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HOD(PMG)/2019-20/ 363

Date: 14.01.2020

The Secretary

Central Electricity Regulatory Commission

3rd &4th Floor, Chanderlok Building

36, Janpath, New Delhi-110001

Sub: Additional comments on Draft Central Electricity Regulatory Commission (Sharing of Revenue Derived from Utilization of Transmission Assets for other Business) Regulations,2019

References:

1. BRPL letter no RA/2019-20/01/A/394 dated 31.10.2019
2. Public Hearing dated 13.01.2019 on Draft Central Electricity Regulatory Commission (Sharing of Revenue Derived from Utilization of Transmission Assets for other Business) Regulations,2019

Sir,

In reference to the Public Hearing conducted on 13.01.2019 on the subject matter and in continuation to our above referred letter, we hereby are submitting copy of presentation which was given in the public hearing. (Attached as **Annex-1)**

We sincerely thank the Hon'ble Commission for reviewing the existing framework for sharing of revenue from other business derived from utilization of the transmission assets and conducting public hearing.

We hope that our observations/ proposals in the presentation shall be considered by Hon'ble Commission while finalizing Regulations.

Thanking You

Yours Sincerely

For **BSES Rajdhani Power Limited**

Sanjay Srivastav

HOD (Power Management Group)

Draft CERC (Sharing of Revenue derived from utilization of transmission assets for other Business) Regulation 2019

Presented by:

BSES Rajdhani Power Limited

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Existing Sharing of Revenue Regulations

- As per 2007 Regulation, Transmission owner shall share the revenue @ Rs 3000/Yr/Km ROW charges. As per PGCIL submissions, actual sharing is @ Rs 2575/Yr/Km ROW in FY2018-19 which is 1% of total revenue of transmission business

- While issuing this Regulations Commission passed the order in Petition no 54 of 2005(suo-motu) clarifying:-
  a) It is decided not to look into the graded revenue earned by the PGCIL Telecom Business

  b) Only fixed ROW charges are allowed against sharing of revenue derived by PGCIL from use of OPGW

  c) Commission to review these Regulations and revise the rate/approach after gaining some experience

Increase in Transmission Cost

- Increase in BRPL's Per unit Transmission cost and % increase since FY 07-08.

Year	Rs/Unit Transmission Cost	% Increase
FY08	0.11	
FY11	0.21	84%
FY14	0.30	164%
FY 18	0.43	282%
FY 19	0.39	239%

- Transmission charges has been increased by almost 300%
- The drop in FY19 is on a/c of HVDC order of Champa-Kurukshetra Line given in favour of Discoms by CERC in FY19 which was reversed in FY20

Expected Future Transmission Cost & Need to control

- Further in next decade Transmission cost is expected to Increase due to:-
  a) Commissioning of New Green Energy Transmission Corridors
  b) Stranded Capacity due to relinquishment of LTA on High Capacity Transmission Projects
- So it requires need to review the existing regulations to control the transmission cost wrt
  - Sharing of gains
  - Existing margins available in system which can be utilized for reduction of cost
- It is being observed that net revenue surplus from telecom business has increased by 234% in 5 years, whereas the sharing of revenue remain fixed as @3000/Yr/Km. This has resulted in retention of revenue of Rs 864 Crs for 5 years in the system as below:

In Rs Crs

Year	FY 14	FY 15	FY 16	FY 17	FY 18
Gross Revenue	288	301	437	559	678
Revenue Shared by PGCIL	3	3	5	6	7
Net Revenue Surplus/PBT	94	63	163	254	314
Revenue Retention	**91**	**60**	**158**	**248**	**307**
Cumulative Retention	**91**	**151**	**309**	**557**	**864**

Proposal in Draft Regulations

- CERC has proposed to share 10% of Revenue from telecom Business with beneficiaries which is based on data of FY17-18

- PGCIL is proposing to share the revenue as
  - ROW charges @4500/Yr/Km with yearly escalation (PGCIL is comparing ROW charges in CERC Regulation 2007 with ROW rates of some states at 11KV/33KV/66KV poles which is not comparable as rent of LT lines or Poles cannot be compared with Backbone connectivity elements and revenue sharing at fixed rate is also against the section 41 of EA 2003 which provides for sharing of proportion of revenue for cost reduction)
  - 3% of revenue which is based on last 5 year data (As Regulation is being prepared for coming years we should consider the data of latest existing years excluding any abnormalities

Proposal in Draft Regulations

- In existing PGCIL telecom business following business are being used
  a) OPGW laid by Powertel and used by Telecom business
  b) OPGW laid by Telecom and shared by ULDC and Telecom business
  c) OPGW laid by ULDC and shared by ULDC and Telecom business

- As PGCIL is using different business model whereas Commission has proposed a revenue sharing based on a single method accommodating all 4 business models which lacks in clarity, transparency and common treatment to the assets build in different model
- It is proposed to have Model wise revenue sharing for each category of Business model in line with CERC order in Petition no 180/MP/2017 where Commission has directed to maintain records of revenue and cost from each business to determine the profits in a transparent way and of each business model and share the gains in ratio of 50:50

Sharing of Capital Cost

- The savings in cost (Rs 1.50 Lakh/KM) is appear to be worked out based on existing practice of adjusting 50% of OPGW cost b/w Telecom & Transmission business.
- Hence Commission is requested to specify in the Regulation that ceiling of maximum 50% of OPGW cost should be booked in transmission business

Observation on computation of revenue sharing

- PGCIL is using different business model whereas Commission has proposed a revenue sharing based on a single method accommodating all 4 business models which lacks in clarity, transparency and common treatment to the assets build in different model
- In the table provide by Commission/PGCIL, Net revenue sharing % of 22% is derived based on total asset of 1420 Crs(919+501) which includes capital cost of underground line and therefore, second rationalization of apportionment of savings again between OPGW and underground line is not required.

Grossing up of sharing of revenue with Tax rate

- As Revenue shared by PGCIL from telecom business will be reduced from their taxable income and will provide tax benefit to PGCIL. Hence the revenue sharing % shall be grossed up with the relevant tax rate of that year
- At the time of tariff, the distribution licensee has already paid return on equity with grossing of Tax rate
- On the similar principle, the distribution licensee should be refunded by grossing Tax rate

Tentative computation of Grossing Up of Tax Rate

	Existing	Plain Sharing	Sharing with Grossing up with tax rate
Revenue	100	100	100
Expenditure	50	50	50
Sharing of Revenue		-10	-12.5
Net Profit	50	40	37.5
Tax (@20%)	10	8	7.5
PAT	40	32	30

Thank You

S.No	Detail	Reference	Unit	
				2017-18
A	Gross Revenue		Cr	678
B	Revenue Surplus /PBT		Cr	314
C	OPGW Fiber utilized by Telecom, which laid on Central Sector Lines		Kms	33403
D	POWERGRID Telecom Underground Fiber/Lease Fiber etc.		Kms	19765
E	Total Fiber Network (OPGW+ Underground)	(C+D)	Kms	**53168**
F	Normative Asset (Estimated Saving of Capex due to OPGW (@ 1.5 Lacs/Km) on Sr. No.-3)	(1.5lakh*C)/100	Cr	501
G	Segment Asset as per Annual Reports		Cr	919
H	Total Asset =Segment Asset+ Normative Asset	(F+G)	Cr	**1420**
I	Net Revenue surplus as a % of Total Asset	(B/H)	%	22%
J	Average Net Revenue surplus as a % of Total Asset		%	**22.11%**
K	Contribution of Transmission assets towards net Revenue surplus	(F*J)	Cr	111
L	Central sector OPGW as a % of Total fiber	(C/E)	%	63%
M	Net Revenue Surplus sharing with beneficiaries in proportion to the Transmission Asset (OPGW)	(K*L)	Cr	69.60
N	Revenue shared as a % of Gross Revenue	(12/1)	%	**10.3%**