

भारत सरकार केंद्रीय विद्युत प्राधिकरण दक्षिण क्षेत्रीय विद्युत समिति 29, रेसकोर्स क्रॉस रोड बेंगलूर- 560 009	 सत्यमेव जयते	Government of India Central Electricity Authority <b>Southern Regional Power Committee</b> 29, Race Course Cross Road Bengaluru- 560 009
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सं/No. SRPC/MS/CERC/2023/ 3256	दिनांक/ Date	31-07-2023

सेवा में / To

Secretary, CERC

**विषय/ Sub: Observations on CERC's Approach Paper on Terms and Conditions of Tariff Regulations for the Period 01.04.2024 – 31.03.2029 – reg.**

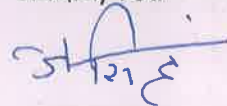
महोदय/ Sir,

This has reference to CERC Public Notice File No. L-1/268/2022/CERC dated 26.05.2023 & 13.07.2023 seeking comments/ suggestions/ objections from the stakeholders by 31.07.2023 on various issues raised by the Commission's staff in their Approach Paper on Terms and Conditions of Tariff Regulations for the Period 01.04.2024 – 31.03.2029.

In this regard, the observations of SRPC are enclosed herewith for kind consideration.

संलग्नक/ Encl: यथोपरि/ As above

भवदीय/Yours faithfully,



(असित सिंह/ Asit Singh)

सदस्य सचिव/ Member Secretary

## Approach Paper – CERC MYT Regulations for 2024-29

### 3 Possible Approaches to Tariff Determination

#### 3.1 Tariff Determination – General Approach

#### 3.2 Approach 1: Normative Tariff

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?

2) What other methodology can be adopted to determine the increasing/ decreasing factors?

3) Whether the impact of additional capitalisation can also be allowed through the same indexation mechanism or through a separate revenue stream?

#### **Comments**

**It appears both methodology does not reduce Regulatory Overburden.**

In the Approach paper it is mentioned

*The asset specific normative tariff will allow the tariff determined to be close to actuals, thereby eliminating the chance of major gain or loss, and will also help achieve the other objective of eliminating the need for periodic tariff filings.*

.....

*Subsequently, fixed charges for future years may be approved on the basis of indexation that may be specified for each generating station/transmission system by the Commission from time to time.*

.....

#### **Comments**

**If normative tariff and indexation is to be determined for each generating station/transmission system by the Commission from time to time then it appears that it does not result in reducing regulatory overburden, and simplification of tariffs.**

**Since shifting to completely Normative Approach involves specifying Norms for each plant/scheme, and thereafter Indexation factors for each year (for original scheme and all subsequent revisions on account of add-caps), the quotient of discretion involved in this process (by the Commission) needs to be properly balanced vis-à-vis the general objectivity & the simplification of the tariff determination process proposed to be achieved by adopting Normative Approach. Considering the above, the current practice of tariff determination may be continued.**

#### 3.3 Approach 2: Performance Based Hybrid Approach

It is therefore important that the stakeholders, while providing suggestions, evaluate the options suggested in subsequent sections, considering its applicability for both Approach 1 and Approach 2

## 4 Financial Aspects impacting Tariff

### 4.2 Capital Cost

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.

#### **Comments**

Interim-tariff helps utilities minimise the time gap between the commissioning of the project and the generation of cash flows by means of tariff.  
It will avoid tariff shock to beneficiaries if longer duration tariff is to be recovered in short period.

#### 4.2.2 Procurement of Equipment and Services

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.

##### Comments

This would be good step that procurement of major works and related services under RTM is through competitive bidding and suitable clause may be included as Regulation. However, the need for reasonable exceptions like cost threshold, size & nature of the contract/ service, etc. may be seen.

#### 4.2.3 Reference Cost for Approval of Capital Cost – Benchmark Cost V/s Investment Approval Cost

Comments and suggestions of stakeholders are invited on other efficient reference costs other than Investment Approval costs that can be considered for prudence checks.

##### Comments

*“Section 61. (Tariff regulations):*

*The Appropriate Commission shall, subject to the provisions of this Act, specify the terms and conditions for the determination of tariff, and in doing so, shall be guided by the following, namely:-*

*(a) the principles and methodologies specified by the Central Commission for determination of the tariff applicable to generating companies and transmission licensees;*

*(b) the generation, transmission, distribution and supply of electricity are conducted on commercial principles;*

*(c) the factors which would encourage competition, efficiency, economical use of the resources, good performance and optimum investments;*

*(d) safe guarding of consumers' interest and at the same time, recovery of the cost of electricity in a reasonable manner;*

Considering the above it is prudent to have benchmark cost rather than only the Investment Approval Cost. With Benchmark cost the generation and transmission entities are cautious in their expenditure as they have to justify the same before respective commission. There may be a need to make a robust benchmark mechanism.

#### 4.2.4 Capital Cost of Hydro Generating Stations

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”.

Comments and suggestions are further sought from stakeholders on ways to expedite the development of hydro generating stations especially the construction phase, and increase their commercial acceptability.

**Comments**

As rightly pointed out in the Paper, one crucial factor w.r.t expediting the development of hydro generating stations especially the construction phase lies in the advancement of the Local Area are required for the development of the project and for alleviating public resistance and delays; and the expenses involved can be met by admitting the same as capital cost or through budgetary support or both.

Further, creating Special Purpose Vehicle (SPV) for obtaining all mandatory approvals, and focusing on quality and the implementation schedule, etc. will also help in this regard. Higher tariff may be reduced by considering larger depreciation period (considering the longer life of the hydro plants & longer tenure of the loans) so that hydro plants become commercially viable.

Comments and suggestions are sought from stakeholders to incentivise the developer if it executes the project faster/ or ahead of schedule and vice-versa if it delays.

**Comments**

The developer may be incentivised for executing the project much ahead of the schedule/ Penalised from any delay (on account of the developer)

#### 4.3 Capital Cost for Projects acquired post NCLT Proceedings

Comments and suggestions are sought from stakeholders on the following issues:

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.

**Comments**

Agree with Approach Paper that Minimum of two that is Historical Cost or Acquisition Value should be considered for tariff determination post approval of Resolution Plan.

#### 4.4 Computation of Interest During Construction

In view of the above, it has been argued that the provision can be modified so as to allow proportionate IDC upto SCOD or upto the date of delay condoned on the basis of total IDC worked out till actual COD.

**Comments**

Agree with Approach Paper that proportionate IDC upto delay condoned by ERC (through prudence check) may be allowed.

1. Existing mechanism wherein the pro-rata deduction (based on delay not condoned) is done on IDC beyond SCOD.

**Comments**

Agree with existing methodology

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.

**Comments**

IDC due to delay needs to be treated separately

3. IDC approved in the original Investment Approval to be considered while allowing actual IDC in case of delay.

**Comments**

IDC approved in IA may be on higher, and it is regulatory requirement for prudence check. IDC as per IA and condoned period IDC may be allowed.

#### 4.4.2 Treatment of Liquidated Damages

In view of the above, comments and suggestions are sought from stakeholders on necessary changes in tariff forms and regulations, if any, to provide further clarity on the adjustment of LD.

**Comments**

Agree with approach paper to avoid double deduction.  
Additionally, difficulties have been faced in ascertaining the amount of liquidated damages (LD) to be retained by the generating stations and transmission licensees from the additional capitalization claim made subsequently, appropriate changes may be made in the additional capitalization forms to capture/ obtain requisite information.

#### 4.5 Price Variation

Therefore, 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.

Comments and suggestions are sought from stakeholders on the above proposal and suggest alternatives, if any.

**Comments**

Agree with approach paper.

#### 4.6 Renovation and Modernisation (R&M)

Comments and suggestions are sought from stakeholders on 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.

**Comments**

Agree with approach paper on continuing the Special Allowance as more capacity is required to meet the anticipated load beyond the defined useful life of the project.  
A Plan needs to be put to be beneficiaries and considering the views of beneficiaries ERC may allow Special Allowance.

#### 4.7 Initial Spares

In view of the above, 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

Comments and suggestions are sought from stakeholders on the above proposed approach and alternative options to standardise and simplify the norms for initial spares.

##### Comments

**A common norm for AC & DC Transmission Lines & AC Substations can be considered irrespective of green field or Brown Field.**

**A higher common norm for HVDC stations, Dynamic Reactive compensation Devices can & Underground Cables be considered irrespective of green field or Brown Field.**

**A higher common norm for Communication System can be considered.**

#### 4.8 Controllable and Un-Controllable Factors

##### 4.8.1 Delay towards obtaining Forest Clearance

In view of the same, 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 licensee.

Comments and suggestions are sought from stakeholders on 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.

##### Comments

**Agree with Approach Paper to continue with delay on land acquisition as an uncontrollable Factor and include delay on account of forest clearance as an uncontrollable Factor.**

**Further any lapse on part of Generating Company or Transmission Licensee affects the beneficiaries adversely. A Regulatory Provision should be made to keep the beneficiaries/stakeholders informed during the implementation/approval process.**

##### 4.9 Differential Norms - Servicing Impact of Delay

Therefore, though impact of delay on account of uncontrollable factors may be allowed, in order to encourage rigorous pursuit of such approvals, 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.

##### Comments

**Any lapse on part of Generating Company or Transmission Licensee affects the beneficiaries adversely. A Regulatory Provision should be made to keep the beneficiaries/stakeholders informed during the implementation/approval process. This would avoid disallowment of part of cost impact.**

In view of the above, comments and suggestions are sought on the following:

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.

##### Comments

**Any lapse on part of Generating Company or Transmission Licensee affects the beneficiaries adversely. A Regulatory Provision should be made to keep the beneficiaries/stakeholders informed during the implementation/approval process. This would avoid disallowment of part of cost impact.**

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.

##### Comments

Any lapse on part of Generating Company or Transmission Licensee affects the beneficiaries adversely. A Regulatory Provision should be made to keep the beneficiaries/stakeholders informed during the implementation/approval process. 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 can be considered for generating company/Transmission Licensee to take proactive steps.

3. The current mechanism of treating time overrun may be continued, considering that utilities are automatically disincentivised if the project gets delayed.

**Comments**

Any lapse on part of Generating Company or Transmission Licensee affects the beneficiaries adversely. A Regulatory Provision should be made to keep the beneficiaries/stakeholders informed during the implementation/approval process.

#### 4.10 Additional Capitalisation

Therefore, in order to have an enabling provision under which such 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.

Comments and suggestions are sought from stakeholders on the above and any other ways to address the issue flagged above.

**Comments**

As all cases cannot be covered in the existing provisions an enabling provision (with approval of ERC) would be beneficial/essential.

For generating stations that have already crossed the cut-off date as on 31.03.2024, the additional capitalisation for such generating stations can be considered as per the following.

1. 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.

**Comments**

Additional capitalization and true up may be better option.

In case of Thermal stations, relevant studies using sufficient data may be carried out to ascertain if the various Add-caps taken can be correlated with different Unit size and vintage periods. It needs to be established that the associated cost components lend themselves to be determined on the basis of Norms.

2. 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.

**Comments**

Agree with Approach Paper that in case of Hydro it is difficult to benchmark

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.

**Comments**

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.
<b>Comments</b> <b>Agree with Approach Paper</b>
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.
<b>Comments</b> <b>Agree with Approach Paper. There needs to be regulatory oversight that discharging of liability is done in timely manner.</b>
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. 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.
<b>Comments</b> <b>Agree with Approach Paper</b>
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 cutoff 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.
<b>Comments</b> <b>Existing provisions beyond cutoff date and Special Provision (with ERC) may continue</b>
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
<b>Comments</b> <b>Agree with Approach Paper</b>
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
<b>Comments</b> <b>Agree with Approach Paper</b>
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.
<b>Comments</b> <b>Agree with Approach Paper. There needs to be regulatory oversight that discharging of liability is done in timely manner.</b>
<b>Comments</b> <b>In some cases it is seen that technological obsolescence, change in law, force majeure etc are known between design and execution stages . The design needs to be modified during execution stage to the extent possible to avoid additional costs, avoid outages to incorporate mandatory/necessary modifications at a later date.</b>

#### 4.10.2 Normative Add-Cap – Transmission System



Therefore, 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. Comments and suggestions are sought from stakeholders on the above suggested approaches and other alternatives, if any.

**Comments**

**Agree with Approach Paper.**

**In some cases it is seen that Transmission Licensee continues with Design, however same can be incorporated before execution.**

#### 4.11 GFA/NFA/Modified GFA approach

Increasing the Investors confidence by ensuring assured returns is important, and further considering the recent spikes in power tariffs in power exchanges indicating 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.

**Comments**

**In line with the set targets of generation & transmission by 2030, power sector needs huge investment. Accordingly, the prevailing GFA Approach may be continued in the next tariff period as well.**

#### 4.12 O&M Expenses

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.

Comments and suggestions are sought from stakeholders on above suggestions and alternatives, if any.

**Comments**

**Based on actuals may be considered, however manpower needs to be within the guidelines/benchmark norms and prudence check is required by ERC.**

#### 4.12.2 Norms for HVDC Stations

It is observed that there is a need to simplify the same and therefore one norm for all HVDC schemes in terms of per MW considering the actual expenses incurred in the past may be specified.

Comments and suggestions are sought from stakeholders on above suggestions and alternatives, if any.

**Comments**

**Agree with Approach Paper**

#### 4.12.3 O&M Norms for Special Cases

In view of the above, comments and suggestions are sought from stakeholders on 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.

**Comments**

Agree with Approach Paper.  
Further O&M cost for Communication & IT is higher compared to others and same may also be considered.

4.12.4 Inclusion of Capital Spares

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. Comments and suggestion are sought from stakeholders on the above suggested approach and alternatives, if any, to streamline the approval process for spares.

**Comments**

Some Pooling concept on maintaining High cost capital spares can be considered. Physical and Cost sharing Methodology will help in utilising the spares among generating companies and Transmission Licensees.  
CEA Guidelines on maintaining of spares to be complied.  
There is need to define what constitutes/ qualify as Capital spares. However, if a threshold (in amount) is proposed to be adopted for determining to include Capital spares under normative O&M expenses, then the scheme-specific (ex: generation/ transmission), component-specific (ex: rotor/ different types of motors, etc.) norms may need to be specified.

4.12.5 Impact on account of Change in Law and Taxes

Comments and suggestions are therefore sought from stakeholders on whether to include any provisions with regard to allowing impact of a change in law on O&M expenses

**Comments**

4.13 Depreciation

In view of the above, a 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(ies). Comments and suggestions are therefore sought from stakeholders on the above proposal and any modifications required, if any.

**Comments**

Agree with Approach Paper.  
However, any capitalization that may need to be undertaken subsequent to cut-off date may be given due attention. Since this capitalization can be either a new asset capitalization or a value addition to the existing asset (other assets), and the depreciation may be appropriately considered  
Lower depreciation period needs to be considered for Communication and IT equipment.

#### 4.14 Interest on Loans

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.

Comments and suggestions are sought from stakeholders on the above suggestions and alternatives, including in respect of treatment of FERV/cost of hedging

##### Comments

#### 4.15 Return on Equity (RoE) V/s Return on Capital Employed (RoCE)

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.

Comments and suggestions are, however, sought from stakeholders on the continuation of the RoE approach.

##### Comments

**RoE approach (Max upto 30% or actual) , may be continued.**

#### 4.16 Rate of Return on Equity

##### 4.16.4 Methodology

Keeping in view the international approaches to regulated rates of return, the average 10-year GOI securities rate over a one-year horizon may be considered a risk free rate.

##### Comments

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.

##### Comments

Keeping in view the international approaches, the 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.

Alternatively, MRP may be computed using any other method, including the Survey Method. Comments and suggestions are sought from stakeholders on the above proposed methodology for estimation of RoE and alternative suggestions, if any.

##### Comments

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

##### Comments

**Rate of RoE for Add Cap on account of Change in Law and Force Majeure can be at reduced rate in the interest of beneficiaries (as the cost implication has arisen subsequently)**

2. Whether the revised rate of RoE to be made applicable to only new projects or to both existing and new projects?

**Comments**

**It can be for New Projects**

3. Whether timely completion of hydro generating stations can be incentivised to attract investments?

**Comments**

**Timely completion of hydro generating stations may be incentivised. Dam/ Reservoir based Hydro projects and PSPs are also need to be suitably incentivized considering their role in balancing the grid against intermittent RE.**

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

**Comments**

**RoE for transmission can be considered at lower rate as recommended in FOR**

5. Merit in allowing RoE by linking the rate of return with market interest rates such as G-SEC rates/MCLR/RBI Base Rate.

**Comments**

**A % of RoE can be linked with market interest rates.**

#### 4.16.5 Rate of Return – Old Thermal Generating Station

Possible options to encourage higher availability and generation from old generating stations can be as follows.

1) Allowing additional incentive in the form of paise/kWh apart from those currently allowed may be allowed to such generating stations against generation beyond the target PLF.

Comments and suggestions are sought from stakeholders on various possible alternatives that incentivises generation from these efficient old generating stations.

**Comments**

**As power is needed from vintage stations to meet the demand these generators needs to be further incentivised.**

**Further, other old-generating plants, which are presently running on-inefficiently, but can become efficient by undertaking R&M should also be encouraged go for the same.**

#### 4.17 Tax Rate

In view of the above discussion and recent amendments to the Income tax regime, 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:

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.

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.

In view of the above discussion, comments and suggestions are sought on the above and any other alternative(s).

**Comments**

#### 4.18 Interest on Working Capital

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.

**Comments**

**Agree with Approach Paper**

Deterrent Charges for maintaining lower coal stock by coal based thermal generating stations" was issued in May 2022 wherein the methodology for determining deterrent charges was proposed. In this regard, comments and suggestions were invited from generating stations and stakeholders. Various generating stations and stakeholders have submitted their responses, however, any further suggestions on the issues flagged therein may be submitted for consideration.

**Comments**

**Comments already furnished**

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.

**Comments**

**Gas stations are used during contingency, so loWC needs to promote higher storage.**

As per the existing Regulations, the Bank Rate for the purpose of computing the Interest on Working Capital (loWC) 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.

**Comments**

Comments and suggestions are sought from stakeholders on the ways to determine loWC along with any other alternatives, if any, so that the same may not require periodic trueing up.

**Comments**

**It may be noted that due to inherent volatility in fuel prices, loWC, of which fuel stock constitute a major component, may need periodic true-up. However, a suitable mechanism/ solution may be specified to hedge the variations in loWC.**

#### 4.19 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.

**Comments**

**Agree with Approach Paper. The useful life of coal based thermal generating stations and transmission sub-stations needed to be increased to 35 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.

Comments and suggestions are sought from stakeholders on the above proposal and the necessity of further changes, if required.

**Comments**

**Agree with Approach Paper.  
But this may be allowed only after assessing the same by requisite studies.**

#### 4.20 Input Price of coal – Integrated Mine

Comments and suggestions are sought from the stakeholders on any modifications that may be required to current tariff provisions with regard to the determination of the input price of coal and lignite from integrated mines.

**Comments**

#### 4.21 Sharing of Gains

...Comments and suggestions are sought from the stakeholders on the following:

1. Ways to increase non-core revenues through optimal utilisation of available resources.

**Comments**

2. Any modification in the sharing mechanism that may be required.

**Comments**

#### 4.22 Treatment of arbitration award – Servicing of Principal and Interest Payment

To avoid such situations, the 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 may also involve carrying cost. Comments and suggestions are sought from stakeholders on the above approach and alternative ways, if any.

**Comments**

#### 4.23 Treatment of interest on differential tariff after truing up

In order to streamline the rate of interest on the differential amount, the current practice of allowing a simple interest rate as per Regulation 10(7) in the 2024-29 tariff block may be continued. Further, interest may be allowed to be charged on the differential amount by the utility only until the issuance of the order, and no interest may be allowed during the recovery in six equal monthly instalments.

Comments and suggestions are sought from stakeholders on the above approach and alternative ways, if any

**Comments**

**Agree with Approach Paper, interest may allowed to be charged on the differential amonut by the Utility only unilt the issuance of the Order. This may also be mentioned/ clairifed in the relevant regulation.**

#### 5.1 Normative Annual Plant Availability Factor (NAPAF)

##### 5.1.1 Review of Existing Norms

In view of the above, the existing norms of NAPAF may need review by considering past years' PAF, the procurement of coal from alternate sources, other than designated fuel supply agreements, changes in hydrology, etc.

**Comments**

One option 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:

*'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;'*

Comments and suggestions are sought from stakeholders on the above suggested option and any other methodology that can be considered for the computation of plant availability for ROR based hydro generating plants.

**Comments**

#### 5.1.2 Recovery of Energy Charge for Hydro Generating Stations

Comments and suggestions are sought from stakeholders on ways to simplify the tariff recovery process for hydro generating stations.

**Comments**

**However, their proportions may be tweaked, if required. Flexibility in Regulation may be provided.**

#### 5.2 Peak and Off-Peak Tariff

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.

1. Whether it would be advisable to limit the recovery based on daily peak and offpeak periods.

**Comments**

**The recovery may be limited to daily peak and off peak periods.**

2. Suggestions on National versus Regional Peak as a reference point for recovery of fixed charges.

**Comments**

**If Peak Season (Either Regional/National) concept is to be kept than NAPAF should be increased for Peak season (Period) while reducing proportionately during Off Peak Season. This would ensure no maintenance is carried out during Peak Season along-with higher certainty of fuel availability. Reducing NAPAF during Off Season will facilitate Planned maintenance activities. Other-wise there should be no Peak Season concept as it will provide more flexibility in planning the LGB.**

#### 5.3 Operational Norms

Further, as the generating stations are separately allowed degradation impact due to low load operations, it is felt that the norms may be fixed considering the ideal loading of generating units.

**Comments**

If norms are as per actual loadings then there may not be a need for separate compensation due to degradation as sometimes unit(station) may be running at higher loading and sometimes at lower loading.

Comments and suggestions are sought from stakeholders on the above proposal and other key determinants to be considered while approving the norms.

**Comments**

#### 5.4 Operational Norms – Inefficient Generating Stations

Comments and suggestions are sought from stakeholders on the option to do away with relaxed norms currently allowed on the basis of actual performance for various efficiency norms of generating stations.

**Comments**

**A balance approach may be taken as the capacity is required to meet the forecasted demand and without relaxed norms it may not be viable for them to supply power.**

#### 5.5 Operational Norms for Washery Rejects based Plants

In view of no compelling reasons to amend the same, the existing norms for such plants may be continued in the next tariff period. Comments and suggestions are sought from stakeholders on the above proposal.

**Comments**

**Agree with Approach Paper.**

#### 5.6 Operational Norms - Emission Control System

As only very few of such emission control systems have been commissioned, and in the absence of sufficient data on actual operational performance and its impact on auxiliary consumption, the current tariff norms may be continued for the next control period. However, comments and suggestions are sought from stakeholders on the continuation of the existing norms, or is there a need to modify the same?

**Comments**

**Agree with Approach Paper.**

Further, as considerable expenses have been incurred to reduce the adverse impact on the environment, suggestions are also sought on ways to incentivizing proper operation of such emission control systems so that the very purpose of incurring such huge expenses can be achieved and accounted for.

**Comments**

Comments and suggestions are sought from stakeholders on whether the current mechanism to exclude these expenses may continue until these generating stations equip themselves with emission control systems as per the MoEF&CC notification dated 31.03.2021?

**Comments**

#### 5.7 Compensation for Part-Load Operations



With regard to the compensation norms, an Expert Committee has already been constituted; however, in view of the above discussion, comments and suggestions are sought from stakeholders on the earlier norms and any changes that may be required to compensate the generators to operate the plants in a flexible manner to support the Grid.

**Comments**

**Intra-day Flexibility (fast ramping, load following, secondary response, minimum turn down, two shift operation, etc) is inevitable from thermal generators to absorb RE and meet evening peak. The generators needs to be adequately incentivised to deliver the flexibility.**

#### 5.8 Gross Calorific Value (GCV) of Fuel

Comments and suggestions are sought from stakeholders on ways to reduce the gap between GCV “as billed” and “as received”.

**Comments**

#### 5.9 Blending of Coal

Linking the consent of beneficiaries with the percentage blending of imported coal instead of an increase in ECR may enable a swift response to an increase in demand by the generating company. Procurement of such coal (other than linkage coal) has to be done through a transparent competitive bidding process. Comments and suggestions are sought from stakeholders on the above proposal and any other alternative, if any.

**Comments**

**Existing clause of linking consent with ECR may be continued. However, any direction on % blending needs to be complied without the consent of beneficiaries. It would in interest of beneficiaries if procurement is done through a transparent competitive bidding process. A pooled bidding for number of entities may give further competitive rates.**

#### 5.10 Incentives

However, incentives linked to generation in excess of target PLF/NAPAF 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.

Comments and suggestions are sought from beneficiaries on the above proposal and any other alternative options, if any.

**Comments**

#### 6.1 Separate Norms for ROR/Storage Based Hydro Projects

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 periods.

Comments and suggestions are sought from stakeholders on the above proposal and any alternative solutions, if any.

**Comments**

## 6.2 Tariff Structure for Cost Recovery for Emission Control System

As not all generating stations have installed the emission control system, and most of these works are in the execution stage, therefore the existing tariff recovery mechanism may be continued. However, comments and suggestions are sought from stakeholders on alternatives to the existing tariff mechanism for recovering the impact of the installation of emission control systems.

### Comments

Existing tariff mechanism may continue.

## 6.3 Decommissioning of Generating Station and Transmission Assets

In view of the above, comments and suggestions are sought from stakeholders on the possible approaches to recover or refund the impact of decommissioning costs in case the generating stations/transmission systems are decommissioned before the completion of their useful lives, if such decommissioning is done in compliance of a statutory order or due to technological obsolescence duly approved by RPC.

### Comments

The issue needs detailed deliberations since differential treatment needs to be given depending upon the type & nature of the asset being decommissioned including its salvage value. Further, in cases of non-technological obsolescence, the requirement of decommissioning of an asset may also need to be established by appropriate studies. Further, the possibility of utilizing them as spares at suitable places/ locations also needs to be explored.

After ascertaining all above, if decommissioning is deemed necessary (without any consequent use), suitable provisions may be provided for recovering the unrecovered depreciation minus the salvage value of the asset.

## 6.4 Simplification of Tariff Formats

Comments and suggestions are invited from stakeholders for simplifying the existing tariff formats.

### Comments

## 6.5 Approval process for carrying out non-ISTS lines carrying inter-state power and associated Capital Cost

In view of the above, comments and suggestions are invited from stakeholders, particularly, from STUs and State transmission licensees, for the approval process to be followed before undertaking the construction of new intra-state transmission lines carrying inter-state power.

### Comments

If an Intra-state system is planned to carry ISTS power (specifically mentioned in the planning approval), the proportionate cost may be recovered through Sharing Regulations.

Comments and suggestions are sought from stakeholders on the capital cost to be considered for the computation of transmission charges in respect of intra-State lines (carrying inter-state power) of the State transmission utilities.

### Comments

W.r.t. capital cost to be considered for the computation of transmission charges in respect of intra-state lines, the current methodology of determining the same on the benchmark capital

cost derived on the basis of the average cost of CTU lines for old transmission lines or based on the auditor's certified cost may be continued.

#### 6.6 Up-gradation of Asset/Replacement

In view of the above, comments and suggestions are invited from stakeholders regarding the treatment of unrecovered depreciation.

**Comments**  
At 6.3

#### 6.7 Assumed Deletions

Stakeholders may comment 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 Approach Paper – CERC MYT Regulations for 2024-29 89 annum until the year of capitalization of the old asset, or may suggest any other methodology to compute assumed deletions.

**Comments**

#### 6.8 Necessity to Review the need of Regulation 17 (2)

In view of the above, 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.

Comments and suggestions are sought from stakeholders on the above.

**Comments**

#### Other Comments

### 8 Tariff determination for Communication

#### Tariff Determination for Communication Assets

**Comments**

As the useful life of communication assets is much less and generally it has more O&M and AMC the tariff determination can be on separate norms

#### Tariff Sharing

**Comments**

Presently the tariff of communication is recovered as per Transmission Charges which is based on GNA(LTA) and PoC. The ISTS communication assets are being used by state entities and also state communication system is being for ISTS Communication. So sharing methodology of communication tariff needs a relook.

Regional/National grid monitors each element so sharing can be based on system size and not as per Sharing Regulations or combination of both.

#### Tariff Recovery Norms

**Comments**

Communication Availability and norms for recovery of tariff is still to be notified and the communication is not getting the due attention by the Entities/Users including Transmission

Licences. The communication is assuming significance for Real time operation, URTDSM, Real Time Markets, Primary and Inertial Response, SRAS, Protection, DSM, ADMS etc.

## 9 Declared Capability (DC)

### DC

#### Comments

The fixed charges are worked on normative values of parameters and DC needs to be restricted to Normative DC not only the schedules. The DC declared should be after keeping the Governor Margins. DC cannot be just any number when schedules are being to Normative DC. This anomaly needs to be corrected. Otherwise complete DC should be schedule and it must be Generators responsibility to ensure Primary Reserve margin.

#### DC declaration during Natural calamity like cyclone

#### Comments

Deemed DC is to be given or not during cyclones etc is not defined in Regulations.

#### DC declaration during coal deficit

#### Comments

To ensure Resource adequacy DC should be restricted during Critical/Super Critical coal stock levels . For this suitable regulatory provisions may be covered

## 9 Ramp Performance

### Ramp Performance

#### Comments

The objective of higher ramp by generators releases more power to be scheduled up or down. Now we are stuck at 1% ramp. Generators are playing safe and are not going for deduction in RoE. Ramp performance procedure needs a relook, further ramp step jumps are very high (1%, 2% and 3%) which needs to be rationalised to get more ramp for scheduling.

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