Comments on CERC Draft (Terms & Condition of Tariff Regulations) for MYT 2014-19

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Overview

- **Consumer's perspective on MYT regulations**
- **Sector reality : Divergent approach on Tariff determination**
- **Transparency : Need for Prudence of Energy Charges billed**
- **Incentives : To be based on PLF and not PAF**
- **Disproportionate RoE for limited risk borne**
- **Non Tariff income to be shared with consumers**
- **Tax retention to be avoided through reimbursement approach**

Regulatory Divergence in Tariff determination Approach of Central and State Commission

Approach for ISGS Gencos

- Fuel Charges are a complete pass through for Gencos on monthly basis
- No prudence check of Fuel Charges billed by Gencos
- Non Tariff income is retained by Genco/Transco
- CPSU's based on cost plus tariff rewarded with good RoE for the limited risk borne by Cost plus based Gencos/Transcos
- Profits (PBDT) for CPSUs annually – Rs. 30000 Cr.
- No political risk in tariff realization

Approach for Distribution utilities

- Power purchase adjustment formula yet to be implemented by State Commissions
- Energy Charges are thoroughly scrutinized by State Commissions
- Non Tariff income is shared with consumer
- Skewed risk reward ratio for Discoms where tariff realization has huge political risks
- Annual losses of Discoms about 27000 Cr. as per Shunglu Committee

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Supernormal profits of CPSUs vis-à-vis losses of Discoms

Profit Before Depreciation and Taxes (Rs. Cr.)					
	2010	**2011**	**2012**	**2013**	**TOTAL**
NTPC	13,536	14,535	15,118	19,975	63,164
NHPC	3,892	4,161	4,752	4,557	17,362
PGCIL	4,606	6,102	7,327	9,203	27,238
SJVNL	1,451	1,607	1,792	1,631	6,481
THDC*	836	1,029	1,253		3,118
GRAND TOTAL	24,321	27,434	30,242	35,367	117,364

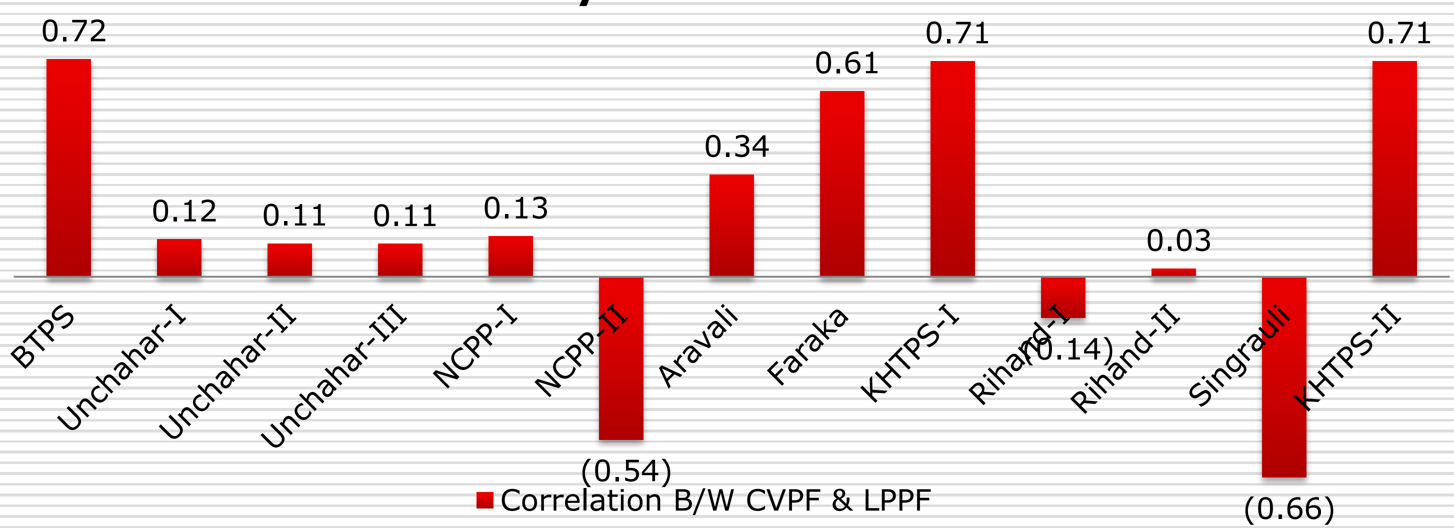
Source : Balance sheets of NTPC, NHPC,PGCIL,SJVNL and THDC for respective years

Particulars	**FY 09-10**	**FY10-11**	**FY11-12**	**FY12-13**	**Total**
T&D loss level %	24	24	23	22	
Profit/ (Loss) in Rs. Cr.	(26,957)	(27,760)	(27,549)	(27,209)	(109,475)

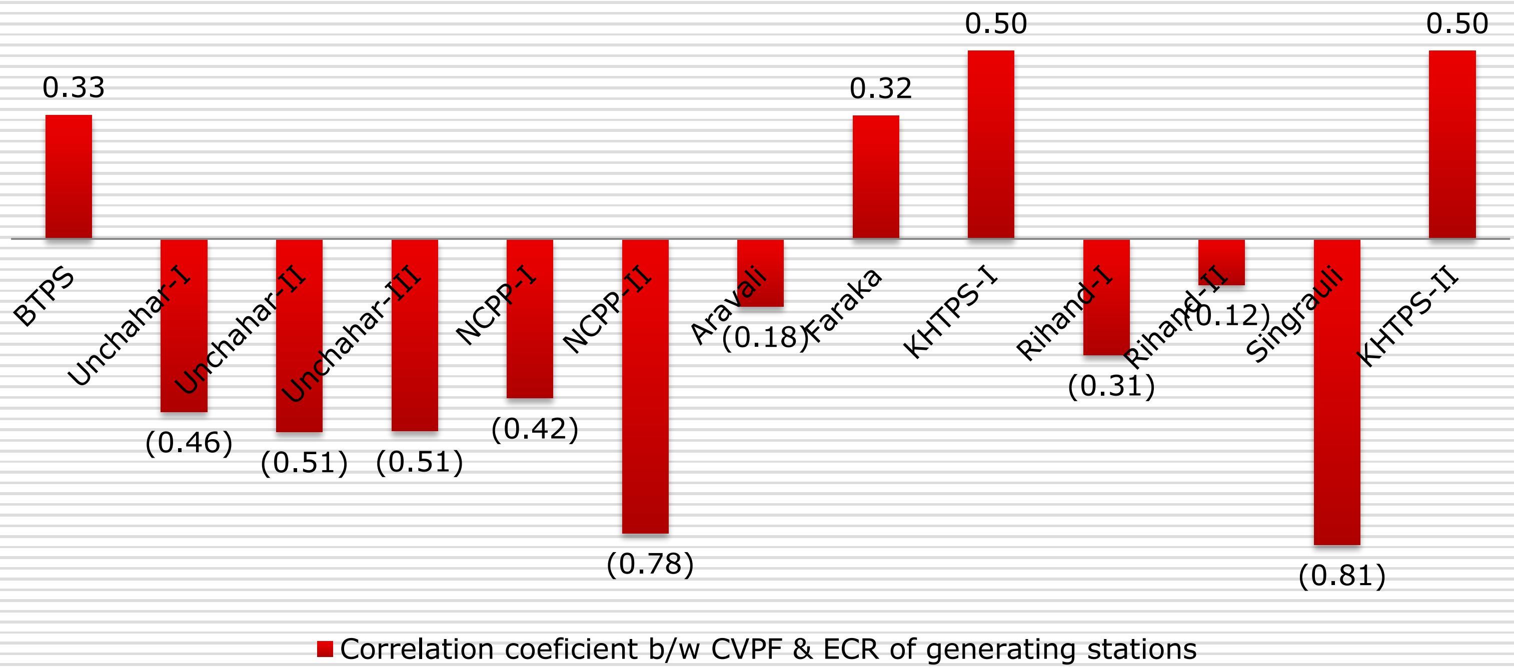
Source : Shunglu Committee report on financial position of State utilities

Transparency : Prudence check of Energy Charges billed

- **Imperative to perform the prudence check of Energy Charges billed by the generation companies**
- **Additional Chapter on Prudence of Fuel cost and Energy Charges in MYT regulations required**
- **Analysis of Energy Charges billed by Central Generating Stations shows:**
  - **No correlation between Landed Price of Primary Fuel (LPPF) and Calorific Value of Primary Fuel**

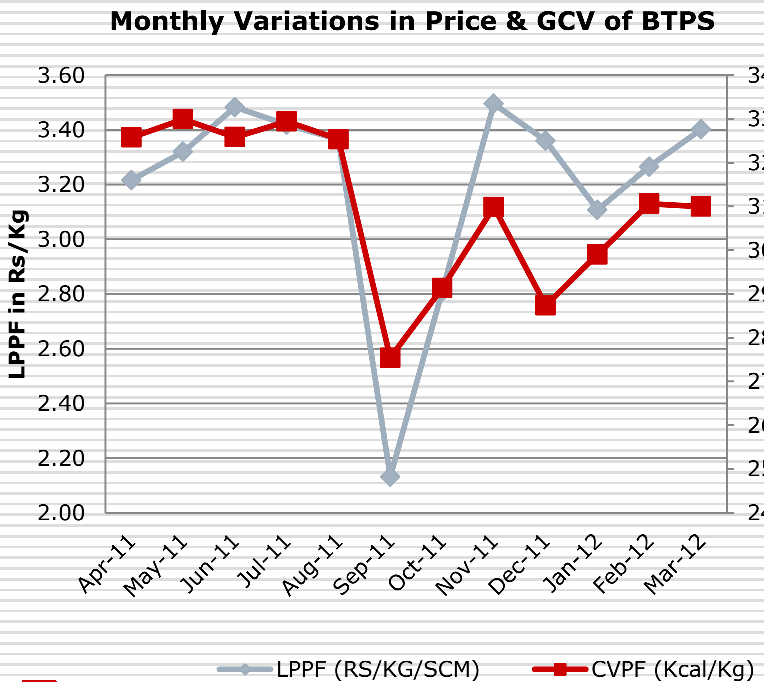


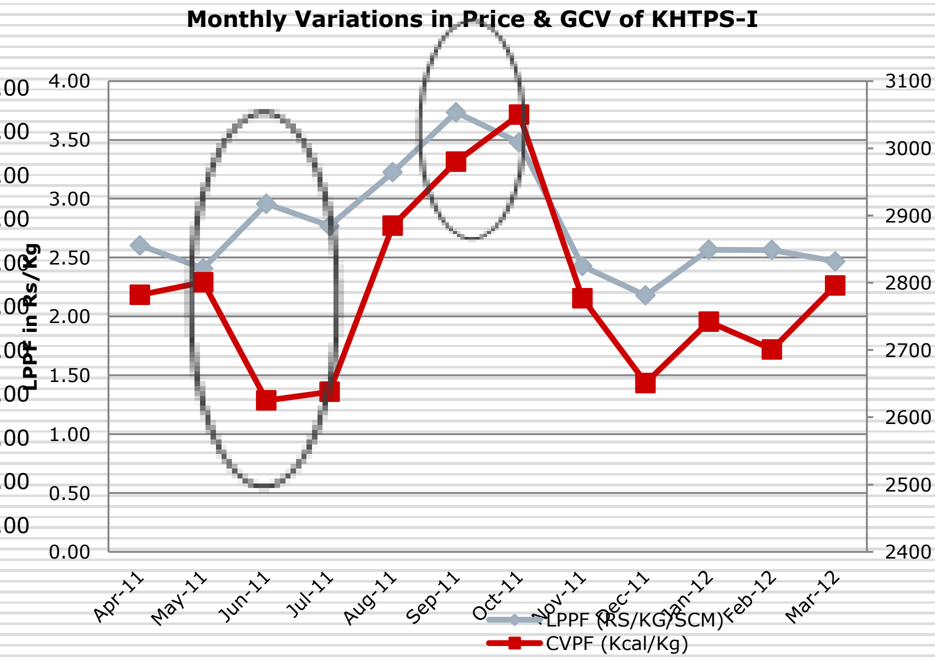
Prudence check of Energy Charges billed



- **Inferences :**
  - As per CERC's guidelines for the calculation of energy charge rate, ECR of stations, the ECR varies inversely proportional to the CVPF used at a fixed station heat rate (SHR).
  - Thus the correlation factor should be as close as possible to -1.
  - But from the analysis we find that (r) is positive for BTPS, Farraka, KHTPS-1, & KHTPS-2.

Prudence check of Energy Charges billed

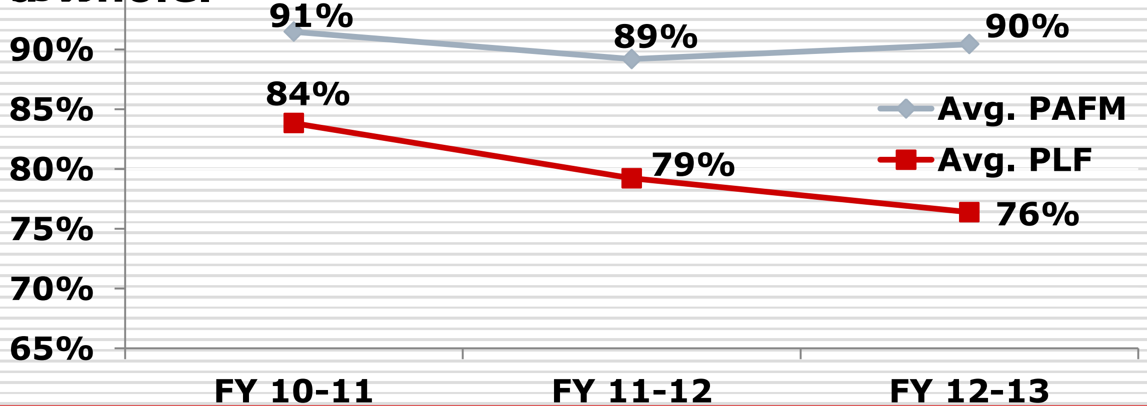




- **Inferences :**
  - **There is no co-relation between Energy Charges and GCV of coal**
  - **For BTPS there is some visible co-relation which is absolutely missing in Kahalgaon –I**

Incentives based on PLF v/s PAFM

- Incentives not be based on just "Intent to serve"
- Generator should not be incentivized just based on declared capacity but rather on the actual generation
- Regulations should ensure that all efforts are made by the generator as well as intermediary agencies to deliver the power to consumer.
- Merely incentivizing the generation, even when the same is not commercially viable is not in the interest of the consumer and sector as a whole.



Disproportionate Return on Equity vs Risks

- **Very low risk for cost plus based Gencos/Transcos**
- **Fuel Cost variation, construction delays, interest rate variations etc. are pass through**
- **This is primary reason why lost cost debt is available to Gencos/Transcos**
- **Appropriate RoE = Risk free rate + 2 % additional return**

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Non Tariff Income – Sharing with consumer

- Other businesses of Gencos/Transcos due to base business
- Consumers provided the seed investment for other businesses
- Benefit should be shared equally with the consumers
- Over 5-7 % of income from Other business (NTPC & NHPC)
- Additional income from sale of Ash –sold to sister concerns
- For Discoms NTI is deducted from ARR and same should be done for Gencos/Transcos
- Consumer tariff may reduce by 5 – 10% due to such measures

Income on depreciation and Tax retention

- Generators are retaining benefits of tax holidays(e.g. 80 IA benefits) in balance sheets
- Taxes to be passed on to consumers and no profits should be made based on taxes paid by consumers
- Tax reimbursement is the appropriate approach to ensure it

- Excess income from Vintage plants
  - Equity capital is available in cash and the utility is still earning RoE on it
  - Cash equity is investible and earns good returns from market
  - Capex approved for R&M of such plants earns accelarated depreciation for utility.

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Thank You