

Expert Views are personal by Prof. Sudarshan Kumar Babu Valluru

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**‘Comments on Draft Tariff Regulations, 2024 for the tariff period from
01.04.2024 to 31.03.2029**

February 15, 2024 during Public Hearing’

Submitted by

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1. The draft regulations mention that ‘after previous publication’ but these were neither notified in the Gazette of India nor provided any publicity but confined to the website of CERC only. These regulations are being backbone of the economics of the power sector and have an impact on all 143.6 Cr citizens of this country, wider publicity and awareness to the public through forums, workshops, civil societies etc could have been done, but it is not so. Further, this public hearing may be held in different corners of the country to reach out mass instead of confining it to Delhi, wherein, access is available to selected and limited persons/entities. As per our understanding, this is the practice in many sectorial regulators, including SERCs.

2. The draft Tariff Regulations with 172 pages, exclusive of forms, issued on 04.01.2024 and the Explanatory Memorandum with 289 pages issued on 29.01.2024 and huge data about various entities, which was the basis in arriving at various norms, was made available on a public domain just two days before. However, confirmation to participate in the public hearing was to be made by

08.02.2024. This kind phase phase-wise release of information had created confusion and could not give sufficient time to comprehend and offer better / appropriate comments. Accordingly, the commission shall extend the last date for submission of comments at least by 29.02.2024 and could have had a public hearing in March 2024.

3. Though the Commission allows the majority of claims based on the Auditor certificate, instead of detailed scrutiny, the auditors appointed by the companies may not be aware of the requirement of the Commission and the repercussions thereof. However, the same has to have a direct impact on the public, certain norms and conditions shall be laid down by the Commission to authorize a qualified number of professionals to carry out the audit in a prescribed manner and no claim shall be allowed, without an audit by the authorized auditor. Further certain checks and balances shall also be mentioned, including random checks, penalties for any kind of manipulation etc, Further, observations of CAG, CVC, CBI etc, on concerned entities shall be considered and the loss of amount identified by entities shall be adjusted/recovered.

4. As the existing regulations provide for capitalization of IDC and IEDC till the actual COD of the plant, the same is incentivizing the time overrun projects, at the cost of overburdening the public, unnecessarily. Accordingly, capitalization of IDC and IEDCs shall be allowed up to SCOD only and after that, these may be reimbursed, on prudence check.



5. The prevailing regulations primarily focus on existing plants but not the under-construction projects, there is a need to set certain norms for under-construction projects such as oil consumption, coal consumption, power consumption, water consumption, manpower deployed, progress of various works etc, and incentivize the best performers and disincentivizing poor performers and control the capital cost and AFC allowed thereof.
6. The cut-off date has kept on increasing from one tariff regulation to another regulation i.e. 2014, Tariff Regulations mention 2 – 3 years, in 2019, Tariff Regulations mention 3 years and in 2024, Tariff Regulations mention 3 – 4 years. The purpose of the cut-off date is to close the contracts of all works completed till the COD of the plant, but not to allow the works after the COD of the plant. As such the COD of the plant means the plant had the capability to generate the full load power continuously, there shall not be any requirement for additional capitalization. Accordingly, no capitalization shall be allowed after COD, except final payment settlement and liabilities earmarked. In any case, if required, the list of works to be / not to be allowed after COD to the Cut-off date shall be clearly mentioned in the regulations. In regards to duration, it is to mention that the SCOD of typical plants are being 4 years, the duration of 3 – 4 years to cut-off date is illogical and shall be restricted to 2 – 3 years only.
7. As per the Tariff Policy, no new plant is envisaged under section 62 after January 2011 and these regulations shall not be applicable for the plant acquired

through auction, all draft regulations associated with projects acquired through NCLT proceedings shall be dropped.

8. The prevailing Regulations provide for recovery of 90 % of capital cost (10 % salvage value) within 15 years, but allow equity to be considered as 30 % till 25 years. Despite this, after 25 years, the entity can avail special allowance instead of R & M but equity continued to be maintained at 30 %. Thus, the regulations provide multifold recovery for the same asset, which is burdening the consumers unnecessarily. It is also to be mentioned that the regulation 28 (4) of 2019, Tariff Regulations provides that the Commission shall issue a detailed methodology for fund utilization towards R & M but the subject methodology was not published to date, however, huge amounts were allowed under the special allowance. It is also observed that as per preliminary examination, the utilization of special allowance is less than 10 %. Accordingly, after the asset is fully depreciated, the depreciation and equity should be discontinued and reduced and the additional capital expenditure shall be allowed on prudence check and special allowance shall be discontinued. In case if not, as the assets were fully depreciated, prior to special allowance, the equity shall be recomputed based on new capital cost and the AFC determined shall be adjusted from the balance special allowance.

9. With respect of Interest on Working Capital, it is to mention that though the Commission acknowledges that PLF is reducing year on year and provides certain compensation for such cases, it continues to allow the working capital for NAPAF

(85 %). Further, although regulations provided for working capital to maintain coal stock, the lack of actual coal stock at plants led to the recent coal crisis and necessitated for urgent imports and an abnormal surge in energy charges thereof. The Ministry of Power under section 107 of the Electricity Act, 2003 has given directions to the Commission to allow the blending of imported coal beyond specified limits to allow higher ECR and impose penalties on plants, which don't maintain specified coal stock norms. However, the Commission allowed the higher blending of imported coal and in spite of providing working capital for the coal stock, it has not taken any action to ensure the entities maintain the prescribed coal stocks, including a penalty on the plants violating specified coal stock norms. Accordingly, the working capital shall not be allowed on assumptions but computed as per actuals i.e. Actual Advance given to the coal supplier, Actual Coal/lignite / Gas Stock maintained, actual PLF, actual O & M etc, Further, as the consumption of maintenance spares, don't have any correlation with water charges and security charges, these shall be excluded in determining amount associated with maintenance spares.

10. In 2021, the Commission had notified regulations on determining the input price of coal. Despite passing over 2 – 3 years, certain relaxations were provided in draft regulations but no improvements or better norms, including O & M expenses on the normative basis, have been proposed.

11. In regards to RoR hydro plants, it is noticed that while the NAPAF is determined based on all 96 blocks (24 hours) of day for the last few years, the availability considered for recovery of fixed charges is based on the best 12 blocks (3 hours) and incentive is given for availability above NAPAF. This is inconsistent and both NAPAF as well as availability considered for recovery of AFC shall be determined based on the same duration i.e. either the best 12 blocks of each day or all 96 blocks of the day.
12. In case of transmission, it is noticed that though AFC is determined separately for different assets, the recovery of AFC is computed on combined average availability of all assets i.e. poor availability of one asset is compensated with better performance of other assets. To ensure all elements are available to the desired level, the recovery of the AFC of assets shall be as per the availability of subject assets only.
13. In regards to regulations to consider wage revision for each generating station, it is mentioned that as the manpower is transferred from one plant to another plant, books of accounts are maintained at the company level and also reflected in the annual report, and it would be cumbersome to analyse such aspect repeatedly and consistently for each station etc, wage revision impact shall be assessed at company level only and the deficit if any, shall be apportioned to all projects, maybe as the apportionment of CC expenses is carried out.

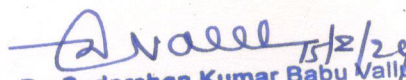
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14. It is noticed that the 'Power to Relax' and 'Power to Remove Difficulty' have been exercised regularly, without any specific requirement, which is in contrast to various pronouncements of the Hon'ble Apex court and the same is impacting the tariff of consumers. Therefore, to exercise it in rarest cases, certain restrictions may be mentioned and a list of all claims along with cost, which was allowed under such regulations along with the circumstances shall be exclusively provided on the website of the Commission for information of the public.

15. Regulation 103 'Issue of Suo-Moto orders and practice directions' is a new regulation in addition to the existing 'Power to Relax' and 'Power to Remove Difficulty'. As the Tariff Regulations shall be notified after due process of previous publication, stakeholder consultation, public hearing etc, the notified regulations cannot be set aside or altered by Suo-Moto order or directions. Hence the subject regulation may be dropped.

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15/2/20
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