

TS Discoms Comments/ Observations on
“Approach Paper on Terms and Conditions of Tariff Regulations
for Tariff Period 1.4.2024 to 31.3.2029”

Background:

1. Hon'ble CERC vide public notice no.L-1/268/2022/CERC dated 26.05.2023 brought out an Approach Paper on Terms and Conditions of Tariff for the period :1.04.2023-31.03.2029.
2. Under section 79 of the Electricity Act 2003, in conjunction with section 62, the Central Commission has been conferred upon to discharge, inter-alia, the functions of regulating the tariff of generating companies owned or controlled by the Central Government; regulating the tariff of generating companies other than those owned or controlled by the Central Government, if such generating companies enter into or otherwise have a composite scheme for generation and sale of electricity in more than one State; regulating the inter-State transmission of electricity; and determining tariff for inter-State transmission of electricity.
3. The current tariff period will come to an end on March 31st2024.
4. **The Central Commission has invited comments /suggestions from all stakeholders by 15.07.2023.**
5. **Meanwhile an on-line interactive session is being organized on 28.06.2023 at 11:00 am to elicit and share the views by stakeholders amongst each other.**
6. The approach paper covers various topics like need for simplification of tariff process, Possible approaches to tariff determination, Financial Aspects impacting Tariff, Operational Parameters impacting Tariff, Other key Issues & Way Forward etc.
7. **For online interaction scheduled on 28.06.2023, CERC has requested to send observations on such topics covered in the approach paper along with any other issues not covered in the approach paper but having an impact on tariff determination via mail by 21.06.2023 for general discussion and clarity.**
8. The summary of important points along with observations are being enumerated for further discussion & deliberation.

Summarized Note

2.8. Role of Old Generating Stations

For old generating plants, their operational costs are higher compared to new supercritical units, and the O&M expenses for such generating stations are also higher. These generating stations have four options going forward.

- a) Retirement/decommissioning for those stations that are operating way below the normative parameters thus inflicting loss to both generators and beneficiaries.
- b) Replacement by more efficient super-critical units – Will result in efficient utilisation of limited fossil fuel but is a Capital-Intensive Option

- c) Renovation of old plants – comparatively less Capital Intensive as compared to total replacement but are subject to Residual Life Assessment studies and Cost Benefit Analysis;
- d) Continuation of Operation of such plants after useful life with special allowance to undertake renovation activities on need basis.

2.9. The Cost Factor

The focus of this Approach Paper has been on the following key aspects that impact costs.

- 1. Efficient and Performance based Norms
- 2. Maximising the utilisation of efficient generating stations.
- 3. De-risking Generation and Transmission Business

2.11. Simplification of Tariff Process

Simplification of the tariff determination process is the core idea that shall drive the terms and conditions of tariff determination for the period FY 2024-25 to FY 2028-29. Simplification of the process has been envisaged for the following key activities that, over time, have become complex and time consuming.

- 1. Exploring the option for determination of tariff on a normative basis.
- 2. Modifying the existing approach to allow more parameters on a normative basis.

3.1. Tariff Determination – General Approach

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:

- a. Approach 1: Shift to a normative tariff, wherein, once capital costs are approved on an actual basis after prudence check, all other Annual Fixed Costs (AFC) components are determined on normative basis.
- b. 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 capitalisation may be allowed on certain counts on a normative basis.

3.2. Approach 1: Normative Tariff

Observations from stakeholders are invited on the following points:

- a. 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?
- b. What other methodology can be adopted to determine the increasing/ decreasing factors?
- c. Whether the impact of additional capitalisation can also be allowed through the same indexation mechanism or through a separate revenue stream?

3.3. Approach 2: Performance Based Hybrid Approach

The second alternative to further simplifying the tariff determination process is to continue with the current practice of tariff determination with more AFC components being allowed on a normative basis. As more and more AFC components are approved on a normative basis, it would ease the transition to a complete normative regime.

Stakeholders, while providing suggestions, evaluate the options suggested, considering its applicability for both Approach 1 and Approach 2.

4.0 Financial Aspects impacting Tariff

4.2. Capital Cost

The CERC Tariff Regulations, 2009 allowed utilities to seek approval of the capital cost of new projects on an anticipated basis, which helps utilities minimise the time gap between the commissioning of the project and the generation of cash flows by means of tariff.

The provision for interim tariff can be continued in the next tariff period as well. However, comments and suggestions are sought from stakeholders on the continuation of the said provision.

4.2.2. Procurement of Equipment and Services

Comments and suggestions are invited from stakeholders on the following:

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.

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 efficient reference costs other than Investment Approval costs that can be considered for prudence checks.

4.2.4. Capital Cost of Hydro Generating Stations:

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

Stakeholders are also required to consider the following aspects while making suggestions:

1. Ways to expedite the construction phase by adopting alternate ways of awarding construction contracts.

2. Contract to execute the project to be awarded only when all the required clearances and permits are available as on zero date.
3. Creation of Special Purpose Vehicle (SPV) for obtaining all mandatory approvals
4. Focus on quality and the implementation schedule.
5. Higher return on investments/equity for projects completed in a timely manner.
6. Higher return for dam/reservoir-based projects and Pumped Storage Projects.
7. Levelized Tariff based one-time determination of tariff to remain uniform for useful life.
8. Escalable tariff adjusted for year-on-year inflation.
9. Possibility to further increase the useful life.
10. Consideration of expenses towards Local Development/infrastructure for public outreach for better project acceptability as pass through in capital cost or one time re-imburement.

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.

4.3. Capital Cost for Projects acquired post NCLT Proceedings

It is perceived that the tariff under Section 62 needs to be determined on the cost-plus principle, therefore, the acquisition value should be considered. Further, if the acquisition price is higher than the historical value, the same may be capped at the historical value of such assets, as consumers should not be burdened with the asset premium quoted.

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

- a. Historical Cost or Acquisition Value whichever is lower should be considered for the determination of tariff post approval of Resolution Plan.
- b. 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.

4.4. Computation of Interest During Construction:

Comments and suggestions are sought from stakeholders on the following options for allowing IDC:

- a. Existing mechanism wherein the pro-rata deduction (based on delay not condoned) is done on IDC beyond SCOD.
- b. 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.
- c. IDC approved in the original Investment Approval to be considered while allowing actual IDC in case of delay.

4.5. Price Variation

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.

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.

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.

4.8. Controllable and Un-Controllable Factors

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.

4.9. Differential Norms - Servicing Impact of Delay

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.
2. Alternatively, RoE corresponding to cost and time overruns allowed over and above project cost as per investment approval may be allowed at the weighted average rate of interest on loans instead of a fixed RoE.
3. The current mechanism of treating time overrun may be continued, considering that utilities are automatically disincentivised if the project gets delayed. Comments and suggestions are sought from stakeholders on the above so that developers may make more efforts to control the delays.

4.10. Additional Capitalisation

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.

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.

4.12. O&M Expenses

4.12.1. Segregation of Normative O&M Expenses

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.

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.

4.12.3 O&M Norms for Special Cases

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.

4.12.4. Inclusion of Capital Spares

If the Capital Spares 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.

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.

4.13. Depreciation

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.

4.14. Interest on Loans

4.14.1. Weighted Average Rate of Interest and FERV

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

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

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.

4.16. Rate of Return on Equity

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

1. Review of Rate of RoE to be allowed, including that to be allowed on additional capitalisation that is carried out on account of Change in Law and Force Majeure.
2. Whether the revised rate of RoE to be made applicable to only new projects or to both existing and new projects?
3. Whether timely completion of hydro generating stations can be incentivised to attract investments?

4. Merit behind approving different Rate of RoE to thermal, hydro generation and transmission projects with further incentives for dam/reservoir-based projects including PSP.
5. Merit in allowing RoE by linking the rate of return with market interest rates such as G-SEC rates/MCLR/RBI Base Rate.

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.

- a. 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.

4.17. Tax Rate

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.

Comments and suggestions are sought on the above and any other alternative(s).

4.18. Interest on Working Capital

4.18.1. Working Capital Requirement

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 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.

4.18.2. Rate of Interest on Working Capital

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.

4.18.3. Normative Working Capital and interest thereon

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.

4.19. Life of Generating Stations and Transmission System

Useful life of coal based thermal generating stations and transmission sub-stations may be increased to 35 years from the current specified useful life of 25 years.

As the need for higher repairs will still be required, the current dispensation of allowing a special allowance or provision of R&M may be continued after 25 years.

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

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.

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

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.

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.

5.1. Normative Annual Plant Availability Factor (NAPAF)

5.1.1. Review of Existing Norms

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.

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.

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.

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

5.3. Operational Norms

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

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.

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.

5.6. Operational Norms - Emission Control System

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?

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 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.

5.7. Compensation for Part-Load Operations

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.

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”.

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.

5.10. Incentives

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.

8.1. 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.

8.2. 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.

8.3. 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.

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 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.

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 annum until the year of capitalization of the old asset, or may suggest any other methodology to compute assumed deletions

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

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.

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

Sl. No.	Clause No.	CERC Approach Paper on Tariff Determination	TS Discoms Comments/Observations
1.	7.1.1	Alternative Approach to Tariff Determination: normative Tariff or Performance based Hybrid Approach	The approach of tariff determination needs to be simplified for better understanding of all the stakeholders including the beneficiary and the investor. The approach may not involve microanalysis of each cost component.
2.	7.1.3	Interim tariff: The provisions for interim tariff can, therefore, be continued in the next tariff period as well.	The provisions of interim tariff may be continued further which will enable utilities to seek approval of the capital cost of new projects on an anticipated basis, which helps utilities minimise the time gap between the commissioning of the project and the generation of cash flows by means of tariff
3.	7.1.4	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	No Comment

		Government of India as applicable from time to time.	
4.	7.1.5	Reference Cost – Benchmark Cost V/s Investment Approval that can be considered for prudence check	For thermal generating stations, Hydro generating stations and transmission systems, the cost is affected by various factors including but not limited to design, terrain, soil type, technology used, site conditions etc. Accordingly, one benchmarked cost may not be true representation of all such plants and lines. Another method may be to determine an average benchmark cost of each component based on hard cost of recently commissioned projects under different geographical locations over the period of last 5 years. This may be used as a prudence check against the investment approval cost.
5.	7.1.6	Capital Cost-Hydro Generating Stations: 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.	It would be prudent if the budgetary support is used for the advancement of local area, and it may not be included under capital cost. This will ensure that the Hydro projects will have a greater commercial acceptability. Further, the projects will also be expedited if budgetary support is given for such expenses. Focus should also be given on policies and guidelines to enable the commissioning of projects within the defined timeline to reduce cost overruns.
6.	7.1.7	Capital Cost – Projects Acquired post NCLT Proceedings: Historical	Tariff under Section 62 needs to be determined on

		Cost or Acquisition Value, whichever is lower, should be considered for the determination of tariff post approval of Resolution Plan.	the cost-plus principle. But in the interest of the consumer, it is imperative that the lower of Historical cost or acquisition value may be considered for determination of tariff.
7.	7.1.11	<p>R&M:In view of the inherent benefits of undertaking R&M as against going for fresh capital investment, the current provisions may be continued. 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>	<p>The energy requirement of the country is expected to rise rapidly. It is therefore necessary to improve the generation. By renovation and modernization of existing power stations extra power is generated through the existing power stations. It is therefore in the public interest that the schemes of R&M of existing power stations may be encouraged. Further, the scheme of R&M should be supported with reduction in fuel cost and extension in useful life of the plant. These aspects can be taken up while approving any proposal for R&M of old generating station.</p> <p>R& M activities shall be considered after proper scrutiny of cost benefit analysis by taking into consideration the improvement in the operational parameters including the reduction in Gross Station Heat Rate of the plant and with due consent of the beneficiary.</p>
8.	7.1.12	<p>Initial Spares:single norm can be considered for each of the following classes of transmissions assets.</p> <ol style="list-style-type: none"> 1. Transmission Lines including HVDC lines 2. Substations (including HVDC S/s) 3. Dynamic Reactive Compensation devices 4. Communication Systems 	<p>Existing norm defined separately for initial spares in greenfield and brownfield projects/assets should continue which seems practical.</p> <p>Further the reduction in classification of assets as proposed seems logical to further simplify the norms</p>

		5. Underground cable	and make it more practical.
9.	7.1.13	<p>Controllable and Uncontrollable Factors: Delays on account of forest clearances can also be considered for inclusion as uncontrollable factor.</p>	<p>Delays on account of forest clearances can also be considered for inclusion as uncontrollable factor provided that such delays are not attributable to the generating company or the transmission license. In this regard, a robust mechanism /guideline may be set up to identify the reasons/causes of delay and mitigate the same to ensure that the impact of cost overrun due to inordinate delays does not fall upon the consumer.</p>
10.	7.1.14	<p>Differential Norms – Servicing Impact of Delay:To encourage rigorous pursuit of approvals from statutory authorities, even if delay beyond SCOD is condoned, on account of any reasons are condoned, some part of the cost impact (Say 20%) corresponding to the delay condoned may be disallowed. Alternatively, RoE on Equity corresponding to cost and time overrun allowed over and above project cost as per investment approval may be allowed at the weighted average rate of interest on loan instead of fixed RoE. The current mechanism of treating time overrun may be continued considering that utilities are automatically disincentivised if the project gets delayed.</p>	<p>It has been observed that in several cases the delays are attributable to lack of timely clearances, forest approvals, etc. which require constant and rigorous follow up. In most of these cases, it has been observed that these delays could have been restricted if the approvals were sought more assertively instead of merely through written correspondence. Also, it is always not possible for the Commission to ascertain if adequate efforts have been made at the senior level to get the clearances. Therefore, to ensure rigorous pursuit of statutory approvals, some part of the cost impact (at least 25% to 30%) may be disallowed.</p>

11.	7.1.18	<p>GFA/NFA/Modified GFA approach:Increasing the Investors confidence by ensuring assured returns is important, and furtherconsidering 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</p>	<p>The existing approach of GFA should be continued.The existing approach of Gross Fixed Assets (GFA) creates internal resources for capacity replacement and should be continued.</p>
12	7.1.26	<p>Life of Generating Stations and Transmission System:The useful life of coal based thermal generating stations and Transmission Sub-stations may be increased to 35 years from the current specified useful life of 25 years. As the need for higher repairs will still be required, the current dispensation of allowing a special allowance or provision of R&M may be continued after 25 years.</p>	<p>It is observed that as more and more coal based thermal generating stations are operating efficiently even beyond 25 years, there may be a case to align the normative life of thesestations, considering that with proper upkeep, these generating stations can operate evenbeyond 30 years. Similarly, in the case of transmission sub-stations it is observed that theseassets can operate way beyond 25 years similar to transmission lines, and therefore, the usefullife 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.</p>