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ಪವರ್ ಕಂಪನಿ ಆಫ್ ಕರ್ನಾಟಕ ಲಿಮಿಟೆಡ್
POWER COMPANY OF KARNATAKA LIMITED

(GOVERNMENT OF KARNATAKA UNDERTAKING)
ನಿಗಮದ ಗುರುತಿನ ಸಂಖ್ಯೆ (ಸಿ.ಐ.ಎನ್) : ಯು40101ಕೆಎ2007ಎಸ್‌ಜಿಸಿ043640
Company Identification No (CIN) :U40101KA2007SGC043640

No: PCKL/A12/5/2018-19/ 7337-43 **Dated** 20 FEB 2024
Encl: Annexure-(a)

To,

The Secretary,
Central Electricity Regulatory Commission,
3rd and 4th Floor,
Chanderlok Building,
36, Janpath, New Delhi - 110001.

Respected Sir,

Sub: Views/Comments on the "**Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulation 2024** -Reg.

Ref: CERC Notification No: L-1/236/2022/CERC dated 04.01.2024.

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With reference to the above subject, PCKL views/comments on the "Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff) (Fourth Amendment) Regulations, 2024" on important points are mentioned as below and detailed comments on the Regulation is enclosed as annexure A along with this letter.

1. Regulation 17

Special Provisions for Tariff for Thermal Generating Station which have Completed 25 Years of Operation from Date of Commercial Operation: In respect of a thermal generating station that has completed 25 years of operation from the date of commercial operation, the generating company and the beneficiary may agree on an arrangement, including provisions for target availability and incentive, where in addition to the energy charge, capacity charges determined under these regulations shall also be recovered based on scheduled generation.

The ESCOMS of Karnataka have entered into Power Purchased Agreement with thermal power project for a period of 25 years and extended further period of 10 / 15 years. The thermal plants are extended further period after expiry of 25 years for the following reasons:

- The fixed costs of thermal power plant are very less since ESCOMs are paid the entire investment made by the generating company through the tariff. At the end of the life time period of 25 years, the capacity charges liability to the ESCOMs are almost 'nil'.

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- To meet the base load of the State ESCOMs to balance the intermittent RE power, the thermal power is very much required since State is having more than 50% RE installed capacity out of the total capacity
- The existing plants are considered for the LGBR for the next 15 years
- To supply power at reasonable cost to the consumer of the State as mandated in the Electricity Act, National Tariff Policy and in the Consumer Rules.
- The PPA executed between the generator and the ESCOMs based on the mutually agreed terms and conditions in consonance with the Act, Rules & Regulations. Each PPA having different terms and conditions based on specific generating station, type of fuel and cost of power which helps the State to manage and provide reliable power to consumer in the State.
- Out of 4500 MW allocated from Central generating stations to the State of Karnataka, almost 3000MW will be completing its 25 years period during the control period 2024-2029. Hence huge deficit will be faced by the State.
- State neither have coal mines in the State of Karnataka nor any capacity addition of thermal projects by the State
- Presently, State is witnessing huge demand for the power and increase almost 20% as compared to the FY 2022-23

In this background, the first right shall be with the ESCOMs either to exit from the PPA or to continue on mutual terms based on the requirement of ESCOMs and as well as terms of the PPA.

Therefore, Commission may retain the Regulation 17 of CERC (Terms and Conditions of Tariff) Regulation 2019. Also provision is proposed to be included stating that in case of non agreement between generating company and beneficiary on terms of continuation, both parties may option to file petition for finalizing the terms and the same shall be filed 2 years before completion of 25 years of CoD.

2. Regulation 19

Capital Cost: (l) The Capital cost of the generating station or the transmission system, as the case may be, as determined by the Commission after prudence checks in accordance with these regulations shall form the basis for the determination of tariff for existing and new projects.

(p) Expenditure required to enable flexible operation of the generating station at lower loads.

As per the Grid Code, Part load compensation being paid for the plants operating at technical minimum. In case of the expenditure incurred by the generating stations for flexible operation, the same is included in the capital cost for which tariff being paid such generating station shall not be paid part load compensation.

3. **Regulation 19 (5) (c)**

In case any under construction project is acquired which is yet to achieve commercial operation, the acquisition value or the actual audited cost incurred till the date of acquisition, whichever is lower, shall be considered.

The projects delayed in declaration of Commercial operation date, the time over run and cost overrun due to delay in commissioning of the project shall be excluded to arrive the capital cost of the such project. As a result, beneficiary have to pay higher capacity charges.

4. **Regulation 28 Special Allowance for Coal-based/Lignite fired Thermal Generating station**

In the proposed draft Regulation, the Special Allowance admissible to a generating station shall be @ Rs 10.75 lakh per MW per year for the control period. The Generating station shall avail the special allowance, the same need to trued up at time of the truing up exercise done by Commission. The details are to be made in the public domain and has to be furnished to the beneficiaries about the expenditure incurred under special allowance category.

5. **Regulation 34 - Interest on Working Capital:**

All parameters allowed in computation of interest on working capital on normative basis. Generating stations having actual coal stock is less than specified quantum in the regulation as seen in the control period 2019-2024. This has to trued up at the time of the truing up exercise. Generating stations are benefitted without having a coal stock.

Most of the generating stations maintain coal stock for only 5-10 days. **It is proposed to true up the interest on working capital based on average coal stock maintained in the TPP as per actuals.**

Further, Return on equity and depreciation shall not be considered in the computation of the interest on working capital as both these components are retained by the generating companies / transmission licensee as non-cash outflow items.

Cost of secondary fuel oil shall be reduced and in proportion to the coal stock i.e. 15 days.

Water charges shall be excluded as MOP vide notification dated 25.04.2023 & 25.10.2023 directed to State not levy any water charges for generation of thermal /hydro.

6. **Regulation 34(b) - For emission control system of coal or lignite based thermal generating stations:**

(i) Cost of limestone or reagent towards stock for 15 days corresponding to the normative annual plant availability factor as in line with the Regulation 34(a).

The cost of fuel shall be based on the landed fuel cost (taking into account normative transit and handling losses by the generating station and gross calorific value of the fuel as per actual weighted average for the third quarter of preceding financial year in case of each financial year for which tariff is to be determined.

The Regulation 34(c)(2) as in the terms and condition tariff Regulation 2019 shall be retained.

Rate of interest on working capital shall be on a normative basis and shall be considered at **1-year MCLR of the State Bank of India as applicable as on April 01, of the relevant financial year** of the year during the tariff period 2024, Since the Generators/ Transmission licensee obtain working capital requirement at lesser rate.

7. **Regulation 35: Decommissioning**
In case of a generating station or unit thereof or transmission system including communication system or elements thereof, whenever any asset needs to be replaced on account of environmental concern or safety issues, the distribution licensee will have to bear the cost of new asset. **Hence burdening the distribution licensee with bearing the cost of unrecovered depreciable value is not agreeable to distribution licensee.**

8. **Regulation 36: Operation and Maintenance Expenses**
The O&M expenses component accounts for 25 to 30% of the annual fixed cost of a project after completion of 10 year of useful life.

As per the explanatory memorandum it is brought out that the actual O&M expenses after normalization during the period from FY 2018-19 to FY 2022-23 have increased by approximately 3.22% per annum for coal based generating stations of NTPC.

The Hon'ble Commission has taken view that average CPI & WPI indices which works out to 5.89% per annum is a fair indicator of inflation and same is considered for annual escalation rate for O&M expenses.

Considering the fact that, the actual O&M expenses of NTPC generating stations is less than the normative, **it is proposed to consider an escalation rate of average of actual 3.22% & average based on CPI & WBI of 5.89% i.e 4.555% for the O&M expenses.**

9. **Regulation 60 - Gross Calorific Value of Primary Fuel:**
Provided further that in the absence of any third party sampling through an agency certified by the Ministry of Coal, the GCV shall be considered on the basis of 'as billed' by the Supplier less:

Actual loss in calorific value of coal between as billed by the supplier and as received at the generating station, subject to maximum loss in calorific value of 300 kCal/kg for Pit-head based generating stations or generating stations with Integrated mine and 600 kCal/kg for Non-Pit Head based generating stations

i) There is no basis to arrive maximum loss in calorific value of 300 kCal/kg for Pit-head based generating stations or generating stations with Integrated mine and 600 kCal/kg for Non-Pit Head based generating stations .

ii) APTEL in the order dated 2.12.2014 in appeal no 98 of 2013 in the matter of Punjab State power Corporation vs Punjab state Electricity Regulatory Commission, wherein , APTEL upheld the State Commission order of recommendation by the CPRI that maximum of 150 Kacal/kg shall be considered for the billed and as received.

iii) The proposed GCV is very high and commission may fix the ceiling for whether third party sampling done or not

10. Regulation 62 - Computation and Payment of Capacity Charge for Thermal Generating Stations:

Commission in tariff Regulation 2019 has allowed high demand season and low demand season for payment of capacity charges to generating station. The same Regulation is missing in the present Regulation. The generators are to supply power during high demand season due to high demand in the State. The State is able to manage the load in the high demand season with renewable.

As there are no issues in the high demand & low demand season for the generators as well as beneficiaries in current Regulation. Therefore, Commission may consider to retain the Regulation 42(1) in the Terms and conditions of tariff Regulation 2019.

11. Regulation 62(5)

In addition to the AFC entitlement as computed above, the thermal generating station shall be allowed an incentive of up to 1.00% of AFC approved for a given year, which shall be billed monthly as per the following.

Incentive = (1.00% x ß x CCy)/12

Where,

ß = Average Monthly Frequency Response Performance for that generating station, as certified by RPCs, which shall be computed by considering primary response as per the methodology prescribed by the NLDC and shall range between 0 to 1.

CCy= Capacity Charges for the Year.

(6) In addition to the capacity charge, an incentive shall be payable to a generating station or unit thereof @ 75 paise/ kWh for ex-bus scheduled energy during Peak Hours and @ 50 paise/ kWh for ex-bus scheduled

energy during Off-Peak Hours corresponding to scheduled generation in excess of ex-bus energy corresponding to Normative Annual Plant Load Factor (NAPLF) achieved on a cumulative basis, as specified in Clause (B) of Regulation 70 of these regulations.

In the present Regulation, different types of incentives are proposed. Generators will recover full capacity charges @ their declared availability prescribed by the commission for each station. In addition, Energy scheduling is more than Normative Annual plant load factor achieved, incentive being paid in the form of incentive. In the draft, it is proposed incentive of up to 1.00% of AFC paid for monthly frequency response performance for that generating station.

In this connection, our submission would be, Generators has to adhere to guidelines/grid code. Hence, allowing additional incentive may not be appropriate. This will add additional burden to the consumer.

Further, some of the generating stations capacity charges is less than 75 per unit. Hence Commission may retain the incentive of 65 ps./unit as per the Tariff Regulation, 2019.

12. Regulation 64(4)

In case of part or full use of an alternative source of fuel supply by coal based thermal generating stations other than as agreed by the generating company and beneficiaries in their power purchase agreement for the supply of contracted power on account of a shortage of fuel or optimization of economical operation through blending, the use of an alternative source of fuel supply shall be permitted to generating station up to a maximum of 6% blending by weight.

Provided that in such case, prior permission from beneficiaries shall not be a precondition, unless otherwise agreed specifically in the power purchase agreement:

Provided also that where a higher blending ratio than that specified under sub-clause (4) above 114 of this Regulation is required, prior consultation with the beneficiary shall be made at least three days in advance.

Ministry of Power has allowed to blend the imported coal upto March 2024. Hence, Commission may not be allowed to use maximum 6% by weight as proposed in the draft Regulation. Further, generating stations are being schedule based on the merit order of the variable cost of each station. If the generator use the imported coal without prior information to the beneficiaries this will impact on the scheduling of power and unnecessary paying higher charges by the consumer of the State.

In view of the above, Commission may restrict the cost of the variable charges not to exceed 5% of the charges of previous months if the imported coal is used.

13. Regulation 70(A): Normative Annual Plant Availability Factor (NAPAF)

As per the explanatory memorandum it is indicated that all generating stations of NLC have exceeded target availability except 3 by around 10% as specified in regulation 2019. Hence the norms for lignite fired station using CFBC at sub para (e) can be retained at 75% & 80% as against proposed reduction to 68.5% & 75% thereby encouraging performance based returns.

The drastic reduction of NAPAF TPS-II expansion (CFBC) to 50% from previous norms for (75 to 80)% cannot be considered without any valid rationale. This reduction will result in huge financial burden on beneficiaries due to payment of FC at low PAF.

The detailed comments on the Regulation is enclosed as Annexure along with this letter requested to consider before finalizing the final terms and conditions of Tariff Regulation, 2024.

Yours faithfully,

Additional Director (Projects)
PCKL, Bengaluru.

Copy submitted for kind information to:

1. PS to Additional Chief Secretary , Energy Department, Vikas Soudha, Bengaluru with a request to place the same before Additional Chief Secretary, ED, GoK.
2. The Managing Director, BESCOM, Corporate Office, K.R. Circle, Bengaluru-560001.
3. The Managing Director, MESCOM, Corporate Office, 4th Floor, Bejai, Kavoor Cross Road, Mangaluru-575004.
4. The Managing Director, CESC,# 29, Vijayanagara 2nd Stage, Hinkal, Mysuru-570017.
5. The Managing Director, HESCOM, Corporate Office, Navanagar, P.B Road, Hubballi-580025.
6. The Managing Director, GESCOM, Station Main Road, Kalaburgi-585102.
7. MF/OC.