

Comments on Approach Paper on CERC tariff regulations 2024-29:

Relevant Clause/para in the approach paper	Comments
1.3	Battery Energy Storage Systems (BESS) are the latest technology evolving in recent times to assist the grid in many ways. Govt is keen to promote the technology by way of providing Viability Gap Funding (VGF). However, in the current scenario, the technology is only promoted under Sec 63 of EA 2003. Installing through a Regulated Tariff Mechanism (RTM) is also required to encourage more. Therefore, CERC may look into the issue and appropriate norms may please be published.
3.2	<p>AFC components and usage of indexation may not provide appropriate results. Due to the following reasons:</p> <ol style="list-style-type: none"> 1. MoP vide OM No. dated 08th Mar 2019 has provided “Measures to promote Hydro power sector”. One of the measure is to enhance the debt repayment period from 12 years to 18 years. Accordingly, to make the projects viable CEA has accorded DPR for few projects with Debt repayment ranging from 15 to 18 years. Once the projects got commissioned the indexation provided to normal projects may not apply to these hydro projects. For them, another index need to be provided on case to case basis. 2. The tariff determined based on CERC tariff regulations are the ceiling tariff and the developers in-consultation with long term beneficiaries may deviate the operational parameters, reduction in O&M expenses, reduction in RoE etc.,in line with reg 66 of CERC tariff regulations 2019-24. Once the indexation method is used, it will discourage the developers in tariff innovation by way of the above methods 3. If CERC desires to go ahead with Indexation, <ol style="list-style-type: none"> 1. For O&M, WPI and CPI inflation data may be considered alongwith multiplication factors 2. For AFC other than O&M, linear programming techniques may be considered with Interest on loan, Interest on WC and additional capitalization as inputs for the model.
3.3	It is suggested that the current practice of determination of tariff is neutral in nature as it balances the interests of investors and consumers, as outlined in tariff policy. However, adopting approach 1 & 2 as detailed in approach paper may not necessarily balance the interests of various stakeholders.
4.2.4	As per Hydropower Policy 2008, Local Area Development Fund (LADF) is provided during the operation of the project, with an aim to provide sustained revenue to operation of income generation and welfare schemes, creation of additional infrastructure and common facilities. Further, the intention of providing budgetary support for cost of enabling

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Praveen Kumar Sahukari
Deputy Director, CEA

	<p>infrastructure, as per MoP's OM dated 08th Mar 2019, is to ensure that consumers are charged cost related to power components only.</p> <p>From the above, since Hydropower policy 2008 already covers expenses for advancement of local area, therefore extending the expenses from budgetary support may not be viable as the intention of creating the support is different.</p>
4.3.1	<p>One of the mandates of tariff policy is to ensure availability of electricity to different categories of consumers at reasonable rates. Determination of tariff post approval of resolution plan shall be based on Historic or Acquisition value whichever is lower, since it promotes recovery of reasonable cost to investors as well as reasonable rates to different categories of consumers.</p> <p>However, in O&M norms, the cost of recovery of O&M expenses shall be based on historic cost of asset adjusted with depreciation or acquisition value whichever is higher, since if the recovery of O&M expenses are less than the investors may not operate the assets in the desirable manner and the cost may be borne from their profits which is detrimental to their intention of operation.</p>
4.4.1	<p>Option 1 is logical since the IDC calculated till SCOD shall be capitalized. However, for reasons beyond the control of the generator, if the SCOD is extended, the period for which the delay is condoned shall be considered for additional IDC.</p> <p>Further, considering IDC allowed in the original investment approval may not be considered since in the case of Hydro projects, the construction time is assumed as 5 years. The investment in terms of debt & equity by developers in the project during the construction period in some cases are varying, if this varies then IDC will also vary. Further, the investment approval is an estimate, however, it may vary due to actual economic conditions. Therefore, option 3 may not be considered.</p>
4.4.2 & 4.5	Changing tariff forms is a welcome step
4.9	<p>In the approach paper, the word "Rigorous pursuit" has been mentioned. The meaning of Rigorous pursuit may be writing letters to competent authority regularly or Personally visiting the office of the competent authority for any clearances/ approvals or any other means to expedite the process. However, the interpretation of the word may be different for different regulators.</p> <p>Therefore, the existing practice of treating time overrun may be continued.</p>
4.11	<p>It is mentioned that before issuing Tariff regulations by the commission in every control period, this issue was deliberated extensively, however, due to some reasons or other GFA method is implemented. Therefore, Some of the facts need to be recalled on this issue:</p>

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Deputy Director, CEA

	<ol style="list-style-type: none"> 1. Since the power supply position in the country has drastically improved and the Energy and Peak deficit has reduced compared to previous years. 2. The Indian power sector has enough resources to meet the demand and the Govt is also promoting RE power to meet the Net zero target by 2070 and the objective of decarbonizing the Energy Sector. 3. The capital cost required for setting up RE plants are less capital-intensive than conventional power plants. <p>Based on the above, the objective of creating internal surplus for creation of more capacity to meet the demand may not be required. The commission may adopt the NFA method for old plants which are about to complete their useful life in this control period or those plants which are undergoing or proposed to undergo R&M in this control period. Thereby it will reduce the burden on consumers.</p>
4.16.4	<p><u>Methodology of Return on Equity:</u> $RoE = Risk\ free\ rate + (\beta \times Market\ risk\ premium)$ It has been mentioned that</p> <ol style="list-style-type: none"> a. Risk free rate is considered based on average 10 year Gov securities over a one year period horizon b. Market Risk premium is historical returns of 30 years in line with International practice. <p>In the above, there is an inconsistency, it is Market Risk Premium = (Market return - Risk free rate) Here returns of market and risk free rate are considered for different time periods. Instead of considering different time periods, since our indian electricity sector has expanded mainly after 2001, many private companies has played major role in the sector, therefore market return and risk free rate shall be calculated based on 20 year horizon.</p> <p>Further, BSE Power Index contains only 11 companies in which the role of emerging companies have been ignored. In this regard, commission may sought NSE for creation of new index for power sector and based on it Equity Beta may be calculated.</p>
4.16.4	<p>With reference to point 4, on Merit in having different RoE`s to Thermal, Hydro and transmission projects:</p> <p>The gestation period for Hydro generating stations are more and it may experience geological surprises. To reward the risk encountered by these generating stations a higher RoE (which was there in current regulations) may be provided. Further, the risk in case of transmission projects are minimal and limited to Right of way issues. The RoE for transmission may be reduced.</p>
4.16.5	<p>It has been mentioned that the capital cost of old thermal stations is around 1.5 to 2 Rs Cr/MW and the equity portion of these generating stations are low. Thereby, the RoE of these stations in today`s term are too low.</p>

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	<p>This point is not agreeable since, these plants have already recovered their capital investment by way of Depreciation and they have already paid their debts also. The only expenses which these stations are incurring is O&M expenses and Cost of Working capital. Any revenue earned by these plants will totally turn out into profits after deducting this expenses and therefore the generators are sitting on huge piles of cash. Therefore, it is illogical to provide additional incentive to this plants. However, if the commission still feels to provide incentive then it shall be based on efficiency of the plants rather than PLF alone.</p>
4.19	<p>It is observed that most of the thermal generating stations are operated well beyond the useful life of 25 years, therefore its life can be extended to 35 years. Similarly, many transmission projects are operating well beyond their useful life with minimal capital investment for repairs, their life can also be extended upto 40 years. Thereby it will be equal footing to both Sec 62 & 63 projects.</p>
4.22	<p>Recovery of Interest amount in installments along with carrying cost is a welcome step, as it will lower the burden of increased AFC on beneficiaries.</p>
5.12	<p>The existing practice of two part tariff may be continued, as it will incentive the efficient plants otherwise all are treated at par.</p>

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