



Comments
by
Powerlinks Transmission Limited
(A JV of Tata Power & POWERGRID)
on
Draft CERC
(TERMS & CONDITIONS OF TARIFF)
Regulation 2008

November 4, 2008



Depreciation including AAD- Clause 17.4 a



	Depreciation Rate	No of Years	Total Depreciation
Existing	2.57%	35	90%
Proposed	4.67%	15	70%
	1.00%	20	20%

Depreciation including AAD- Claus

17.4 a



Concerns

- AAD discontinued
- 70% depreciation allowed in 15 years
- Difficult to get debt from Lenders with matching repayment schedule (15+3 yrs moratorium)
- Higher tenure makes loan costlier

Comments

- Increase depreciation rate to 5.84% for initial 12 years to facilitate recovery of debt portion

Incentive – Clause 23



Concerns

- Calculation of Incentive - change of base from % of equity to % of annual transmission charges.
- Discontinuation of reimbursement of tax on the incentive amount

Comments

- Changing base reduces incentive amount significantly
- Insignificant incentive will defeat purpose of increasing availability
- Tax to be reimbursed on the incentive amount also
- Older system needs more expenses to keep system healthy enabling increased availability

Rebate – Clause 34



Concerns

- Rebate allowed on all the bills of transmission licensee

Comments

- To exclude bills of income tax, FERV etc. as these are reimbursable expenditures

Interest on Loan Capital- Clause 16(7)



Concerns

- Benefit due to refinancing – Sharing Ratio: 2:1

Comments

- To encourage such efforts – Sharing Ratio should be: 1:1



Long Term Transmission Customer- (LTTC) Clause 25

Concerns

- Proposed definition of LTTC envisages long term lien on the transmission system

Comments

- Existing definition of LTTC to be retained as Lenders raise objections for long term lien by the customers

Benchmark Norm-Clause (8)



Concerns

- Benchmark norms to be published for Capital Cost

Comments

- Benchmarking of capital cost per Km. of the transmission line would be difficult as it is dependent upon terrain, number of river crossings, forest clearance etc.
- Existing methodology subject to prudence check should be continued

Initial Spares Clause 9(iv)



Concerns

- Reduction of Initial Spares Capitalisation from 1.5% to 0.75% of the Project Cost

Comments

- Initial spares are required for repair and maintenance after commercial operation due to unforeseen reasons. Existing norm of 1.5% to be continued

Additional Capital Expenditure

Clause 10(ii)



Concerns

- Deletion of the clause regarding capitalization on account of additional work / services which have become necessary for efficient and successful operation of the project but not included in the original project cost

Comments

- Certain expenditure not envisaged earlier may be necessary
- Existing Clause to be retained
- Additional capitalization is subject to prudence check by CERC

Interest on Working Capital- Clause 18



Concerns

- Receivable reduced from 60 days to 45 days
- Computation of spares changed from 1% of the project cost to 15% of the O&M expenses
- Norm for one month O&M expenses discontinued

Comments

- Leads to abnormally low working capital, which would jeopardize the normal business operation
- Existing provision to be continued

Return on Equity- Clause 15



Concerns

- ROE has been retained as 14% p.a. though the interest rates have increased from 10% in 2004 to 14% in 2008
- Proposed ROE has been linked with Capital Market conditions

Comments

- To maintain the consistency, ROE need to be linked to prevailing interest rate & pegged at 18%

Return on Equity - Clause 15 (Contd.)



Concerns

- ROE from COD
- Interest on debt during the construction phase allowed as IDC, however, there is no return on equity during the construction phase

Comments

- Normally equity is invested prior to loan disbursement
- Non receipt of ROE during construction further erodes effective ROE

Operations & Maintenance Expenses



Clause 19

Concerns

- Fixation of O&M exp on the basis of per Km instead of per Ckt KM
- Annual Increase based on the Inflation of 5% p.a.
- O & M exp benchmarked on the basis of data provided by CPSU only
- Proposed change would further reduce the O&M amount drastically

Comments

- Annual increase to be based on average inflation prevailing during the concerned year

Operations & Maintenance Expenses



Clause 19

Comments

- JVs would be maintaining limited network of transmission lines and as such its expenses cannot be compared with Powergrid, which enjoys economies of scale
- Powergrid maintains both transmission lines and substations
- Non-recovery of actual bonafide O&M expenses to further reduce returns
- Proposed change would discourage private investors to participate in development of Transmission Sector

Operations & Maintenance Expenses



Clause 19

Comments

- We strongly recommend O & M expenses as under:
 - Transmission Lines – up to a maximum of 1.5% of the Gross Block
 - Substations – up to a maximum of 3% of the Gross Block
- above subject to actual expenses incurred by the transmission licensee

CDM - Clause 36 (b)



Concerns

- CDM benefits to be shared with the Beneficiaries
- Registration with UNFCCC is essential to avail CDM benefit which involves expenses on account of registration, appointment of consultant, appointment of validator etc.

Comments

- Expenditure also needs to be shared

License Fees - Clause 42



Concerns

- License fees during construction phase is capitalised, however, during O&M phase it is not reimbursed

Comments

- License fee be recovered by the transmission licensee directly from the long-term customer during O&M phase
- Should be part of Tariff Regulation & not discretionary

Cut Off Date - Clause 3(13)



Concerns

- Extended cut off date shall be applicable provided project achieves COD in last quarter of the financial year

Comments

- The relaxation of enhanced cut off date be extended to projects declaring COD in the second half of the financial year

Definition of Core Business- Clause (12)



Concerns

- Core business means business of generation or transmission of electricity. (No specific exclusion now)

Comments

- Existing regulation specifically excludes other business or activity like consultancy, telecommunication of the transmission licensee
- Existing definition to be continued



Thank You!