrollable factor 50% Cost should be disalowed
18	**7.1.26**	**Life of Generating Stations and 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. 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.	It is observed that as more and more coal based thermal generating stations are operating efficiently even beyond 25 years, there may be a case to align the normative life of these stations, considering that with proper upkeep, these generating stations can operate even beyond 30 years. Similarly, in the case of transmission sub-stations it is observed that these assets can operate way beyond 25 years similar to transmission lines, and therefore, 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.
19	Additional Points	Gestation period for thermal projects	Due to evolvement of new technologies, gestation period of thermal power plantsmay be reduced to 45 months
20	Additional Points		Need to incorporate Normative cost per MW for Pit head and Non Pit head station , which would be ceiling cost for capital cost determination
21	Additional Points		Shorter duration PPA (Instead of 25 years) Options and Tariff determination for this kind of PPAs may be explored
22	Additional Points	Coal Price	Coal Price should be under regulated regime