**NEEPCO's Comments on the Approach Paper On TERMS AND CONDITIONS OF TARIFF REGULATIONS For Tariff Period (1.4.2024 TO 31.3.2029)**

| Sr.No | Paragraph Number | Topic | NEEPCO's Comment |
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| 1 | 7.1.1 | Alternative Approach to Tariff Determination | Both the Approach 1 & 2 are similar to the present approach , however Approach 1 has an added complexity of calculation of indexation after determination of AFC, which again will be trued up at the end of control period. Further, the grouping of various parameters having decreasing and increasing trend is not right as IOWC generally does not have a decreasing trend and ROE is also a constant parameter which is subjected to variation due to additional capitalization/De-capitalization. Further, in the Approach 2 most of the parameters are on normative basis for hydropower projects only, except rate of interest on loan component.<br>**In NEEPCO's view, Approach 1 may not be helpful considering the complexity and the Approach 2 may be considered with normative rate of interest on the loan component with proposed rate of 1 year MCLR rate plus 250 basis points along with reimbursement of FERV / cost of hedging from beneficiaries at actuals on yearly basis.** |
| 2 | 7.1.2 | Normative Tariff | Proposed to follow the methodology under Approach 2 as mentioned above. |
| 3 | 7.1.3 | **Interim Tariff** | After COD, it takes long time to get approval of the completed capital cost from the competent authority and finalization of tariff petition by the CERC. Therefore, NEEPCO desires that the provision of interim tariff should adopted for generating companies and requests the Hon'ble Commission to issue interim tariff / provisional tariff order post COD at 75-80% of submitted cost on admission of the Petition . |
| 4 | 7.1.4 | Procurement of Equipment and Services | Agreed. NEEPCO does follow the guidelines of competitive bidding for award of work i.e both supply and erection commissioning. However, in cases related to NCLT, exceptions may be provided on case to case basis. |
| 5 | 7.1.5 | Reference Cost – Benchmark Cost V/s Investment Approval | For Hydro projects, due to several issues like geological differences, infrastructure issues, local issues, geographical differences etc it is not possible to benchmark the capital cost. For example, two hydro stations of same capacity may be totally dissimilar in terms of design which depends upon the hydrology, location etc. resulting in different costs. |

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| | | | Therefore, in NEEPCO's view benchmark cost should not be adopted in the Regulations for tariff determination and investment approval may be treated as benchmark cost for that particular project as these costs are vetted /approved by the appropriate designated authorities viz. BOD of company, CEA, PIB, CCEA etc.<br>Further, till the final RCE is approved by the competent authority, RCE approved at any level may be considered as reference cost for determination of tariff to avoid financial losses to the Generating Company. |
| 6 | 7.1.6 | **Capital Cost – Hydro Generating Stations** | In the approach paper it has been accepted that improvement of local area will help in easing the resistance and delays of the project. Such expenditure on local area development and other such enabling assets which have not been covered under the MoP (GOI) policy for budgetary support towards cost of enabling infrastructure may be allowed as capital cost. |
| 7 | 7.1.7 | **Capital Cost – Projects acquired post NCLT Proceedings** | It is proposed that capital cost to be allowed for NCLT projects should be Acquisition cost plus other costs which the developer has to incur post acquisition to bring the plant under running condition.<br>In addition, cost of debt servicing including repayment during CIRP process should be allowed as pass through in tariff. |
| 8 | 7.1.8 | **Computation of IDC** | Option 2 proposed by CERC for computation of IDC is acceptable. |
| 9. | 7.1.9 | **Treatment of LD** | NEEPCO agrees to follow the APTEL methodology for allowing/adjusting such impact through IEDC. |
| 10 | 7.1.10 | **Price Variation** | In the approach paper, Commission has proposed to reduce the price variation for delay not condoned. NEEPCO begs to differ on this issue. The idea behind the approach paper is to simplify the tariff determination process. However, it is seen that getting into the calculation of price variation paid for delay not condoned at micro level shall again increase the complexity of tariff determination. Further, the period of delay not condoned is majorly is on account of the contractor and the contract provisions generally take care of that situation as Price Variation is not paid for that period. The impact of calculating PVC on the non-condoned period is a very complex process which is not possible in a straight line method since the various indices required for such calculations are not same during the entire period of delay.<br>Therefore, Commission should continue with the present approach and allow the |

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| | | | hard cost as incurred by the developer. Further, disallowing the hard cost is not justified when soft cost IDC, IEDC is already being disallowed in case of cost overrun not condoned.<br>Regarding submission of Statutory Auditor certificate as proposed in the Approach Paper, NEEPCO is of the opinion that the word "Statutory Auditor" should be replaced by the word "Auditor" as defined in the current CERC Tariff Regulations. The same has been proposed in consideration of the fact that the Statutory auditor may not be readily available for issuing such certificate. |
| 11 | 7.1.11 | **Renovation and Modernization** | NEEPCO proposes to continue with the existing provision for R&M which includes the residual value of old asset as capital cost of the renovated project. |
| 12 | 7.1.12 | **Initial Spare** | Agreed |
| 13 | 7.1.13 | **Controllable and Uncontrollable Factors** | Agreed to the proposal of considering the Forest clearance as uncontrollable factor. However NEEPCO proposes that the term "Forest Clearance" should be defined as actual physical handover of cleared forest land ready for commencement of Project activities, free of any encumbrance.<br>Contractual Delay beyond control of the developer should be treated as uncontrollable factor. |
| 14 | 7.1.14 | **Differential Norms – Servicing Impact of Delay** | The delay in Project execution is generally beyond the control of Project Developer. Further, while vetting/approving the Completed Cost of Completion, the allowing authority takes into account various factors for Time overrun in details. Only after prudence check, the final Capital Cost is approved with allowable time over run and cost impact thereof. While doing so the disallowed Capital Cost is not taken into account while determining the tariff by CERC.<br>Therefore, disallowing of some cost impact of delay condoned or allowing RoE on cost overrun portion at weighted average cost of capital is not agreed by NEEPCO. |
| 15 | 7.1.15 | **Additional Capitalization** | Agreed, However, NEEPCO proposes to allow Add-Cap for maintaining plant efficiency in addition to the proposed Add-Cap parameters. |
| 16 | 7.1.16 | **Normative Add-Cap - Generating Station** | Agreed, However, NEEPCO proposes that works carried out under original scope post cut-off date should not be kept under special compensation and should be allowed on case-to-case basis |
| 17 | 7.1.18 | **GFA/NFA/Modified GFA approach** | NEEPCO proposes to adopt GFA approach. |
| 18 | 7.1.19 | **O&M Expenses** | NEEPCO proposes to co continue O&M expenditure under single category including employee expenses. Further NEEPCO proposes to allow Normative impact of wage revision as 50% of actual employee expenses pre-wage revision. |

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| 19 | 7.1.20 | **Depreciation** | NEEPCO agrees to the proposal of spreading Depreciation upto 15 years to pay the normative loan corresponding to 70% of Capital Cost with spreading over of the remaining depreciable value over the balance useful life of the Plant. |
| 20 | 7.1.21 | **Interest on Loan** | Already Approach 2 has been agreed. |
| 21 | 7.1.22 | **RoE/RoCE Approach** | NEEPCO proposes to continue with the present RoE approach, which provides assured return to the developer, particularly in Hydro Sector which requires long gestation period. |
| 22 | 7.1.23 | **Rate of Return on Equity** | Considering the long gestation period in executing Hydro Projects and delay in getting returns, NEEPCO proposes 1% increase in RoE over and above the same as allowed in Tariff Regulations, 2019. |
| 23 | 7.1.24 | **Tax Rate** | Agreed. |
| 24 | 7.1.25 | **Interest on Working Capital** | While calculating IOWC, water cess paid by the Generator to be considered. |
| 25 | 7.1.26 | **Life of Generating Stations and Transmission System** | No comment as NEEPCO does not operate any Coal Based Plant. |
| 26 | 7.1.28 | **Sharing of Gains** | No comment. |
| 27 | 7.1.29 | **Treatment of arbitration award – Servicing of Principal and Interest Payment** | Agreed. |
| 28 | 7.1.30 | **Treatment of interest on differential tariff after truing up** | Agreed. |
| 29 | 7.1.31 | **Normative Annual Plant Availability Factor (NAPAF)** | Not Agreed |
| 30 | 7.1.32 | **Peak and Off-Peak Tariff** | It is not feasible at all and it is not in the power or position of NEEPCO to control the flow of gas at differential quantum from the gas suppliers at different period and NEEPCO cannot arrange the utilization of the Gas in a manner to have different generation during peak hours/season in comparison to non-peak hours/seasons. These are for reasons/factors not attributable to NEEPCO and beyond the control of NEEPCO.<br>Therefore Peak and Off-Peak tariff provision as discussed is not acceptable to NEEPCO. |
| 31 | 7.1.33 | **Operational Norms** | Agreed |
| 32 | 7.1.40 | **Incentives** | NEEPCO proposes that additional incentive @ 10% of MCP may be considered for energy produced in peak hours by ROR with pondage and ROR plants as it will incentivize the generator to maximise their generation during peak hours. Moreover, with the proposed methodology of DC for ROR there is no incentive for ROR plants |

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| | | | to support the grid with their maximum capacity during peak hours. |
| 33 | 7.1.41 | **Separate Norms for ROR/Storage Based Hydro Projects** | Same comment as Sl. No. 32 & Para no. 7.1.40 |
| 34 | 7.1.42 | **Tariff Structure for Cost Recovery for Emission Control System** | Agreed to continue the same structure as in Regulation 2019. |
| 35 | 7.1.46 | **Up-gradation of Asset/Replacement** | NEEPCO suggest that in case of unrecovered depreciation of any asset due to upgradation /replacement, un-recovered amount may be allowed as additional O&M expenses over and above the Normative subject to Auditor Certification. However, any proceeds from disposal of the replaced assets will be adjusted from the unrecovered amount. |
| 36 | 7.1.47 | **Assumed Deletions** | NEEPCO proposes to consider indexation factor in place of proposed 5%. |
| 37 | 7.1.48 | **Necessity to Review the need of Regulation 17 (2)** | NEEPCO agrees with the observation in the Approach Paper that the provision under Regulation 17(2) of Tariff Regulations, 2019 may result in further complication and being seen as inequitable for the generator. Therefore, NEEPCO proposes that this provision may be removed. |

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