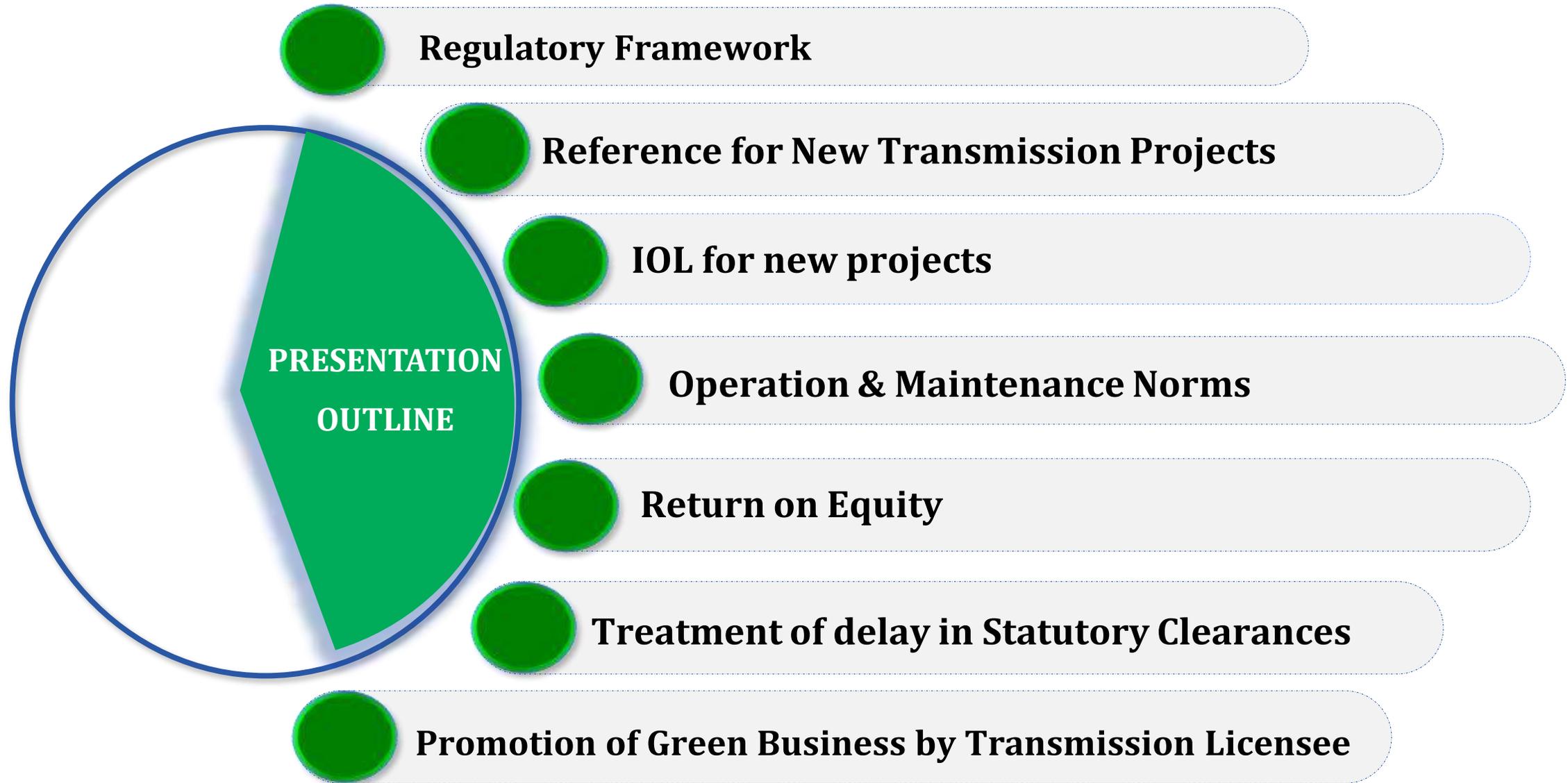




Draft
CERC (Terms & Conditions of Tariff)
Regulations, 2024

Presentation
by
POWERGRID



Regulatory Framework



- ❖ POWERGRID expresses its sincere thanks and appreciation for the Central Electricity Regulatory Commission (CERC) & its Staff for the invaluable contribution to development of power sector in India
- ❖ Transparent, consistent and stable regulatory environment provided by CERC for all the stakeholders has been the key to the growth of Power Sector
- ❖ CERC has played a pivotal role in ensuring fair and reasonable tariffs for generating and transmission companies to attract requisite investments and at the same time protecting the interests of consumers
- ❖ CERC's Tariff Regulations have been achieving the objective of simplifying the tariff determination process, requiring minimal regulatory interface while upholding regulatory jurisprudence.
- ❖ By providing stability and predictability to utilities, it has encouraged investments in the sector

Acknowledgement of India's Stable Regulatory Framework by International Credit Rating Agencies



Stable

Moody's

“Stable and established regulatory environment for the power sector in India

..... The Central Electricity Regulatory Commission (CERC) has a fairly long 20-year record of setting tariffs (since 1998), with four past cycles of tariff determinations. Tariff components are well identified, and the regulator also publishes a statement of reasons behind any changes in tariff particulars with regard to earlier regulations ”

Consistent

S&P

“... Power Grid, NTPC, and NHPC are regulated by the Central Electricity Regulatory Commission (CERC). As an established regulator, in our view, CERC upholds a regulatory environment of transparency, consistency, and stability...”

Well-
Developed

Fitch

“... We note that India's regulators take a consultative approach and have a long record of delivering predictable outcomes.”

Changes in tariff components

❖ Draft regulations provide different tariff norms for existing and new projects

Parameters		Existing in Tariff Regulations, 2019-24	Proposed in Draft Tariff Regulations, 2024-29
Base Rate of RoE	Existing Projects	Pre-tax Return on equity at 15.50% for all Transmission, Thermal Generation and Run of River Hydro projects •16.5% for Other Hydro Projects	Retained as TR 2019-24
	New Project		Transmission :- 15 % Thermal and RoR Hydro Station :- 15.5 % Other Hydro Projects :- 17 %
Rate of Interest on Loan	Existing Projects	Asset wise weighted average rate of interest based on actual/allocated loan portfolio is considered.	Retained as TR 2019-24
	New Projects		Rate of interest for new assets based on Companies' weightage average rate of interest on actual loan portfolio.
Depreciation	Existing Projects	•Accelerated depreciation for 12 years Rate of Depreciation: ○ S/S & TL- 5.28 %	Same as TR 2019-24 expect following
	New Projects		Accelerated depreciation for 15 years for S/S & TL. Rate of Depreciation ○ S/S & TL- 4.22 %

Reference for New Transmission Projects



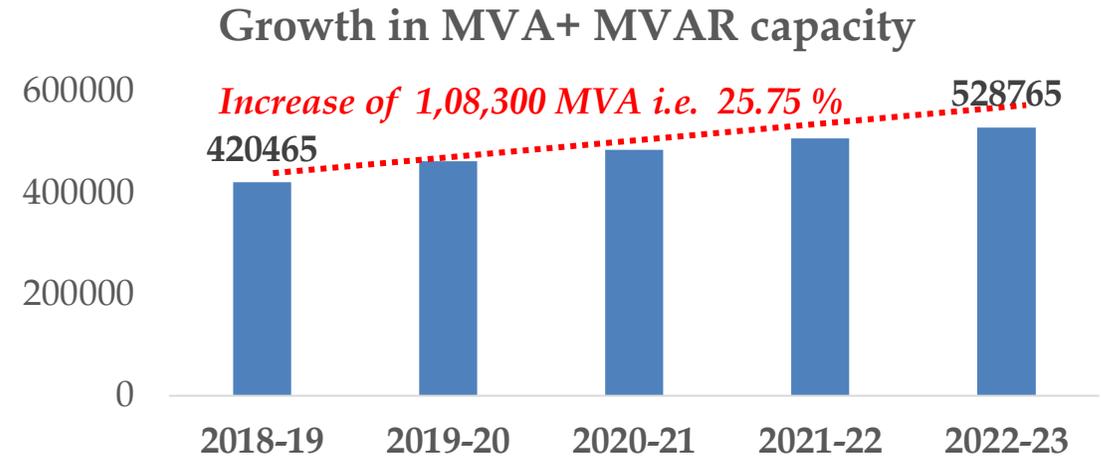
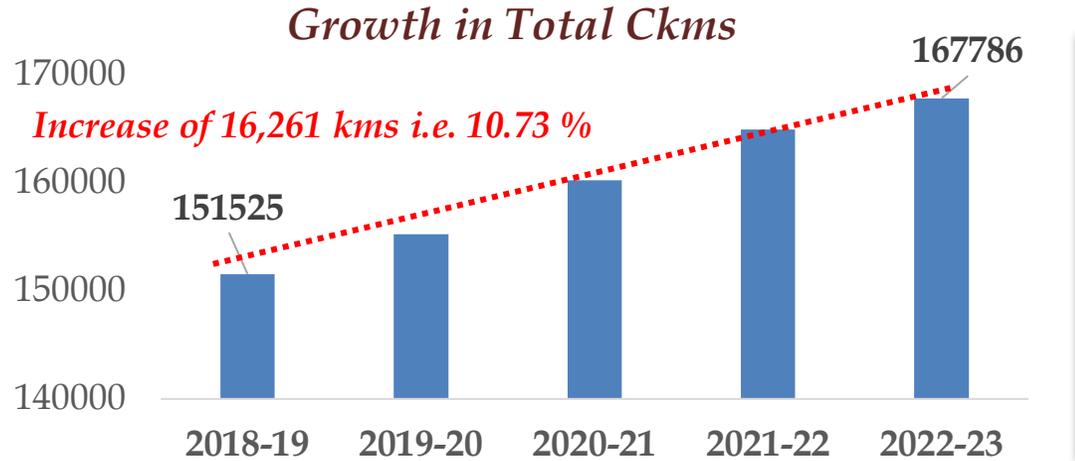
- ❖ Investment decisions for the projects conceived during the 2019-24 control period were already taken based on prevailing returns, parameters and norms.
- ❖ Changes, if made for such projects will impact Investment decisions already made
- ❖ In some cases, in same projects some elements may get commissioned prior to 31st March 2024 and remaining elements may be commissioned after 1.4.2024
 - Two different norms will prevail for elements of the same project
 - These will never be combined during the true-up exercise owing to differential norms and thus resulting in increased the complexity
 - Complicated IoL calculations, as IoL for some assets is to be calculated on project loan portfolio and for others on Company's loan portfolio.

Therefore, new norms, if any, may only be made applicable for transmission assets whose Investment Approval is accorded on or after 1.4.2024.

- ❖ Interest on Loan is different for Existing Projects and New Projects in the Draft Tariff Regulations, 2024.
 - For Existing Projects, the rate of interest is considered as the weighted average of the actual/allocated loan portfolio of a project.
 - For New Projects, the rate of interest considered is the weighted average of the company.
- ❖ Draft Regulations does not provide how the WAROI would be computed in case of New Projects.

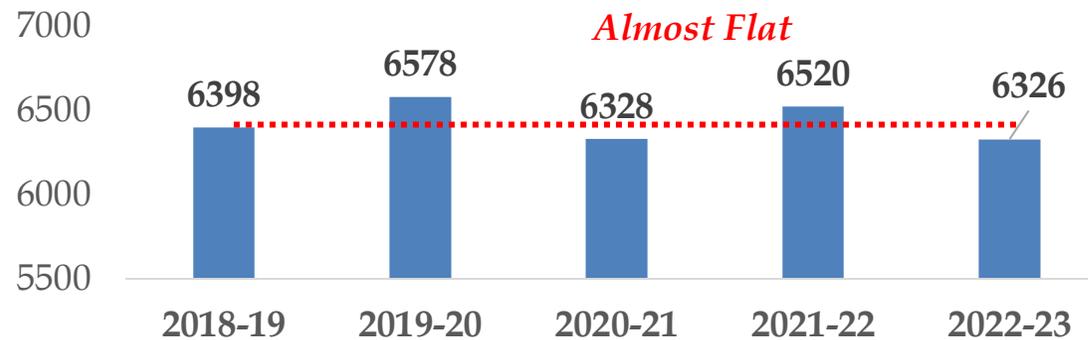
It is suggested that the loans availed from 1.4.2024 onwards are to be considered for computing the year wise weighted average rate of debt.

Operation & Maintenance Norms



Transmission Assets have increased substantially in last 5 years, S/s increase approx. double of TL increase

Manpower deployment



Maintained Assets with same manpower – Efficiency Improved

Manpower deployed remained flat compared to asset addition. O&M expenses are being optimized through use of NTAMC and new digital initiatives to transmit reliable power i.e., > 99.75 % availability

- ❖ Historically when Indian Grid was divided into Regional Grids, O&M norms were derived after normalization of Regional data. Same practice still being continued.
- ❖ It's been more than 10 years since formation of National grid, POWERGRID is acting a one entity with uniform O&M policies/norms/practices across Regions.
- ❖ Notified O&M norms are same across India irrespective of geographies.

It is requested that while deriving all India O&M norms, O&M expenses may be analyzed on All India basis only.

- ❖ Normalization of O&M expenses may be done only after considering valid reasons for variation of expenditure as provided by Utilities.
- ❖ PRP should be allowed under O&M as it is an integral part of Pay structure and is in line with GoI guidelines.

Operation & Maintenance Norms



- ❖ SIS is economical and efficient way to insure assets (premium ~ 1/3rd of third-party Insurance). ***Complete premium towards SIS is to be included.***
- ❖ Impact of Phase wise commissioning of major HVDC links, Champa-Kurukshetra, Raigarh-Pugalur & Pugalur-Thrichur appears to be not captured while deriving HVDC rates.
- ❖ Leh-Kaithal, SLTS and other projects being commissioned/planned in NER, J&K, Ladakh etc. requires significantly higher O&M rates as being proposed for other Licensees. ***Same rates may be made applicable for such POWERGRID projects.***
- ❖ **CTU expenses may be excluded from POWERGRID norms and**
- ❖ **Capital Spares (5-20 Lakh) may be considered for O&M norms**

- ❖ COVID pandemic has resulted in significant reduction in O&M expenses as only essential maintenance activities were undertaken.
- ❖ Manpower recruitment was restricted during 2021-23. With increase in Assets, geographically dispersed system, additional Manpower required to fill the gap.
- ❖ Higher renewable energy penetration
 - Higher switching operations of Equipment to have adverse impact on its life
 - Additional manpower requirements for double shifts
- ❖ Additional O&M requirements to meet NTAMC upgradation, Cyber Security, Digital initiatives may also be considered while forming norms.

Maintenance is not to be compromised, whatever the small amount it may be, but effect is large and affects the reliability of such a large interconnected grid presently undergoing through a transition phase.

- ❖ Transmission projects span across hundreds of kms and requires back to back clearances from statutory and local authorities.
 - ❖ Construction risk in Transmission is very high in complete Power Sector.
 - ❖ Unavailability of land and corridor scarcity is continuously increasing the risk
 - ❖ Operational risks considering frequent cyclones/floods etc. also significant.
 - ❖ Effective return only 12.80 % which reduces with delay in construction which is majorly on account of uncontrollable factors. (*Effective ROE for 1 Yr Delay condoned: 11.99%)*)
 - ❖ Comparing Transmission & Generation on gestation period not appropriate
- Risk profile of both Sectors different, and both have their own set of risks***
- ❖ For Transmission, upside revenue is capped i.e., maximum at an availability of 99.75% and there is no avenues to earn extra revenues

Return on Equity



- ❖ Returns to be commensurate with movement of G-Sec rates & Market risk perception in power sector; CAPM suggests higher returns.
- ❖ CEA's Draft NEP-II (transmission) estimates expenditure of Rs 4,75,804 Crore for implementation of additional transmission system during 2022-27
- ❖ Purpose of RoE is to truly reflect the risk exposure of the transmission licensees and generate adequate funds for future investments.
- ❖ As Tariff is determined on multiyear principles, maintaining regulatory certainty over each control period is important for investor confidence.
- ❖ Departure in established regulatory norms create considerable risk.

We appreciate for maintaining no change in RoE for existing projects and request to continue the same for new Projects also.

Penal provisions for Delay in Statutory Clearances



- ❖ POWERGRID's top management always been proactively and rigorously pursuing statutory authorities for getting clearances/ approvals at the earliest.
- ❖ Senior management participates in Fortnightly Regional Coordination Meeting (***FRCM***) on Linear Projects conducted by MoEFCC
- ❖ Matters as required also taken up for resolution in ***PRAGATI meetings under the chairmanship of Hon'ble Prime Minister.***
- ❖ After prudence check once it is established that the delay is attributable to statutory authorities, project should not be subjected to any further deduction/ penalty.
- ❖ ***Draft proposes to allow maximum of 90% of delay on account of Statutory Clearances***
- ❖ Penalty, if any will lead to further loss to developer as it is already not earning returns for delayed period. ***Such approach may result in increased uncertainty and risk in the sector and will affect Investors' sentiment***

Promotion of Green Business by Transmission Licensee



- ❖ Land banks & infrastructure exists with Generation/ Transmission utilities.
- ❖ Apart from Telecom, POWERGRID is trying to utilize existing infrastructure for Data Center business, Telecom antennas in existing transmission towers etc.
- ❖ Towards target of Net Zero by 2047, such assets can also be utilized for RE Generation ,Green Hydrogen, BESS, EV Charging Stations etc.
- ❖ Enabling provisions may be provided to Transmission licensees similar to Generation allowing in-principle approval for utilization of existing infrastructure including land for undertaking said businesses.

Land for such business may be decapitalized similar to as being done for Generators.



Thank You