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No. Date :

9th/Oc/01/2024 **20th February 2024**

To
The Secretary
CENTRAL ELECTRICITY REGULATORY COMMISSION
3rd & 4th Floor, Chanderlok Building,
36, Janpath, New Delhi -110 001

Sir,

Sub: Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2024 for the tariff period from 1.4.2024 to 31.3.2029 – Electricity Employees Federation of India (EEFI) Remarks - Reg.

Ref.: - CERC Public notice File No. L-1/268/2022/CERC dated 04.01.2024.

Kind attention is invited to the Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2024 for the tariff period from 1.4.2024 to 31.3.2029 notified by Hon'ble Commission vide reference.

As per the report published by Power Finance Corporation (PFC), the Average cost of supply of power in India is continuously increasing from 6.13 in the year 2019-20 to 6.29 in the year 2021-22. The present market trend shows that, it will increase further and will reach to position which is not affordable to common people in the country.

The major components which influence the RST are power purchase cost, transmission charges, O&M expenses. Based on the Annual revenue requirement (ARR) statement of various DISCOM it can be observed that, the power purchase cost accounts for about 67% to 78% of the ARR. The transmission charges are seen to be contributing 9.5% to 13.5% and O&M expenses is in the range of 6 to 12%.

In the power purchase cost, the average contribution of coal price has been in the range of 25%, rail freight at 41%, road transportation charges at 11%, clean energy cess at 11% and others at 12%.

In such situation, it was expected that the said draft regulation would make proposals to the level of reducing electricity rates in the country. But the said draft proposal has come up with suggestions to create more sufferings for the people and generate more profit for the generating companies. Thus, the proposals in the draft regulation are against the interest of the common people of the country.

It may be noted that, as per the tariff policy, the norms should be efficient and progressively reflecting increased efficiencies. But most of the norms and provisions in the regulations are against the essence of Tariff Policy.

The major suggestions of EEFI in the draft Tariff regulations are as follows;

Return on Equity (RoE)

As per the study report published by Forum of Regulator, comparison of the RoE allowed by different States for generation, transmission and distribution revealed that the post-tax RoE has been in the range of 14% - 16%. It transpired that if the RoE was reduced from 15.5% to 14%, there would be reduction of 2 paisa per unit of retail tariff and if it was reduced further to the level of 12%, it will lead to a reduction of 7 paisa per unit of retail tariff. It emerged that if the loan repayment period considered for depreciation is extended from 12 years to 15 years, it would decrease the ACoS by 8 paisa per unit of retail tariff. Further, if the depreciation rate is reduced to 4.3%, considering the loan period of 15 years to repay 65% of the capital cost, the reduction in retail tariff could be in the range of 10 paisa. Base rate of RoE is retained as 15.5% since 2009 onwards. It can be observed that the primary lending rate and the G-Sec Rates have shown a declining trend over the years. Accordingly, **Regulation 30** shall be modified.

Further, for projects that have completed its useful life, Return on equity may not be allowed as the project developer has already recovered the investment cost by the end of the useful life unless additional capital expenditure is incurred for extending the useful life and in such scenario, the RoE may be allowed only on the portion of the additional capital expenditure incurred. Thus, **Regulation 18 (3)** shall be modified accordingly.

O&M Charges

It may be noted that, the impact of O&M charges and interest and finance charges reveals that the approved O&M expenses for the FY 2020-21 in the 12 study States ranged between 6% -21%. Hence **Regulation 36** shall be modified to reduce the impact of O&M charges on retail supply tariff.

Gross Calorific Value

The Gross calorific value (GCV) loss has a direct impact on the overall energy charges. The GCV loss due to grade slippage between “as billed” and “as received” has been in the range of approximately 600 kCal/ kg. Analysis reveals that every 100 Kcal/ kg saving in GCV loss would translate into a saving of energy charges in the range of 3%. Thus, this is an important area which deserves immediate attention and can substantially reduce the retail tariff for electricity consumers. Hence appropriate modification in **Regulation 60** is required.

Emission Control Norms

The norms imposed by the Ministry of Environment to limit the sulphur dioxide levels in the exhaust gases of thermal power plants have created a major crisis. The Central Pollution Control Board has issued show cause notices to 14 thermal power plants for violating environmental norms. Notices were issued to four thermal power plants in Haryana, three plants in Punjab, two each in Andhra Pradesh, Uttar Pradesh and Telangana and one in Tamil Nadu.

According to the Pollution Control Board, the plants have failed to limit the sulphur dioxide levels in the exhaust gases under the Environment Protection Act, 1986. Also, the central government has decided to shut down 32 units in 12 thermal power plants with a capacity of 5,019 MW. As per the study report, the total capital expenditure required to install SOx, NOx and PM pollution-control technology is estimated to be INR 86,135 crore (USD 12 billion), or INR 73,176 crore (USD 10 billion) if plants to be retired by 2027 are excluded. This will add between INR 0.32 per kWh to INR 0.72 per kWh for coal power plants (or around 9–21 per cent to average tariffs) depending on the size of the unit and other factors. Thus **Regulation 63** may be modified as per the recommendation of the FOR published in April 2021, with the implementation of new environmental norms, the cost per unit of energy is going to increase substantially. This increase in cost should be compensated from the clean energy cess which has been collected from the consumers of the electricity sector. This cess should be used to reduce retail tariff impact as a result of FGD installation in the thermal plants.

Fly Ash Charges

Similarly, **Regulation 19(2)(i)** regarding the expenditure on ash transportation and handling shall be modified such that, that the cost of transportation of fly ash be partially borne by the Central Government, as this cost will have substantial impact on cost of generation and hence on consumer tariff.

Secondary Fuel Oil Consumption

As per the Tariff Policy 2016, the norms should be efficient, relatable to past performance, capable of achievement and progressively reflecting increased efficiencies and may also take into consideration the latest technological advancements, fuel, vintage of equipments, nature of operations, level of service to be provided to consumers etc. Continued and proven inefficiency must be controlled and penalized.

However, it is observed that the operating norms as per the draft Regulations have been prepared based only on past actuals of the generating stations and have not considered the need for improving efficiency. Hence **Regulation 70 (D) & (E)** shall be modified accordingly.

Late Payment Surcharge

As per the LPS Rules, dues are considered to be outstanding if they are not cleared within 45 days of the presentation of the bill, shall attract regulation (power supply cut) of power under the Late Payment Surcharge Rules, 2022. The central government has barred 27 distribution companies in 13 states from the power exchange for non-payment of dues of Rs 5,085 crore for power generation plants. Tamil Nadu, Telangana, Madhya Pradesh, Mizoram, Jharkhand, Bihar, Rajasthan, Andhra, Maharashtra, Karnataka and Chhattisgarh have banned buying and selling of electricity on power exchange platforms. Regulation was imposed on the states following the rules framed by the Union Ministry of Power. In order to avoid such power regulation DISCOM has to get stay order with the bill clearing period.

However, it might be practically challenging for DISCOMs obtain a stay within 45 days from the date of presentation of the bill. Thus, DISCOMs are forced to take short term loan at high rate for paying the bill the burden on this also passed on the consumers. Hence Regulation 80 shall be withdrawn.

All these abovementioned clauses will devastatingly affect upon the tariff of electricity. Here we must refer to the Central government ordered imposition and ever increasing reliance on high priced and invoice-inflated imported coal which is enhancing the cost of Power generation.

In this context, it is requested that, the above said modification shall be considered while finalising the tariff regulation 2024. A wider discussion with stakeholders must be initiated.

Thank you

(Prasanta N. Chowdhury)
General Secretary