CENTRAL ELECTRICITY REGULATORY COMMISSION
3rd & 4th Floor, Chanderlok Building, 36 Janpath, New Delhi – 110 001

PRESS NOTE

20th January, 2009

CERC issues Tariff Regulations for next five years

CERC today issued the Tariff Regulations for generation and transmission projects for the period 2009-14. These regulations have been finalized after detailed consultation with the stakeholders and would also be the guiding principles for the State Electricity Regulatory Commissions. The regulations aim at attracting much desired investment in power infrastructure in the country while ensuring that the consumers get electricity at reasonable cost. The following are the important features of the new regulations:

(1) The base rate for allowing return on equity has been raised from 14% to 15.5% keeping in view the need of attracting investment in the current market conditions.

(2) To incentivise timely completion of projects in the present period of power shortages, an additional return on equity of 0.5% will be available to those projects which are commissioned within the given timelines.

(3) In addition to increased rate of return on equity of 15.5%, the regulations contain several provisions to boost development of hydro power projects. By modifying the proposal in the draft regulations new hydro power projects have been appropriately insulated from hydrological risk during the first ten years of their operations. The regulations also allow enhanced free power and rehabilitation cost according to the new Tariff Policy, with the objective of expediting project implementation. Tariff for hydro power project has been restructured to incentivise supply of peaking power.

(4) Return on equity will be now pre-tax for which the base rate of 15.5% would be grossed up by applicable tax rate for the company. This would incentivise investment

promotion as the benefit of tax holiday will be now available to the project developer. On the other hand, consumers would not have to bear the burden of income tax on the UI earning, incentive earning and efficiency gains of the projects. This has been a major grievance of the beneficiaries.

(5) While doing away with the advance against depreciation in line with Tariff Policy, depreciation rates have been reworked to take care of repayment of debt obligations of the new projects. However, once the initial period of 12 years is over, remaining depreciation would be spread over the balance useful life to keep the tariff reasonable.

(6) Regulatory philosophy of CERC has been to incentivise efficiency gains and to periodically pass the improvements to beneficiaries Accordingly, the availability target for recovery of fixed cost for thermal power plants has been raised from 80% to 85%. The station heat rate has also been tightened. For the new units, operating margin of only 6.5% would be permitted with respect to the design heat rate. The regulations give maximum permissible design heat rate to ensure that inefficient machines are not procured. The norm for secondary oil consumption has been slashed from 2 ml per unit to 1 ml per unit. Further, the savings in secondary oil consumption are to be shared with the beneficiaries in ratio of 50:50%.

(7) The economies of scale available to the developers in operation of expansion projects are to be shared with the beneficiaries as the permissible O&M expenditure will be descaled for new expansion units.

(8) To make the tariff fixation more objective and simple, CERC has decided to set up capital cost benchmarks for thermal power projects and transmission projects. The provisional tariff has been done away with and the companies will get final tariff upfront.

(9) Tariff regulations have given due attention to the need of renovation and modernization. The companies operating thermal power plants will have now two

options. Either they can claim a special allowance on the basis of per MW per year after completion of normative useful life of the project and will be obligated to deliver the norms set for availability and operations. Second option is to go for comprehensive R&M which is to be permitted by Commission on the basis of detailed cost benefit analysis including the efficiency gains to the beneficiaries.

(10) To incentivise higher availability of power plants, the incentive available to the generating companies will now be available on the basis of declared availability instead of plant load factor because the generators can only declare better availability and actual schedule is not within their control.

(11) The Commission has decided to separately bring out the tariff regulations for renewable energy based projects. This exercise has already been started and is likely to be completed within next six months.

Sd/-

(Alok Kumar)
Secretary