To Date:**06rd May 2024**

The Honourable Chairman and his Companion Honourable Members,

Central Electricity Regulatory Commission,

Chanderlok Building , 36, Janpath , New Delhi 110001.

Dear Sirs,

<u>Sub: Comments / Suggestions on Published Draft CERC 2024-29 RLDC Fees & Charges Regulations</u>

Ref: 1. CERC Public Notice No. L-1/271/2024/CERC dtd 4.4.24 for comments on Draft RLDC Fee Reg.

At the onset, I would like to thank the Commission, for continuing to follow it's democratic tradition of seeking stakeholder comments, feedback and suggestions in the true spirit of the Electricity Act 2003, while formulating various Regulations which have a huge bearing on almost all the citizens of India.

A. It is Important to note that this Draft 2024-29 RLDC **Fees and Charges Regulations are different** in the context, scope , application and impact on the electricity sector in India, in comparison to other CERC 2024-29 Tariff Regulations governing the Inter State Genco and Transco transactions.
B. This Draft is for **Regulating the Fees , Charges and Incentives payable to Indian Grid's Neutral Independent System Operators** i.e., RLDCs and NLDC, which are **housed in a Natural Monopoly , Not for Profit, Small Central PSU Company** recently rechristened as M/s Grid Controller of India Ltd (Erstwhile POSOCO) with very limited footprint of just 5 city locations and 643 employees only.
C. The **Objective** of Regulating such a System Operator is starkly and conspicuously different from Regulating other Big Sectoral Entities, and **certainly does not involve objectives like** promoting private **investment** in competitive market by allowing attractive returns or attracting **low cost funds** by regulated entities due to their strong balance sheets or allowing **surplus returns/ funds to be ploughed back** to meet capex needs as equity share etc.
D. The Principles to be adopted to arrive at the Fees and Charges should definitely be different from those allowed for calculating Tariff of Huge Generating Stations or Vast Transmission Systems and **Fees Model need not be a miniaturized copy of the Tariff Model**, as is being done from 2015 simply continuing legacy even after hiving off of GCIL (POSOCO) from PGCIL.
E. It appears that the Commission has appreciated the fact that, 6 (Six) individual petitions for 2019-24 True Up , 2024-29 Tariff and PLI Annual Incentive purposes by RLDCs and NLDC each serves no meaningful purpose when they are housed inside the same Corporate Company Structure of M/s GCIL and in fact obscures the overall holistic view and makes the comprehensive analysis more difficult and cumbersome. It is a **welcome step** that Commission changed this in proposed 2024-29 Draft and mandated to file **single comprehensive company level Petition** by NLDC on Behalf of all RLDCs for each cause, enabling holistic view in an easy way, with less regulatory burden.
F. **In the unique context as explained above, you may find my below listed comments / suggestions** useful while finalizing the 2024-29 RLDC Fees and Charges Regulations.

1. **<u>Draft Regulation 6 – Functions of RLDC and NLDC:</u>** Functions of RLDC and NLDC have already been clearly stated in the Act and Various Regulations, Codes and Rules made under them

from time to time and need not be re stated again to avoid duplicity and confusion. **Hence this Redundant Regulation can be deleted**.

Before proceeding further on Comments , it is worth while to look at the 5 year summary of M/s GCIL as published in their Annual Report on their website, as below

FIVE YEAR SUMMARY					
OPERATING RESULTS					**(in ₹ lakh)**
	2022-23	**2021-22**	**2020-21**	**2019-20**	**2018-19**
(A) EARNED FROM :					
Revenue from operations	37,456.98	33,192.04	26,406.83	26,995.97	26,892.92
Other Income	4,388.34	2,898.35	4,831.00	6,422.97	5,827.65
Total Earnings	**41,845.32**	**36,090.39**	**31,237.83**	**33,418.94**	**32,720.57**
(B) PAID AND PROVIDED FOR :					
Employee benefits expense	22,230.47	21,575.17	19,318.35	17,498.33	17,962.68
Finance costs	6.85	34.12	1,100.29	10.97	6.67
Depreciation and amortisation expense	3,466.28	2,298.08	2,068.49	1,750.90	2,042.22
Other Expenses	8,293.10	6,169.95	6,058.72	6,686.70	6,368.50
Total Expenses	**33,996.70**	**30,077.32**	**28,545.85**	**25,946.90**	**26,380.07**
Profit before tax	**7,848.62**	**6,013.07**	**2,691.98**	**7,472.04**	**6,340.50**

2. **<u>Draft Regulations (13) Capital Cost, (15) D/E Ratio , (19) Interst on Loan, (23) Interest on WC:</u>**

These Regulations need thorough comprehensive relook and complete deletion or major simplification in view of the actual reality of M/s GCIL ‘s unique case.
M/s GCIL has not taken any loan (Foreign or Domestic) from the past many years for neither CAPEX nor Working Capital and is a Zero Debt Company probably from it’s inception.
In fact M/s GCIL relies on interest free drawals from the huge surplus LDC Fund (of apxly Rs 237 Crore as on 31.3.2023), clearly allowed by the Commission in 2019-24 period as well as in this Draft Regulation 24. This is going to continue for the next 5 years also.
In this unique context, It is meaningless to frame regulations in detail on Interest During Construction (IDC), FC, FERV parts of capital cost or IoL and IWC in Regulation 13,15,19,23.
In fact Regulation 23 (3) of allowing “*Interest on Working Capital on a normative basis notwithstanding that Grid India has not taken any loan for working capital”* is against the basic principle of norm setting from actual data and needs recovery of prudent costs from consumers, as Loan was never taken and going to be taken in the unique context.
Hence The Regulations 13,15,19,23 may be deleted and Cost / Fee components Rationalised.

3. **<u>Draft Regulations (18) Return on Equity:</u>**

When the Commission itself has signalled in 2024-29 Tariff Regulations , that Transmission Business carries less risk and marginally reduced its RoE, Proposing 15.5% RoE for Zero Risk ,

Monopoly , Statutory & Regulatory Function provider's Fees payable to M/s GCIL is without any logic. In fact what ever RoE has been allowed by the Commission in the past has only added to the huge pile of liquid cash available with M/s GCIL under reserve and surplus heads, which is approximately Rs 1100 Crore as on 31.3.2023.
Objectives of Promoting private investments or attracting low cost Debt or funding equity share of huge Capex are also irrelevant in this unique case.
Hence RoE component can be abolished or linked to SBI Yearly Term Deposit Rates.

4. **<u>Draft Regulations (22)(6) Human Resource Expenses – Strength of Manpower :</u>**
The Commission has already analysed the requirement of strength of senior level manpower by M/s GCIL in detail vide Pettiion No 248/MP/2021 and permitted 8/54/64 Nos at E9/E8/E7 levels respectively till March 2024.
However, M/s GCIL being a Central Public Sector Enterprise , DPE OM No. 16(11)/2008-GM (Guideline ID GL-92447) on "Creation of posts at Senior Management (E7-E9) level in Central Public Sector Enterprises (CPSEs)" as available at https://dpe.gov.in/sites/default/files/R-46.pdf is to be complied. **Hence Regulation 22(6) for 24-29 period needs to be modified as**

(6) The strength of manpower required for effective functioning of LDC shall be as approved by the Commission based on a separate application to be filed by NLDC for manpower requirement of Grid-India along with Appendix-V. The proposal shall be accompanied by the Board approval for the proposed manpower plan ***<u>and Approval of GoI as per DPE OM No. 16(11)/2008-GM</u>****.*

5. **<u>Draft Regulations (28) Performance Linked Incentive :</u>**

It appears that the Commission has realized the major abnormality of 2019-24 RLDC Fees and Charges Regulations, where in maximum allowable Performance Linked Incentive (PLI) for 100% performance was abruptly increased from 2104-19 period figure of 9% (7+2) to 17% (15 + 2) of Annual LDC Charges, instead of decreasing, despite the Base Annual LDC charges are anyway actually increasing from 2015 due to general escalation and inflation.

However the Commission has only slightly corrected this error in Draft 2024-29 period Regulations by reducing maximum PLI % from 17% to 14% (12 + 2) instead of fully rolling it back to 9% (7 + 2) as in 2014-19 period , as the base on which this percentage applies has increased further in the past 5 years and the PLI being collected yearly from All India Users is always more than what is required to be paid as PRP for each year and surplus had to be returned to the users due to the diligent efforts of the Commission while issuing PLI / true up orders. Around 47 Crore in surplus as provision for PRP alone (31.3.2023) and PR Income is always higher than actual PR Pay paid.

Instead of Estimating in advance on any thumb rule and returning the surplus , Actual Auditor Certified PRP Payout income as per DPE Guidelines may be allowed to be collected from users and recouped to the currently surplus provisions head already kept for PRP.

If the Proposed 14% PLI is still allowed on the Currently allowed Annual LDC Charges for FY 2023-24 (on escalated at 5.25% for FY 2024-25 ie., apxly Rs 394 Crore), it comes to Rs 55 Crore, where as the actual payout requirement is around Rs 30 Crore Only as per last Annual Report, there by unnecessarily creating surplus locked up for 5 years and trued up at the end of the control period and returned without any interest to the users.

Accordingly Regulation (28) may be modified as below

(5) Each RLDC and NLDC shall be allowed to recover Performance linked Incentive(PLI) ~~of 12% of its Annual LDC Charges~~ ***amount equal to the requirement of Performance Related Pay actually payable for the year,*** *for performance level of ~~90%~~* ***98%*** *against the KPIs. The performance of previous year ending on 31st March shall be considered for calculation and recovery of incentive in the year.*

> *~~Provided that the incentive shall increase by 1% of Annual LDC Charges for every5% increase of performance above 90% on a pro-rata basis.~~*
> *~~Provided further that incentive shall be reduced by 1% on a pro-rata basis for every 3% decrease in performance level below 90%.~~*

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(7) Performance Related Pay computed in accordance with DPE Guidelines shall be met from the incentive allowed in accordance with this Regulation.

> *~~Provided further that any surplus on account of incentive collected at the end of control period after disbursement of Performance-related pay as per DPE guidelines shall be returned to the users along with true-up of fees and charges.~~*

(8) Performance linked incentive shall be trued up at the end of the control period.

With the above suggestions , I wish to express my gratitude once again for seeking the stakeholder suggestions and I hope that my suggestions are of use to the Commission while finalizing these Regulations to realize fair, equitable and affordable Fees and Charges in 2024-29 period.

Yours faithfully,

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