



एन एच डी सी लिमिटेड

(एनएचपीसी लिमिटेड एवं मध्यप्रदेश शासन का संयुक्त उद्यम)

NHDC Limited

(A Joint Venture of NHPC Limited & Govt. of MP)

Ref. No.: NHDC/1/Comm./45/23/188

Date: 31-07-2023

To

Secretary,
Central Electricity Regulatory Commission,
3rd & 4th Floor, Chanderlok Building,
36, Janpath, New Delhi- 110001.

Kind Attn.: Shri Harpreet Singh Pruthi

Sub: **Approach Paper on Terms and Conditions of tariff for the tariff period commencing from 01-04-2024 – Comments thereof.**

Ref: (i) CERC Public Notice bearing File No. L-1/268/2022/CERC dated 26-05-2023.
(ii) CERC Public Notice bearing File No. L-1/268/2022/CERC dated 13-07-2023

Sir,

With reference to the above cited CERC Public Notice dated 26-05-2023 inviting comments/ suggestions on the 'Approach Paper on Terms and Conditions of tariff for the tariff period commencing from 01-04-2024', please find enclosed herewith the NHDC's comments/ suggestions (in 3 hard copies) for kind consideration of Hon'ble CERC while finalising the principles and methodologies to be adopted for framing tariff regulations for next tariff period commencing from 01-04-2024.

Further, the soft copy of above said details is being forwarded through e-mail at tariff-reg@cercind.gov.in.

Thanking you,

Encl.: As above.

Yours faithfully,


(N.K. Chellani)
General Manager (Comm.)

पंजीकृत कार्यालय: एनएचडीसी परिसर, होटल लेकव्यू अशोक के पास, श्यामला हिल्स, भोपाल 462013 (म.प्र.)
Regd. Office: NHDC Parisar, Near Hotel Lake View Ashoka, Shyamla Hills, Bhopal-462 013 (MP)

Website: www.nhdcindia.com दूरभाष/Telephone: 0755 – 4030130

Corporate Identity No. (CIN) : U31200MP2000GOI014337



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संदर्भ सं.: एनएचडीसी/1/वाणि./45/23/188

दिनांक: 31.07.2023

प्रति,

सचिव,

केंद्रीय विद्युत विनियामक आयोग,
तीसरी और चौथी मंजिल, चंद्रलोक बिल्डिंग,
36, जनपथ, नई दिल्ली- 110001।

ध्यानाकर्षण: श्री हरप्रीत सिंह प्रुथी

विषय: 01.04.2024 से शुरू होने वाली टैरिफ अवधि के लिए टैरिफ के नियमों और शर्तों पर दृष्टिकोण पत्र-तत्संबंधी टिप्पणियाँ।

संदर्भ: (i) सीईआरसी सार्वजनिक सूचना फाईल संख्या एल-1/268/2022/सीईआरसी दिनांक 26.05.2023।
(ii) सीईआरसी सार्वजनिक सूचना फाईल संख्या एल-1/268/2022/सीईआरसी दिनांक 13.07.2023।

महोदय,

उपरोक्त विषयान्तर्गत संदर्भित सीईआरसी सार्वजनिक सूचना दिनांक 26.05.2023 के संदर्भ में, दिनांक 01.04.2024 से शुरू होने वाली टैरिफ अवधि के लिए टैरिफ के नियमों और शर्तों पर दृष्टिकोण पत्र पर टिप्पणियाँ/सुझाव आमंत्रित किये गए हैं।

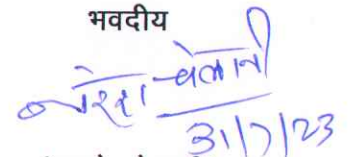
उक्त के तारतम्य में दिनांक 01.04.2024 से शुरू होने वाली अगली टैरिफ अवधि के लिए टैरिफ नियमों को तैयार करने के लिए अपनाए जाने वाले सिद्धांतों और तरीकों को अंतिम रूप देते समय माननीय सीईआरसी के विचार के लिए एनएचडीसी की टिप्पणियाँ/सुझाव (3 हार्ड प्रतियों में) संलग्न कर सादर प्रेषित हैं।

उक्त के अतिरिक्त, उपरोक्त विवरण की सॉफ्ट कॉपी ई-मेल की माध्यम से tariff-reg@cercind.gov.in पर भेजी जा रही है।

धन्यवाद,

अनुलग्नक: उपरोक्तानुसार।

भवदीय



(एन.के. चेलानी)

महा प्रबंधक (वाणिज्य)

पंजीकृत कार्यालय: एनएचडीसी परिसर, होटल लेकव्यू अशोक के पास, श्यामला हिल्स, भोपाल 462013 (म.प्र.)
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**NHDC's COMMENTS ON APPROACH PAPER
FOR TERMS & CONDITIONS OF TARIFF REGULATIONS FOR 2024-29**

A. Comments on Approach Paper

S. No.	Description as per Approach Paper	Comments of NHDC
1	<p>3.1 Tariff Determination – General Approach</p> <p>Suggestions are sought as to how the present system of hybrid mechanisms of tariff setting under the cost plus approach can be made more efficient by moving closer to a normative or performance-based approach so that the same would positively impact the interests of consumers as well as utilities. Two possible options could be as follows.</p> <ol style="list-style-type: none"> Approach 1: Shift to a normative tariff wherein, once capital costs are approved on an actual basis after a prudence check, all other AFC components are determined on normative basis. Approach 2: Further simplification of the existing Performance Based Hybrid Approach, wherein on the basis of admitted capital cost, AFC components can be approved based on actuals or norms as may be specified for the control period. Further, additional capitalization may be allowed on certain counts on a normative basis. 	<ul style="list-style-type: none"> Both approaches i.e. Approach 1 and Approach 2 are basically based on present approach followed in current Regulations. Approach 1 proposes for bunching of AFC components for indexation purpose. It is to state that bunching of components may not be relevant as the variation of individual component is not similar. For example Interest on Loan is in decreasing trend whereas ROE is constant in nature and varies in proportion to Add-Cap and as per tax rates fixed by Government. Therefore, it appears that the Approach 1 of fixing all the other components on normative basis shall not be appropriate for tariff fixation for Hydro Power Projects. Approach 2: Performance Based Hybrid Approach, which is primarily based on existing practice of tariff determination seems to be more appropriate at this juncture, as the present practice already considers some of the components on normative basis. <p>Further, to simplify the tariff fixation, Hon'ble CERC may consider benchmarking applicable rate of interest on loan by linking with 1 year MCLR rate published by SBI plus minimum 350 basis points without considering the impact of</p>


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S. No.	Description as per Approach Paper	Comments of NHDC
		FERV, where impact of FERV, if any, may be considered separately.
2	<p>3.2 Normative Tariff</p> <p>In the context of discussions held in Section 3.2, comments/ observations of stakeholders are invited on the following points.</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>	<ul style="list-style-type: none"> Clustering the components of AFC may not yield better projections. For example, if any tax rate, which is statutory in nature, changes, then the impact due to Tax on RoE needs to be separately evaluated. Like-wise any change in other parameters affects individual AFC components. Accordingly, clustering the components of AFC may not yield better projections. Indexation is only approximation to actual calculations, therefore, Indexation, if adopted, may be used for next tariff period 2024-29 for specifying tariff on projection basis and subject to truing-up at the end of the tariff period as per method existing in current tariff regulations 2019-24, after availability of actual data, such as Add-Cap details, actual Interest Rate on Loan, Interest Rate for Working Capital, details of Un-discharged Liabilities discharged etc.
	<p>3. Whether the impact of additional capitalization can also be allowed through the same indexation mechanism or through a separate revenue stream?</p>	<ul style="list-style-type: none"> At para 3.2 (1) (f) of Approach Paper it has been mentioned that any additional capitalisation is incurred or is required, the petitioner may file a separate petition seeking approval of Capital Expenditure. As such, the Generator has to file two separate Petitions for fixation of tariff, based on already approved Capital Cost as well as based on Projected Add-Cap before commencement of tariff period and/ or based on Actual Add-Cap at the end of the tariff period.

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S. No.	Description as per Approach Paper	Comments of NHDC
3	<p>4.2.1 Interim Tariff</p> <p>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.</p>	<ul style="list-style-type: none"> As above, separate consideration/ calculations of components of AFC, based on Add-Cap may result in increase in complexities in tariff fixation. Accordingly, in view of NHDC, impact of Add-Cap is to be considered along with fixation of AFC only.
4	<p>4.2.2 Procurement of Equipment and Services</p> <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>	<ul style="list-style-type: none"> The fixation of interim tariff allows the Generator to raise invoices on beneficiaries to recover tariff in time bound manner and also the said tariff is being trued-up at a later date. Accordingly, the fixation of interim tariff may be continued by Hon'ble CERC in the tariff period 2024-29 also. The PSUs are already bound by various policies and guidelines of Government of India with regard to procurement of equipment and services and their compliances have to be intimated to concerned departments/ ministries on periodical manner regularly. <p>As such, if the above clause is made part of regulations, utilities have to establish the compliance of the same before Hon'ble CERC for verification, which may complicate the whole process of tariff determination. Accordingly, the above-said clause should not be incorporated in tariff regulations.</p>
5	<p>4.2.3 Reference Cost – Benchmark Cost V/s Investment Approval</p>	<ul style="list-style-type: none"> Every hydro-project is unique in its nature with regard to its geology, hydrology, location of project, land acquisition etc.

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S. No.	Description as per Approach Paper	Comments of NHDC
	<p>Comments and suggestions of stakeholders are invited on other efficient reference costs other than Investment Approval costs that can be considered for prudence check.</p>	<p>and as such benchmarking of capital cost is not feasible. Moreover, fixing the benchmark cost may discourage the new investments.</p> <p>Therefore, the present practice of considering investment approval i.e. RCE as reference cost may be continued.</p>
6	<p>4.2.4 Capital Cost- Hydro Generating Stations</p> <p>As these expenses towards the advancement of the Local Area are required for the development of the project and for alleviating public resistance and delays, such expenses may be allowed as part of the capital cost with certain limits. Alternatively, these expenses may be met through budgetary support for funding the enabling infrastructure, i.e., roads and bridges, on a case-to-case basis which could be (i) as per actuals, limited to Rs. 1.5 crore per MW for up to 200 MW projects and (ii) Rs. 1.0 crore per MW for above 200 MW projects, as per the Ministry of Power guidelines dated 28.09.2021 for budgetary support for "Flood Moderation" and for budgetary support for "Enabling Infrastructure".</p>	<ul style="list-style-type: none"> Hydro-power Projects are cost-intensive and sensitive to geological as well as land acquisition (R&R issues) surprises. Therefore, expenses towards the advancement of the Local Area may be met through budgetary support so that the impact on tariff is limited.
	<p>Comments and suggestions are sought from stakeholders to incentivize the developer if it executes the project faster/or ahead of schedule and vice-versa if it delays.</p>	<ul style="list-style-type: none"> It is well known fact that Hydro-power projects face many challenges such as geological surprises, delay in land acquisition due to R&R issues, remote/ isolated locations, improper monsoons etc. which hinder the completion of the projects. The same has been acknowledged and deliberated at Para 2.6 of Approach Paper highlighting that Ministry of Power, Gol has taken various steps to promote hydro based

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		<p>generating stations besides mentioning that the contribution of Hydro-power Generation is only about 12.46% in the Total Energy Generation Mix in India. Further, capacity addition in hydro-power generation is required to cater the grid balance due to large scale additions of the renewable generation.</p> <p>Therefore, proper incentive by way of enhanced RoE may be allowed to hydro-power developer for early execution of the Project which will encourage the investments in hydro-power sector.</p>
7	<p>4.3 Capital Cost – Projects Acquired post NCLT Proceedings</p> <p>Historical Cost or Acquisition Value, whichever is lower, should be considered for the determination of tariff post approval of Resolution Plan.</p>	<ul style="list-style-type: none"> In case of Projects Acquired post NCLT Proceedings, present Project Developer has to incur Acquisition Cost as well as other associated costs for successful completion of the Project. Accordingly, all such capital costs should be allowed for determination of tariff, which is more realistic and justifiable.
	<p>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>	<ul style="list-style-type: none"> The costs attributable, to the project under consideration, as per approved Resolution Plan during the CIRP process have to be allowed as a part of the tariff, so that revival of such vital hydro-projects may be ensured.
8	<p>4.4.1 Computation of IDC</p> <p>1. Existing mechanism wherein the pro-rata deduction (based on delay not condoned) is done on IDC beyond SCOD.</p>	<ul style="list-style-type: none"> Approved IDC as per original investment approval may be considered as Reference. In case, if the actual/ evaluated IDC is lower than the said approved IDC, the actual IDC may be allowed even if the project is delayed. By which, Utilities

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	<p>2. Pro-rata IDC may be allowed considering the total implementation period wherein the actual IDC till the implementation of the project is pro-rated considering the period upto SCOD and period of delay condoned over total implementation period.</p> <p>3. IDC approved in the original Investment Approval to be considered while allowing actual IDC in case of delay.</p>	<p>may be encouraged for prudent phasing of funds adopted by them.</p> <ul style="list-style-type: none"> • Further, in case of delay in project completion as well as higher IDC, capitalization of IDC may be allowed as per option 2 i.e. the actual IDC till the implementation of the project is pro-rated considering the period upto SCOD and period of delay condoned over total implementation period which appears to be more realistic compared to other option.
9	<p>4.6 Renovation and Modernization (R&M)</p> <p>In view of the inherent benefits of undertaking R&M as against going for fresh capital investment, the current provisions may be continued.</p>	<ul style="list-style-type: none"> • As per current Tariff Regulations, the capital cost being considered is expenditure admitted for R&M plus admitted original project cost after netting-off accumulated depreciation already recovered forms the basis for tariff determination. <p><i>In this regard, it is to be noted that residual capital cost of original project cost is majorly pertaining to unrecovered original equity deployed by the Utility. Further, as per above consideration of capital cost for R&M, only 30% of the unrecovered original equity deployed is being considered for RoE, which is neither justified nor reasonable.</i></p> <p><i>Accordingly, Hon'ble Commission may consider to allow Debt: Equity ratio of 50:50 to incentivize the Utilities for R&M.</i></p>
	<p>Further, utilities that opt for special allowance for the first year of the tariff period shall have to continue with the same for the rest of the tariff period.</p>	<ul style="list-style-type: none"> • Exercising option by Utilities for special allowance or going for R&M only once in a tariff period of 5 years may not be justifiable. As assessment of technical-suitability for

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		<p>continuing the operation of power station which has completed its Project Life may be required periodically. Therefore, in case the Utility is opted for special allowance at the beginning of the tariff period, one more opportunity shall be provided to Utility for exercising the option for R&M in the said tariff period of five years.</p>
10	<p>4.8.1 Controllable and Uncontrollable Factors</p> <p>In view of the discussion held in Section 4.8.1, delays on account of forest clearances can also be considered for inclusion as uncontrollable factor.</p>	<ul style="list-style-type: none"> • It is a welcome step to include Forest Clearances in uncontrollable factor. However, it is proposed that the date of actual clearance of forest intimated by the concerned forest authority may be considered as the date of Forest Clearance. • In addition to above, it is also proposed that the contractual delays may be kept out of controllable factors as the remote location as well as geographical surprises involved in construction of hydro-power generating stations and as such default by Contractors is very Common. <p>Therefore, the contractual delays need to be kept out of controllable factors and the contractual issues need to be dealt on case to case basis to conclude whether they are controllable or uncontrollable.</p>
11	<p>4.10 Additional Capitalisation</p> <p>In view of discussion held under Section 4.10, in order to have an enabling provision under which additional capitalisation can be allowed with prior approval, a provision may be introduced to existing Regulation 26 to allow such expenses if they are found to be beneficial/ essential for continued operations.</p>	<ul style="list-style-type: none"> • At deliberations under para 4.10 of Approach Paper, it has been stated that additional capitalisation under Sl. No. 2 (i.e. Additional Capitalisation within the scope of work executed after the cut-off date, including replacement under certain conditions) are generally not substantial but recurring in

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		<p>nature and the entire exercise of tariff determination does not have big impact on tariffs.</p> <p><i>In this regard, it is to mention that in case of NHDC's Hydro-Power Projects viz. ISPS & OSPS, the expenditure towards R&R is being continued as per policy of Government and/ or as per direction of Court(s) and the expenditure is being allowed under Sl. No. (2) i.e Additional Capitalisation within original scope of work executed after cut-off date. Further, the expenditure is not uniform in nature and can't be factorized based on historical data and also, it impacts the tariff substantially. Accordingly, the same should not be brought under indexation.</i></p>
12	<p>4.10.1 Normative Add-Cap - Generating Station</p> <p>For generating stations that have already crossed the cut-off date as on 31.03.2024, the additional capitalisation for such generating stations may be allowed as per the following.</p> <p>Hydro Generating Stations – As each hydro generating station is unique owing to various factors additional capitalisation of such generating stations may not be 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>	<ul style="list-style-type: none"> It is a welcome step to reduce the complexities involved in approval of Add-Cap of various nature of works. Further, with the ageing of the power station, Generator has to undertake various capital expenditure related to efficiency improvement of existing Plant and Equipment of Power Station considering latest technologies, which are not being covered/ allowed in current Regulations. By allowing special compensation which is well known in advance, Generator may plan for such type of works. <p>However, safety related works may be kept out of special compensation and be allowed separately as the said works are carried out as per policy of Government and/ or as</p>

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		<p>per recommendations of Government agency responsible for safety of the concerned Power Station.</p> <ul style="list-style-type: none"> In addition, developer puts all-out efforts in completion of Project by SCOD by concentrating on major works on critical path as such, some of the works which are not on critical path may be got delayed. Therefore, the capital expenditure on the said works, which may be very few, carried out under original scope beyond cut-off date should not be considered under special compensation and shall be allowed as Add-Cap on case-to-case basis.
	<p>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>	<ul style="list-style-type: none"> In case of costs incurred or to be incurred towards works/items already admitted under Regulation 26 to Regulation 29, wherever applicable, shall not be included in special compensation as the process of executing the admitted works would have been started. Accordingly, costs incurred towards works presently covered under Regulation 26 to Regulation 29, wherever applicable, shall not be included under special compensation and may be allowed separately.
	<p>Further, any items that costs below Rs. 20 Lakh 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>	<ul style="list-style-type: none"> As stated in Approach Paper, items that costs below Rs. 20 Lakh that are in the nature of minor items such as tools and tackles etc. and those pertaining to Capital Spares as part of O&M expenses may be allowed as part of O&M expenses.

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	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.	<ul style="list-style-type: none"> As the expenditure is already committed by the Generator discharge of liabilities of works already admitted by the Commission as on 31.03.2024 shall be allowed as and when such liability is discharged.
	Further, for generating station 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 may be adopted. 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.	<ul style="list-style-type: none"> It is a welcome step to extend the cut-off date from the current 3 years to 5 years which shall allow time to close contracts and discharge liabilities. However, discharge of liabilities of works pertaining to original project cost and/ or already admitted by the Commission may be allowed as and when such liability is discharged.
	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 Regulations 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.	<ul style="list-style-type: none"> In case of costs incurred or to be incurred towards works/ items already admitted under Regulation 26 to Regulation 29, wherever applicable, shall not be included in special compensation as the process of executing the admitted works would have been started. Accordingly, costs incurred towards works presently covered under Regulation 26 to Regulation 29, wherever applicable, shall not be included under special compensation and may be allowed separately.
	While determining such special compensation for a thermal or hydro generating station, costs incurred towards works presently covered under Regulations 26 to Regulation 29, wherever applicable, may not be included as these expenses but may be allowed separately.	<ul style="list-style-type: none"> As the expenditure is already committed by the Generator, discharge of liabilities of works already admitted by the Commission may be allowed as and when such liability is discharged.
	Further, any item that costs below Rs. 20 lakhs that is in the nature of minor assets, including Capital Spares below Rs 20	<ul style="list-style-type: none"> The proposal that allowing any items that costs below Rs. 20 Lakh that may be in the nature of minor items such as tools

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	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.	and tackles and those pertaining to Capital Spares as part of O&M expenses is acceptable.
	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.	<ul style="list-style-type: none"> As the expenditure is already committed by the Generator, discharge of liabilities of works already admitted by the Commission may be allowed as and when such liability is discharged.
13	<p>4.11 GFA/NFA/Modified GFA approach</p> <p>Increasing the Investors confidence by ensuring assured returns is important, and further considering the recent spikes in power tariffs in power exchanges indicating a shortage of power availability, investment in Power sector needs a boost, and therefore the existing GFA approach, being a balanced approach may be continued. However, comments/ suggestions are invited on alternate approaches, i.e. GFA/ NFA/ Modified GFA approach.</p>	<ul style="list-style-type: none"> As deliberated in Approach Paper, to ensure assured returns thereby increasing investors' confidence in taking up hydro-power stations for investment and also to have consistency in policy, the existing GFA approach should be continued.
14	<p>4.12.1 O&M Expenses</p> <p>O&M norms may be specified under the following two categories.</p> <ol style="list-style-type: none"> Employee Expenses Other O&M Expenses comprise of Repair and Maintenance and Administrative and General Expenses. <p>However, considering that systems that are more automated will require less manpower and systems that are less automated will</p>	<ul style="list-style-type: none"> Hon'ble CERC, while fixing normative O&M expenses, evaluates the past actual O&M expenses under different heads such as Administrative expenses, employee expenses, R&M cost, security expenses, general expenses etc. In the current Regulations, Hon'ble CERC is already allowing the Security Expenses separately and also, there is a provision for allowing actual capital spares while truing up

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	<p>require more manpower, approving separate norms may result in inequity even though the total O&M expenses of such systems may be comparable.</p> <p>Therefore, the above suggestion may also be seen from the perspective that these expenses have historically been allowed as one expense and any change in the methodology as suggested above may result in unnecessary complications. Alternatively, to give effect to the impact of pay/wage revision, 50% of the actual wage revision can be allowed on a normative basis.</p>	<p>In view of that, further segregating employee cost only increases the complexity of the tariff determination. Accordingly, the component O&M expenses may be allowed as one expense without segregating into various parts such as employee cost.</p> <p>The impact of wage revision may be allowed as 50% of actual employee expenses prior to implementation of wage revision.</p>
15	<p>4.12.4 Inclusion of Capital Spares</p> <p>In view of discussion held in Section 4.12.4, it is anticipated that if Capital Spares are analysed for a longer duration say 15-20 years, there can be some correlation and predictability to such expenses. Therefore, if the same can be projected with some degree of predictability, the same may be allowed on a normative basis along with O&M expenses. 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>	<ul style="list-style-type: none"> Consumption of capital spares varies with the ageing of the Project, therefore the annual consumption pattern may not be uniform. However, to start with, as deliberated in Approach Paper, recurring and low value spares below Rs. 20 Lakh may be made part of normative O&M expenses, while capital spares with a value in excess of Rs. 20 Lakh may be considered for reimbursement by Hon'ble CERC on case to case basis.
16	<p>4.12.5 Impact on account of Change in Law and Taxes</p> <p>Comments and suggestions are therefore sought from stakeholders on whether to include any provisions with regard to allowing impact of change in law in O&M expenses.</p>	<ul style="list-style-type: none"> Change in Law and Taxes are in the hands of Government and beyond the control of the Generator and also, can't be predicted or estimated. Accordingly, impact on account of

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17	<p>4.13 Depreciation</p> <p>In view of discussion held in Section 4.13, depreciation rate may be specified considering a loan tenure of 15 years instead of the current practice of 12 years. Further, additional provision may also be specified that allows lower rate of depreciation to be charged by the generator in the initial years if mutually agreed upon with the beneficiary(ies).</p>	<p>Change in Law and Taxes may be considered for truing-up after availability of actual data only.</p> <ul style="list-style-type: none"> Loan tenure of 15 years instead of existing 12 years may be considered by Hon'ble CERC. <ul style="list-style-type: none"> In this regard it is to mention that in current Regulations, Hon'ble CERC had specified asset-wise depreciation rates applicable for first 12 years after COD of the Station, so as to facilitate the Generator for repayment of the Project Loan. Based on the said asset-wise depreciation rates, depreciation amount for that financial year is being arrived. However, in some of the cases it has been observed that, the cumulative depreciation at the end of 12 years is on lower side as compared to the Project Loan amount. As such, intended recovery of Project Loan amount in first 12 years is not achieved. <ul style="list-style-type: none"> In view of above, it is suggested that minimum depreciation rate @ 4.67% (in case of Loan component is @70% of the Capital Cost) may be considered for 15 years loan tenure irrespective of the rate of depreciation worked out based on Rates of Depreciation specified/ to be specified by Hon'ble CERC.
18	<p>4.14 Interest on Loan</p> <p>To simplify the approval of interest on loan, the weighted average actual rate of interest of the generating company or transmission licensee may be considered instead of project specific interest on loan. Further, the cost of hedging related to</p>	<ul style="list-style-type: none"> The loan amount, tenure, rates as well as the loan periods (i.e. starting and ending dates) are very different for various power stations. Accordingly, considering the weighted average actual rate of interest of the generating company shall not be appropriate.

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	foreign loans be allowed on actual basis, without allowing any actual FERV.	
19	<p>4.15 RoE/ RoCE Approach</p> <p>As in the past much has been deliberated and discussed on the two approaches and in view of the long-standing position of this Commission, the present system, or RoE approach, may be continued.</p>	<ul style="list-style-type: none"> In line with deliberations in Approach Paper, it is to submit that to ensure assured returns thereby increasing investors' confidence in taking up hydro-power stations for investment and also to have consistency in policy, the existing ROE approach may be continued.
20	<p>4.16.4 Rate of Return on Equity</p> <p>Methodology</p> <p>Keeping in view the international approaches to regulated rates of return, the average of 10-year GOI securities rate over a one-year horizon may be considered a risk free rate.</p> <p>Keeping in view the international approaches, daily data on the SENSEX and BSE Power Index for the latest 5 years may be considered for equity beta estimation.</p> <p>Keeping in view the international approaches, the Market Risk Premium (MRP) reflecting the historical returns for a period of 30-years or beyond instead of the existing practice of considering 20 years may be considered for MRP estimation.</p> <p>Alternatively, MRP may be computed using any other method including the Survey Method.</p>	<ul style="list-style-type: none"> In view of long gestation periods of about 10 years and even more than 10 years in some of the hydro-power projects and considering the fact that the equity capital has been locked for such periods and there is no RoE during the said gestation/ construction period, appropriate/ enhanced RoE in case of Hydro-electric power generating stations shall be fixed to compensate the same.

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S. No.	Description as per Approach Paper	Comments of NHDC
21	<p>4.16.4 Other Key Issues</p> <p>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.</p> <p>2. Whether the revised rate of RoE to be made applicable to only new projects or to both existing and new projects?</p>	<ul style="list-style-type: none"> As on 31-03-2023, Hydropower Generation contributed only 12.46% in the Total Energy Generation Mix of India. As such, as deliberated in the Approach Paper hydropower sector is to be promoted. Therefore, Hon'ble Commission may consider for enhancing the current Rate of RoE in r/o hydro-power generating stations to attract the investments in this sector. Additional capitalisation on account of Change in Law and Force Majeure that is carried out is beyond the control of the Generator. <p><i>In this regard it is to mention that in Current Regulations, RoE on Add-Cap beyond original project cost/ scope has already been linked to rate of Interest on Loan and due to that Generators are getting reduced RoE on this account. As such, the Add-Cap on account of Change in Law and Force Majeure should not be considered for lower RoE which may affect investors' confidence. In addition, treating various components of Add-Cap differently for calculation of RoE or otherwise, only cascades the complexity of tariff fixation process.</i></p> <ul style="list-style-type: none"> Keeping different rates of RoE for projects commissioned in different tariff periods may not be practical, as over the time in a single tariff period of 5 years, the projects may have different rates of RoE to be dealt, which only induces complexity in the system and it will act as a deterrent for new projects which are sanctioned with reduced RoE.

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		<p>Accordingly, rate of Return on Equity in a specific tariff period for existing as well as new projects shall be kept same so as to avoid unnecessary confusion to all the stakeholders.</p>
3.	<p>Whether timely completion of hydro generating stations can be incentivised to attract investments?</p>	<ul style="list-style-type: none"> Reasonable incentive, over and above rate of RoE, to the developer for timely completion of hydro generating stations may be allowed.
4.	<p>Merit behind approving different Rate of RoE to thermal, hydro generation and transmission projects with further incentives for dam/reservoir-based projects including PSP.</p>	<ul style="list-style-type: none"> Hydro-power projects face many challenges such as geological surprises, delay in land acquisition due to R&R issues, remote/ isolated locations, improper monsoons etc. which hinder the completion of the projects. As such, all these tantamounts to long gestation periods of about 10 years and even more than 10 years in some of the hydro-power projects. Also, during this entire gestation period the Developer do not get any return from his progressive investments. As such, allowing higher rates of RoE for dam/reservoir-based projects including PSP is desirable as well as justifiable.
5.	<p>Merit in allowing RoE by linking the rate of return with market interest rates such as G-SEC rates/MCLR/RBI Base Rate.</p>	<ul style="list-style-type: none"> Financial markets are dynamic in nature. Fixation of rate of RoE Linking with financial markets/ instruments may not be prudent at this juncture as more investments are required for growth of hydro power sector and also risk perception towards power sector is generally high considering their gestation period and other critical factors. In view of that the rate of RoE should be made attractive to investments in the power sector especially in Hydro-power sector.

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S. No.	Description as per Approach Paper	Comments of NHDC
22	<p>4.17 Tax Rate</p> <p>In view of the discussion held in Section 4.17 a domestic company shall fall under one of the following brackets, and the maximum tax amount that shall be payable is limited by the tax rates notified for the relevant category. Therefore Base Rate of RoE may be grossed up as follows:</p> <ol style="list-style-type: none"> 1. At MAT rate (If not opted for Section 115 BAA) 2. At effective tax rate (if not opted for Section 115BAA) subject to ceiling of Corporate Tax Rate; or 3. At reduced tax rate under Section 115BAA of the Income Tax Act or any other relevant categories notified from time to time subject to ceiling of rate specified in the relevant Finance Act. <p>Further, Tax shall be allowed only in cases where the company has actually paid taxes as under no circumstances tax can be allowed to be recovered if the company has not paid any tax for the year under consideration.</p>	<p>Accordingly, the rate of RoE in respect of Hydro-power stations shall be fixed at least @18% to attract investments.</p> <ul style="list-style-type: none"> • <i>Tariff Regulations allows for grossing-up of RoE with the applicable tax rate so that the utilities can recover the tax pertaining to RoE.</i> <p><i>Accordingly, it is proposed that tax-neutral approach shall be adopted for working out the tax rate to be grossed-up with the RoE, so that recovery of legitimate tax cost towards RoE component is ensured.</i></p>
23	<p>4.18 Interest on Working Capital</p> <p>It is observed that the working capital norms are efficient, so the existing norms may be retained. However, comments and suggestions are invited on any modification that may be required in the norms.</p>	<ul style="list-style-type: none"> • <i>As allowed by current Tariff Regulations, Generator may also recover the Statutory Charges such as Electricity duty, Water cess etc. But, these charges do not form the part of working capital. Suitable provisions may be incorporated either to include such type of charges in the working capital or</i>

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S. No.	Description as per Approach Paper	Comments of NHDC
	<p>Comments and suggestions are invited on any modification that may be required in the norms of old gas generating stations to factor in the actual generation while allowing for the working capital requirement for gas based generating stations.</p> <p>As per the existing Regulations, the Bank Rate for the purpose of computing the Interest on Working Capital (IoWC) is defined as one-year MCLR plus 350 bps. Stakeholders may comment as to whether the same may be continued or may suggest any better alternative to the same.</p> <p>Comments and suggestions are sought from stakeholders on the ways to determine IoWC along with any other alternatives if any, so that the same may not require periodic truing up.</p>	<p>recovery of such type of charges on first charge basis from the payments received from the beneficiary.</p> <p>As allowed by the existing Regulations, the Bank Rate equivalent to one-year MCLR plus 350 bps for the purpose of computing the Interest on Working Capital (IoWC) may be continued.</p>
24	<p>4.21 Sharing of Gains</p> <ol style="list-style-type: none"> 1. Ways to increase non-core revenues through optimal utilisation of available resources. 2. Any modification in the sharing mechanism that may be required. 	<ul style="list-style-type: none"> • Hon'ble CERC has kept Auxiliary Energy Consumption (AEC) as one of the controllable parameter. The generation from hydro-power stations is mainly dependent on monsoon. And, during the period of hydrology failure the actual generation is on lower side and as such the auxiliary energy consumption tends to be on higher side than the normative auxiliary energy consumption. As there is no provision for recovery in case of higher AEC, the sharing of gain due to AEC in case of Hydro-power station may be done away with.

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S. No.	Description as per Approach Paper	Comments of NHDC
25	<p>4.22 Treatment of arbitration award – Servicing of Principal and Interest Payment</p> <p>Principal amount may be capitalised and the interest amount may be allowed to be recovered in instalments from the beneficiaries. However, such a recovery of interest amount may also involve carrying cost.</p>	<ul style="list-style-type: none"> As stated in Approach Paper, in case of arbitration awards, Principal Amount shall be capitalized: And, the interest amount shall be allowed to be recovered in instalments from the beneficiaries along with interest so to compensate the carrying cost due to recovery in instalments.
26	<p>4.23 Treatment of interest on differential tariff after truing up</p> <p>Interest may be allowed to be charged on the differential amount by the utility only till the issuance of the order and no interest may be allowed during the recovery in six equal monthly instalments.</p>	<ul style="list-style-type: none"> As a justified measure, interest shall be allowed to be charged on differential amount by the utility to compensate the carrying cost during the recovery in six equal monthly instalments.
27	<p>5.1 Normative Annual Plant Availability Factor (NAPAF)</p> <p>As discussed in Section 5.1, One option to measure PAF of ROR plants can be to re-introduce the methodology that was being adopted in the CERC Tariff Regulations, 2004. Based on Regulation XI (b) under Chapter 3 of the Tariff Regulations, 2004, the methodology can be specified as follows.</p> <p>“In case of purely run-of-river power stations, declared capacity means the ex-bus capacity in MW expected to be available from the generating station during the day (all blocks), as declared by the generating station, taking into account the availability of water, optimum use of water and availability of machines;”</p> <p>Comments and suggestions are sought from stakeholders on the above suggested option and any other methodology that can</p>	<ul style="list-style-type: none"> It is to submit that in Tariff Regulations 2004, the concept of capacity index was in-force, which was dependent on Maximum Available Capacity instead of Installed Capacity as in case of PAF. Accordingly, a holistic view has to be taken in revisiting the already established procedures by considering regulatory certainty as of paramount importance.

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	be considered for the computation of plant availability for ROR based hydro generating plants.	
28	<p>5.1.2 Recovery of Energy Charge for Hydro Generating Stations</p> <p>Comments and suggestions are sought from stakeholders on ways to simplify the tariff recovery process for hydro generating station.</p>	<ul style="list-style-type: none"> The generation from Hydro-power generating station is dependent on the monsoon. As per existing tariff regulations, the shortfall in energy charges, due to reasons beyond the control of generator (like hydrology factor), shall be allowed to be recovered on an application separately filed by Utility. <p>In this regard, as recovery of reasonable costs is of importance for the development of hydro-sector, it is proposed that the Utility may be allowed to recover energy charges upto 50% AFC at the end of the concerned financial year, in case shortfall is due to specific uncontrollable factor of hydrological failure/ lower monsoon, under intimation to Hon'ble CERC. And, the same may be subjected to true-up at the end of the tariff period.</p>
29	<p>5.2 Peak and Off-Peak Tariff</p> <p>As recovery of reasonable costs is of prime importance for any infrastructure sectoral growth, comments/suggestions are sought on the possible interventions/modifications required to address the issues highlighted above. Specific suggestions are also sought on the following.</p> <p>1. Whether it would be advisable to limit the recovery based on daily peak and off-peak periods.</p>	<ul style="list-style-type: none"> As deliberated at Para 2.6 of Approach Paper highlighting that Ministry of Power, Gol has taken various steps to promote hydro based generating stations besides mentioning that the contribution of Hydro-power Generation is only about 12.46% in the Total Energy Generation Mix in India. Further, capacity addition in hydro-power generation is required to cater the grid balance due to large scale additions of the renewable generation.

S. No.	Description as per Approach Paper	Comments of NHDC
2.	Suggestions on National versus Regional Peak as a reference point for recovery of fixed charges.	<ul style="list-style-type: none"> Therefore, to boost the investments in hydro-power sector as well as to encourage the established Power Stations to minimize the downtime and to operate at their full capacity during peaking hours, appropriate incentive such as 10% of MCP at power exchanges in the respective time block shall be provided.
30	<p>5.10 Incentives</p> <p>Incentives linked to generation in excess of target PLF/ NAPA especially during peak periods, in the case of hydro stations and old pit head generating stations, may need a review in order to encourage higher generation from such plants. This will result in increased generation from such plants and will also benefit beneficiaries.</p>	<ul style="list-style-type: none"> The scheduling of power generation is done by concerned LDC. Therefore, operation of these power stations is not in the hands of Generators. Accordingly, suitable provisions/guidelines may be made to allow the operation of ROR/ Storage Based Hydro Projects in peaking hours. Suitable incentives may be provided such as 10% of MCP at power exchanges in the respective time block, which encourages the Power Stations to minimize the downtime and to operate at their full capacity during peaking hours.
31	<p>6.1 Separate Norms for ROR/Storage Based Hydro Projects</p> <p>Considering the anticipated increase in peaking loads these stations may be incentivised to operate as peaking plants. One way to do so is by providing additional incentives for energy supplied during peak period.</p>	<ul style="list-style-type: none"> Please consider comment at 5.10.

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S. No.	Description as per Approach Paper	Comments of NHDC
32	<p>6.6 Up-gradation of Asset/ Replacement</p> <p>In view of the discussion held in Section 6.6 suggestions are invited from stakeholders regarding the treatment of unrecovered depreciation.</p>	<ul style="list-style-type: none"> <i>In case of items replaced due to up-gradation or due to obsolescence of technology before the completion of their useful life, some of the depreciation is left unrecovered from the tariff due to decapitalisation of the said asset with its actual value. Further, in some of the cases the value of the new asset replaced is of low value thereby reducing overall capitalisation.</i> <p><i>Therefore, suitable provisions shall be incorporated to reimburse the Generator such unrecovered portion of depreciation.</i></p>
33	<p>6.7 Assumed Deletions</p> <p>Comments and suggestions are sought from stakeholders on whether to continue to consider the gross value of the asset being de-capitalized, by de-escalating the gross value of the new asset @ 5% per annum until the year of capitalization of the old asset, or may suggest any other methodology to compute assumed deletions.</p>	<ul style="list-style-type: none"> <i>In some of the cases such as the asset under consideration is part of a larger scheme, the individual value of the actual cost of the asset may not be available. While removing/replacing the said asset from service, a corresponding amount towards de-capitalisation of the asset is to be arrived and reference cost is needed to be deleted.</i> <p><i>In such cases, it is proposed that amount towards de-capitalisation of the old asset may be derived by de-escalating the gross value of the new asset with applicable Cost Inflation Index, which will provide more appropriate and realistic value of old asset being de-capitalised by factoring the impact of inflation over the period.</i></p>

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34	<p>6.8 Necessity to Review the need of Regulation 17(2)</p> <p>The provision under Regulation 17(2) of Tariff Regulations, 2019 may result in further complication and being seen as inequitable for the generator, is required to be modified.</p>	<ul style="list-style-type: none"> The Beneficiary and Generator should be given equal rights. The extension of long term PPA or any new agreement shall be on mutual agreed terms only so that both beneficiary and generator can safeguard their commercial interests. Therefore, first right of refusal shall not be given to any single party.

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B. Additional Points for consideration of Hon'ble CERC

S. No.	Description	Comments of NHDC
1	Tax on RoE	<ul style="list-style-type: none"> In the Regulation No. 31 of Tariff Regulations 2019, it has been provided that the base rate of return on equity shall be grossed up with the tax rate of the respective financial year. <p>Further, Regulation No. 30 (2) of Tariff Regulations 2019 provides that return on equity in respect of additional capitalization after cut-off date beyond the original scope excluding additional capitalization due to Change in Law, shall be computed at the weighted average rate of interest on actual loan portfolio of the generating station.</p> <p>In consideration of the above said Regulations, in the tariff orders issued in r/o NHDC's power generating stations i.e. ISPS & OSPs, RoE @ weighted average rate of interest on actual loan portfolio on Add-Cap after cut-off date beyond the original scope has been allowed by Hon'ble CERC. However, the same has not been grossed up with the applicable tax rate which is not in line with the provisions mentioned as above.</p> <p>As such, it is to mention that Equity on capital expenditure pertaining to original project cost or other-wise carries same risk potential, therefore, applicable rate of RoE, as the case may be, shall be grossed up with the applicable tax rate.</p>
2	Standardization of billing process	<ul style="list-style-type: none"> Billing process may be standardized including formats for billing, verification/ reconciliation of accounts including timeline for the said activities, rebate/ LPSC calculations etc., which would be helpful for Generating companies as well as beneficiary(ies) to avoid confusions/ mis-interpretation of concerned Regulations/ Guidelines.

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