पावर ग्रिड कॉर्पोरेशन ऑफ इंडिया लिमिटेड
(भारत सरकार का उद्यम)
POWER GRID CORPORATION OF INDIA LIMITED
(A Government of India Enterprise)

Ref. No. CC/RC/T.R. 2024-29 **Date:** 06/09/2024

The Secretary,
Central Electricity Regulatory Commission,
6th , 7th & 8th Floors, Tower B, World Trade Centre,
Nauroji Nagar, New Delhi- 110029

Sub: Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff) (First Amendment) Regulations, 2024.
- Submissions/Suggestions thereof

Dear Sir,

This is in reference to Public notice no L-1 /268/2022/CERC dated 02.08.2024 vide which Comments and suggestions were sought on the Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff) (First Amendment) Regulations, 2024.

In this regard, please find enclosed Submissions/Suggestions by POWERGRID on the subject Draft Amendment.

Thanking you,

Yours faithfully,

(V C Sekhar)
Sr. General Manager (Regulatory Cell & Commercial)

Encl: As above

<u>POWERGRID comments/suggestions on Draft First Amendment to CERC Tariff Regulations, 2024</u>

Hon'ble Commission vide public notice ref: L-1 /268/2022/CERC dated 02.08.2024 has issued the draft 1st amendment to CERC (Terms and Conditions of Tariff) Regulations, 2024 and invited the comments/suggestions on the same by 6th September 2024. At the outset POWERGRID would like to express its gratitude to Hon'ble Commission for bringing out the first amendment to the CERC Tariff Regulations, 2024, specifically addressing the provision for maximum allowable self-insurance premium under O&M expenses. Detailed comments/suggestions of POWERGRID in this regard are as follows.

1. **Amendment Proposed**

36. Operation and Maintenance Expenses: ……

(3) Transmission system: *(a) The following normative operation and maintenance expenses shall be admissible for the transmission system:*

…..

(d) The Security Expenses, Capital Spares individually costing more than Rs. 10 lakh and Insurance expenses arrived through competitive bidding for the transmission system and associated communication system shall be allowed separately after prudence check:

Provided that in case of self-insurance, the premium shall not exceed ~~0.09%~~ 0.12% of the GFA of the assets insured;

"Provided that the self-insurance premium shall be transferred to a separate fund for utilization to meet the claims, and the expenditure incurred or utilized from the self-insurance fund shall be made available to the Commission as and when directed."

2. **POWERGRID Comments/ Suggestions**

a) Self-Insurance provides a valuable and cost-effective mechanism to enhance risk management flexibility while reducing costs associated with traditional insurance. Hon'ble Commission in past has duly recognized the benefits of Self Insurance and has allowed regulated entities to opt for self-insurance in its Grant of Transmission License Regulations notified from time to time and its recovery was allowed through O&M norms notified in Tariff Regulations. The Hon'ble Commission has expressed the following view regarding "self-insurance reserve" in Statement of Reason (SoR) for Tariff Regulations, 2019 which was again reiterated in SOR for Tariff Regulations, 2024.

Quote

SOR, CERC Tariff Regulations, 2019

"self-insurance reserve is an efficient mechanism of self-funding of the asset replacement in case of any damage to transmission assets. Further, there is sufficient

check and balance mechanism for preventing use of such self-insurance funds for any other purpose"

UnQuote

b) Over the years, Transmission assets in the Indian Grid have grown multi fold with significant share of 765kV level substations and assets. A typical 765 kV substation costs about Rs 300- Rs 500 Crs depending upon its size. The transmission assets are capital intensive and catering to high electricity demands and serve the interest of Grid. Hence, faster restoration is essential in case of any eventuality or breakdown. Therefore, the insurance mechanism must be twin focused; one the cover should be adequate to fund the replacement in case of contingency; and two the availability of the funds should be quick to allow for the faster restoration of asset.

c) The insurance of the assets is aimed at the replacement of the asset in case of any untoward incidence rendering the original asset unusable. While in SIS, as the premium is linked to Gross Block, and hence premium for a given asset remains same (0.12% of GFA) even when the asset is ageing, and reinstatement cost is increasing. On the contrary, in third party Insurance, premium in general costs around 0.4% of Gross Block and the annual premium increases every year as the reinstatement cost of the asset increases with time. Therefore, it be seen that the annual premium through third party is about 3.33 times the SIS at the rate of 0.12%.

d) In the third party Insurance, "Premium" is paid on yearly basis and even in case of "Nil" or less claim compared to premium amount, the Transmission Service Provider (TSP) has no right on premium amounts already paid. Whereas, in SIS, expenses not incurred continues to become part of the Reserve and can be used in case of any requirement or major exigencies falling within the scope of SIS provisions, for which otherwise huge cost may be required having impact of the tariff of end consumers.

e) POWERGRID, considering the benefits of Self Insurance Scheme (SIS) have adopted this scheme as a risk management strategy. Presently, POWERGRID has RTM assets having GFA of approx. Rs 2.5 Lakh Crs covered under SIS. However, if we consider the replacement cost of all assets covered, then it is much higher than the GFA as majority of RTM assets are aging and further in recent past equipment costs have increased significantly. Out of the total 276 nos of substations, around 44 nos. substations and associated transmission lines are more than 30 years old; 12 nos. are 25-30 Yrs old; 22 nos. are 20-25 Yr old and 92 substations and associated transmission lines have age of around 10-20 years. Such aged assets are more vulnerable to failure due to external disturbances or unforeseen events. Thus, sufficient reserves are essential to cater to requirements in future, if it arises. The experience of POWERGRID in managing the assets through SIS mechanism has demonstrated that 0.12% of GFA is necessary to cater to the funds requirements of assets that are ageing as well as increasing cost of replacement day by day.

Based on above, it is submitted that the Self Insurance Scheme is a cost-effective mechanism for risk coverage of assets, costing only approx. 1/3rd of Third-party Insurance, ultimately resulting in lower loading to beneficiaries. With ageing of Assets and inflation, SIS shall further remain cheaper whereas the third-party Insurance shall go on becoming costlier. Thus, SIS approach balances the interest of both Transmission Licensees and Consumers, as envisaged under the Electricity Act, 2003 and is in their interest. This draft amendment to Regulation 36(3)(d) which proposes to allow 0.12% of GFA is a welcome step to alleviate concerns of Transmission licensees opting for Self-Insurance and promote them for taking similar other innovative measures for reducing burden on beneficiaries. Therefore, POWERGRID requests the Hon'ble Commission to incorporate the proposed amendment regarding Self Insurance in the Tariff Regulations, 2024.

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