Central Electricity Regulatory Commission

New Delhi

Coram:

Shri P.K. Pujari, Chairperson

Shri M.K. Iyer, Member

Shri I.S. Jha, Member

No.- L-1/153/2019/CERC **Date:5th April, 2019**

In matter of

Central Electricity Regulatory Commission (Fees and Charges of Regional Load Despatch Centre and other related matters) Regulations, 2019

Statement of Reasons (SoR)

1. Introduction

1.1. The Commission vide notification dated 26.2.2019 issued the Draft Central Electricity Regulatory Commission (Fees and Charges of Regional Load Despatch Centre and other related matters) Regulations, 2019 along with Explanatory Memorandum seeking comments/ suggestions/ observations from the stakeholders/public.

1.2. The Background of the changes proposed in the Draft Fees and Charges of RLDC Regulation, 2019 viz-a-viz Fees and Charges of RLDC Regulation, 2015 was stated in Explanatory Memorandum issued along with draft Regulation. Relevant extract is provided as under.

> **"2.0 Salient Features**
>
> The Commission has reviewed the various provisions of existing RLDC Regulations, 2015 keeping in view the developments in the power system, challenges faced by the system operators and experience of determining fees and charges of RLDCs and NLDC during 2014-19 period. Further, a sub-group was constituted under the aegis of the Standing Technical Committee of the Forum of Regulators (FOR) (in short for STC) vide communication dated 12.04.2018 to deliberate on various aspects on institution building and strengthening of load despatch centres in India. The Sub-group submitted its report namely – "Capacity

Building of Indian Load Despatch Centres" (CABIL) which was accepted by the FOR in its 65th meeting on 13.11.2018. A copy of the report is annexed at Annexure-I. Various recommendations of the report (CABIL) as well as the model regulations on LDC Fees & Charges have been duly considered while framing the Draft Regulations."

1.3. Comments were received from four (4) organizations, namely POSOCO, GRIDCO, GUVNL, and PCKL. POSOCO made oral submissions during the public hearing held on 20.3.2019. The detailed comments are available on www.cercind.gov.in.After due considerations of the comments/ suggestions/ objections received, the Commission has finalized the CERC (Fees and Charges of Regional Load Despatch Centre and other related matters) Regulations, 2019.

1.4. Deliberations on the comments/suggestions offered by the organizations on the proposed draft Regulations and the reasons for decisions of the Commission are given in the succeeding paragraphs. While an attempt has been made to consider all the comments/suggestions received, the names of all the stakeholders may not appear in the deliberations.

2. Regulation 4 (a)

2.1. Comments have been received from POSOCO**.** POSOCO has suggested that In view of new types of users such as battery energy storage systems, QCA, Aggregators, Registration format Appendix-IV to include Note: Aforesaid information is indicative in nature. Applicant is required to provide information as per advice of RLDC

2.2. **Analysis and decision**

The amendment as proposed by POSOCO is not being considered at this stage since the details of additional information required has not been included in the format. POSOCO may approach the Commission for specific information to be sought in case need arise for such information for new users such as QCA, Aggregators etc.

3. **Regulation 5 (4) xiii**:

3.1. Comments have been received from POSOCO**.** POSOCO has suggested that Word "Activation" may be replaced with "operation"

3.2. **Analysis and decision**

3.3. As suggested by POSOCO the word “Activation” has been replaced with Operation in Regulation 5(4) xiii of the Draft Regulation.

4. **Regulation 7 (1)**

4.1. Comments have been received from POSOCO**.** POSOCO has suggested that in Regulation 7 (1) Word "Regulation 25" may be replaced with "Regulation 31" and "Regulation 23" may be replaced by "Regulation 29"

4.2. **Analysis and decision**

4.3. As suggested by POSOCO, Words "Regulation 25" has been replaced with "Regulation 31" and "Regulation 23" has been replaced by "Regulation 29" in the Regulation 7(1).

5. **Regulation 10 (5)**

5.1. Comments have been received from POSOCO. POSOCO has proposed that capital expenditure incurred as on 1.4.2019 shall be certified by Auditor and projected expenditure to be incurred during control period on the basis of CAPEX and REPEX as approved by board to get the actual capital expenditure incurred during previous control period certified by the auditor.

5.2. **Analysis and decision**

5.3. We agree with the submission of POSOCO that fees and charges shall be allowed by the Commission based on the CAPEX/REPEX incurred as on 1.4.2019 (duly certified by the auditor) and projected to be incurred (as per Management Certificate). Accordingly Regulation 10(5) (except proviso) has been modified as follows:

“10 (5)The concerned RLDC or NLDC, as the case may be, shall be allowed the fees and charges by the Commission based on the audited capital expenditure incurred as on 1.4.2019 and projected to be incurred during control period as per Management Certificate for CAPEX and REPEX.”

5.4. In addition to above a new subclause (4) has been added in Regulation 14 in line with provisions of Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2019 (hereinafter shall be referred to as "Tariff Regulations, 2019" in this document):

"14(4) RLDC or NLDC shall submit Auditor Certificate for the capital expenditure incurred as on 1.4.2019 and , a Management Certificate duly signed by an authorised person, not below the level of Director of the company, for the projected capital expenditure for respective years of the period 2019-24".

6. Regulation 10 (9)

6.1. Comments have been received from POSOCO. POSOCO has submitted that after expiry of control period billing to continue @10% higher than previous year (2024) year till the fees and charges for the next control period are approved by the Commission to avoid downgrade in MOU rating due to shortfall in meeting operating expenses.

6.2. **Analysis and decision**

6.3. We donot agree with the submissions of POSOCO. The provision is retained in line with similar provision in Tariff Regulations, 2019 in respect of Generating Companies and Transmission Licensees.

7. Regulation 16

7.1. Comments have been received from GUVNL. GUVNL has submitted that Debt equity ratio be taken as 80:20 in place of 70:30 keeping in view of improved credit profile of LDCs.

7.2. **Analysis and decision**

7.3. The Debt equity is retained as 70:30 in line with similar provision in Tariff Regulations, 2019 in respect of Generating Companies and Transmission Licensees.

8. Regulation 19 (2)

8.1. Comments have been received from PCKL. PCKL has submitted that Return on equity shall be computed on pre-tax base rate of 14% in the place of proposed rate of 15.5%. It has stated that RoE proposed at 15.5% is on higher side as compared to the present Industrial Returns. Moreover, RLDC have been using equity for creation of asset like plant and equipment, IT hardware and software. These assets are not major capital intensive expenditure.

8.2. **Analysis and decision**

8.3. The Return on Equity has been retained as 15.5% in line with similar provision in Tariff Regulations, 2019 in respect of Generating Companies and Transmission Licensees.

9. Regulation 22 (2)

9.1. Comments have been received from POSOCO. POSOCO has submitted that the normalized operation and maintenance expenses, after prudence check, for the years 2014-15 to 2018-19, to be escalated at the rate of 5.72% in place of proposed 3.2%. It has further submitted that keeping in view that POSOCO was separated in 2017, the above normalization may be carried out for 2017-2019 in place of from 2014 – 2019. POSOCO submitted during the public hearing that since POSOCO is more human intensive the escalation rate may be tilted more towards CPI and may retained as 5.72%.

9.2. **Analysis and decision**

9.3. We have referred the provisions in SOR of Tariff Regulation, 2019 in this regard. Relevant extract is quoted below:

> “10.7.2 The escalation rate computed based on the average of WPI for FY 2013-14 to FY 2018-19 (till December 2018) works out to 1.98%, while that of CPI for the same period works out to 5.56%. Considering 60:40 weightages for WPI and CPI respectively, the escalation rate works out to 3.41% (as against 3.20% in the draft 2019 Tariff Regulations), in case of thermal generating stations and transmission systems. In case of hydro generating stations, considering the CPI and WPI weightages of 74:26, the escalation rate works out to 4.63% (as against 4.57% in the draft 2019 Tariff Regulations).Keeping in view the rising trend of indices, the Commission has decided to provide an additional margin of 3.00%, thereby fixing the escalation rate of 3.51% for thermal generating stations and transmission systems and 4.77% for hydro generating stations. These escalation rates have now been considered for projecting O&M

expenses norms for the tariff period from FY 2019-20 to FY 2023-24."

9.4. Keeping in view the suggestions of POSOCO and that expenditures being majority on human resources, the escalation rate has been modified as 4.77%, as notified for hydro stations under Tariff Regulations, 2019.

10. Regulation 23

10.1. Comments have been received from GRIDCO. GRIDCO has submitted that additional provisions should also be there in the OPEX towards knowledge upgradation/ training of DICs for using tools, where ever required such as webnet-use software as is done in case of PSSE software which was procured centrally by RLDC. It has proposed to procure the webnet software used for Transmission cost allocation, centrally by NLDC, for all the DICS. Such mass procurement will not only plummet the cost of software but it will definitely help all DICs to get conscious & informed decision about transmission cost allocation process.

10.2. **Analysis and decision**

10.3. We have considered the submissions made by GRIDCO and accordingly first para of Regulation 23 has been modified as follows:

"OPEX shall include services like Cloud Computing, Data Storage, Data Centre, Big Data Analytics tools, Advanced data visualization tool (with GIS interfacing), Satellite Services, Weather Data Services, WebNetUse, Forecasting Services, Licensee Fee for software, tools for knowledge upgradation or training of DICs etc. NLDC may procure software of transmission cost allocation centrally, if required, for use by respective DICs under OPEX."

11. Regulation 25

11.1. Comments have been received from POSOCO and PCKL.

11.2. POSOCO has submitted that in reference to Regulation 25 (1) (iii) Corporate Office expenses may be added with NLDC charges.

11.3. PCKL has submitted that, the working capital should only cover "Receivables equivalent to 45 days of annual charges as approved by the Commission." It has stated that keeping in view that O&M expenses, human resource expenses including human resource development expenses and NLDC charges are part of the receivables of LDC Charges and inclusion of above charges in computation of Interest on working capital will result in increases of annual LDC charges.

11.4. **Analysis and decision**

11.5. Keeping in view POSOCO's submissions, words ""and Corporate Office expenses" has been added in Regulation 25(1)(iii) .

11.6. We donot agree with submission of PCKL since Working capital is required for other expenses also in addition to recievables as provided in the Regulations.

12. Regulation 29 (2)

12.1. Comments have been received from POSOCO. POSOCO has submitted that there is the overlapping of the boundary MW in Regulation b and c.

12.2. **Analysis and decision**

12.3. In line with the suggestions of POSOCO, sub clauses (b) to (d) of the Regulation 29(2) have been modified as follows:

"

b) Generating stations having installed capacity of more than 10 MW and upto 100 MW: Rs. 1.0 Lakh;

c) Generating stations having installed capacity of more than 100 MW and upto 2000 MW : Rs. 5.0 Lakh;

d) Generating stations having capacity of more than 2000 MW: Rs.10.0 Lakh, and;"

13. Regulation 32

13.1. Comments have been received from POSOCO, GUVNL, GRIDCO and PCKL.

13.2. In reference to clause 32 (4), POSOCO has submitted that the Central Commission in any case has the prerogative to seek technical advice from CEA in line with section 73 (n) of Electricity Act'2003. Specific mention in the Regulations undermines the statutory position of RLDCs/NLDC & may be dropped.

13.3. In reference to clause 32 (6) POSOCO has submitted to delete words "Appendix-VI" as Appendix- VI deals with manpower and is not related to the Key Performance Indicators.

13.4. GUVNL has submitted that presently, LDCs are allowed to get incentive @ 7% of annual charges for aggregate performance level of 90% which shall further increase by 1 % for every 5% increase of performance level above 90% i.e. total 9% = 7%+2% at 100% level. The proposal to allow more than double incentives (7% to 15%) even at 5% lower performance level (90% to 85%) would place additional burden on end consumers. It has suggested that performance incentive may only be allowed above aggregate performance level of 95% rate instead of proposed 85% and it should not be more than 2.5% of annual charges to remove additional burden on consumer.

13.5. GRIDCO has submitted that, parameters of KPI should not be kept constant/ freezed for whole 5 year period. Rather the parameters & respective weightage of KPI need to evolve to keep pace with growing layer of complexity /changes bought in Indian power sector.

13.6. GRIDCO has further submitted that in view of the past KPI performance of RLDCs (~98-99%), incentive of 10% of Annual LDC Charges to be allowed in place of proposed 15 %. Similarly aggregate performance level to be kept as 90%, rather than proposed 85%. The incentive shall increase by 1% on pro-rata basis for every 5% increase of performance level above 90%.

13.7. PCKL has submitted that as per the clause 32 (5) of draft Regulation, incentive of 7% of Annual LDC charges to be allowed in place of proposed 15 % in draft regulations. Further, aggregate performance level to be kept as 90%, rather than proposed 85% in the draft regulations. The incentive payment should be retained as per the existing CERC (Fees and charges) Regulation, 2015. If proposed method is considered the additional burden of same will be payable by the users.

13.8. **Analysis and decision**

13.9. Keeping in view POSOCO's submissions, words "The Commission, if required, may seek advice of the Central Electricity Authority for evaluation of the performance of RLDCs or NLDC" have been deleted from Regulation 32 (4) and words "Appendix-VI" "have been deleted from Regulation 32 (6).

13.10. Further in view of submission made by GUVNL, GRIDCO and PCKL and that performance level was kept at 90% in 2014-19 Regulations, we have kept the performance level as 90% with 1% incentive increase on pro-rata basis for every 5% increase of performance level above 90%.However the KPIs have been modified in these Regulations vis a vis 2014-19 Regulations as per "CABIL" report. Hence performance level against KPIs in 2014-19 regulations and 2019-24 regulations is not comparable. The incentive has been kept as 15% of LDC as explained as following in the Explanatory memorandum:

> "Performance linked incentives have been proposed at 15% of Annual LDC charges. The same has been derived keeping in view number of employees at each level, their basic pay and DPE Office Memorandum No. W-02/0028/2017-DPE (WC)-GL-XIII/ 17 dated 3.8.2017."

14. Regulation 33

14.1. Comments have been received from POSOCO & GUVNL.

14.2. POSOCO has submitted that as per clause 33 (1) POSOCO shall submit a detailed procedure regarding the methodology of payment for approval of the Central Commission. POSOCO has submitted during public hearing that Certification linked incentive for SLDCs is a welcome step.

14.3. GUVNL submitted that as per the clause 33 (1) of draft Regulation, special allowance should be paid from the incentive received by RLDC/NLDC and should not be part of tariff recovered from beneficiary.

14.4. Sh S.K. Soonee, POSOCO submitted during public hearing that the Regulations are a welcome step. Indian grid is one of the largest synchronous grids, large emerging electricity markets in the world. Institutional capacity building of LDCs is essential in view of the complexity, technological interventions, need for optimization and future endeavours. The Regulations are a first step towards institutional building of SLDCs. What is decided at central level would get more or less replicated in states. At ground level SLDCs are ill equipped to handle future. It is observed that tangibles get the attention but intangibles such as soft skills, creativity, motivation, culture need to be given attention. Institutional building is a long drawn process and require sufficient time and resources.

14.5. **Analysis and decision**

14.6. A clause has been added in regulation 33(3) as per submissions of POSOCO as follows:

"POSOCO shall submit detailed procedure on methodology of payment of Certificate Retainer-ship for approval of Commission within 2 months of issue of these Regulations."

14.7. We do not agree with GUVNL submissions as certification based incentive is a capacity building measure for RLDCs and should not be mixed with incentive.

14.8. We agree with Sh. S.K. Soonee that Indian grid is one of the largest synchronous grids and a large emerging electricity markets in the world. The NLDC/RLDCs along with the SLDCs play an important role in the secure, economic and efficient operation of the electricity grid and the power market.

The review of the RLDC fees and charges regulations was taken up to evolve a roadmap for developing robust and sustainable institution of load despatching in India.

15. Regulation 35

15.1. Comments have been received from PCKL. PCKL has stated that rate of late payment surcharge should be 1% per month in place of proposed rate of 1.25% per month since 1.25% per month is higher when compared to the prevailing MCLR rate.

15.2. **Analysis and decision**

15.3. Late payment surcharge has been kept as 1.5% in line with similar provision in Tariff Regulations, 2019 in respect of Generating Companies and Transmission Licensees.

16. Regulation 37

16.1. Comments have been received from GUVNL. GUVNL has submitted that additional 0.5% rebate should be allowed at the end of the financial year to beneficiaries who make 100% payment towards RLDC charges within T+7 days during the year.

16.2. **Analysis and decision**

16.3. We donot agree with submissions of GUVNL. The provisions of rebate is kept in line with similar provision in Tariff Regulations, 2019 in respect of Generating Companies and Transmission Licensees.

17. Form 6 B

17.1. Comments have been received from POSOCO. POSOCO has submitted that demarcation between technical and non-technical appears bit difficult for Companies like POSOCO, hence requirement of segregation may be dispensed with.

17.2. **Analysis and decision**

17.3. We have considered the submissions made by POSOCO and have deleted the requirement of segregation among technical and non-technical under details of human resource expenses.

18. Appendix III

18.1. Comments have been received from POSOCO. POSOCO has submitted that serial no. C (A) (iii), may be removed as Depreciation Schedule for IT

(Hardware Equipment and Software) is already given at S.No. M and N of the Depreciation Schedule. POSOCO has further submitted that in **serial no**. M & N, Software depreciation rate may be taken as 30% in place of 15%. Keeping in view that present Regulations applicable for **control period** 2014-19 provide for depreciation rate of 30% on the capital expenditure of Software. Most of the assets of RLDCs including softwares are having shorter period of useful life and have nil salvage value.

18.2. **Analysis and decision**

18.3. Serial no. C (A) (iii) have been deleted since the same is already covered at S.No. M and N of this Appendix. Further, Software depreciation rate is retained as 15% in line with Tariff Regulations,2019.

19. Appendix-V

19.1. Comments have been received from GRIDCO. GRIDCO has submitted the following:

(a) MoU Rating as per DPE: KPI with respect to MoU Rating as per DPE should be given weightage of 5 % rather than proposed 10 %.

(b) KPI with respect to Facilitation of power system and market functioning should be given weightage of 25 % rather than proposed 30 %.

(c) Information dissemination : ATC/TTC, Transactions scheduled KPI with respect to Information dissemination should be given weightage of 20 % rather than proposed 10%. Moreover Compliance to provide informations sought by stakeholders (including DICs) related to commercial & technical issues required for verification of tariffs of ISGS generators,& ISTS transmission charge tariff & apportionment & data related to different power market products (SCED , MBED , RTM, ASM & DSM) within a stipulated time period should also be made part of Information dissemination.

(d) Learning & growth :

KPI with respect to parameter of Lessons learnt and knowledge dissemination by way of data intensive reports should also include Reports with excel sheet wherever applicable with formulas intact with detail explanations by NLDC/ RLDC in order to foster better transparency and open process of knowledge sharing.

19.2. **Analysis** and **decision**

19.3. We have noted the suggestions of GRIDCO. The KPIs have been modified in the current regulations as compared to RLDC Regulations 2015. Hence, to start with the proposed weightages have been retained. However the Commission may review the same if need arises. Further, we agree with the submissions made under point (d) above that NLDC/ RLDC share knowledge with excel sheet wherever applicable with formulas intact with detail explanations in order to foster better transparency.

19.4. The clause at the end of Appendix-V have been modified as follows to specify the time frame within which the detailed procedure should be submitted by POSOCO:

"Calculations of specific metrics for the key performance indicators above are to be detailed in a Procedure duly prepared by the POSOCO and submit to Commission within 3 months of issue of these Regulations for approval."

20. Appendix-VI

20.1. Comments have been received from POSOCO. Modification as suggested by POSOCO is as follows:

(a) Levels shown at S.No. I are prior to the 3rd Pay Revision Implementation. Table needs to be aligned with the levels adopted after implementation of pay revision.

(b) There is no sub-LDC at RLDCs (Table at S.No. V to be removed).

(c) Monitoring of certified employees is part of the KPIs and to be monitored by Hon'ble Commission and therefore not required. (Table at S.No. III to be removed).

(d) Title of retained three tables have also been renamed to bring more clarity.

20.2. **Analysis and decision**

20.3. We agree with the submissions made by POSOCO under point under (a), (b) and (d) and accordingly Levels at S.No. I have been modified as suggested by POSOCO, Table at S.No. V have been removed and titles of the Tables have been modified as suggested by POSOCO. The table at S.No. III have been retained.

sd/-	sd/-	sd/-
(I.S.Jha)	**(Dr. M. K.Iyer)**	**(P.K. Pujari)**
Member	**Member**	**Chairperson**