

NORTH EAST TRANSMISSION COMPANY LIMITED

(A JV Company of Power Grid Corporation of India Ltd., ONGC Tripura Power Company Ltd., Assam Electricity Grid Corp. Ltd., Govt. of Tripura, Mizoram, Meghalaya, Manipur & Nagaland)

Corp Office : #2C, 3rd Floor, D-21 Corporate Park, DMRC Building, Sector -21, Dwarka, New Delhi- 110077



Ref: NETC/CERC/2023-24/001

Date: 31.07.2023

To,
The Secretary,
Central Electricity Regulatory Commission
Third Floor, Chanderlok Building, 36,
Janpath, New Delhi-110001

Sub: The Suggestions/Comments/objections on Approach paper of CERC (Terms and Conditions of Tariff) Regulations 2024 for the Tariff period from 01.04.2024 to 31.03.2029

Ref: PUBLIC NOTICE No. L-1/268/2022/CERC Dated 26th May, 2023 and No. L-1/268/2022/CERC dated 13th July, 2023

Dear Sir,

We would like to thank CERC for giving us the opportunity to submit our Suggestions/Comments/objections on the approach paper on Terms and Conditions of tariff by CERC (Terms and Conditions of Tariff) Regulations 2024 applicable for the Tariff period from 01.04.2024 to 31.03.2029.

Based on our experience, we are submitting the following Suggestions/observations/concerns which may be considered while finalizing Tariff Regulations commencing from 01.04.2024: -

- 1. Tariff Determination:** In our opinion determination of tariff under approach-1 which is normative tariff, wherein once the capital cost is approved on actual basis, after prudence check, and all other AFC components are determined on normative basis is much suitable to transmission licensee.
- 2. Additional Capitalisation:** In the approach paper it has been rightly said that unlike generating stations, additional capitalisation, post cut-off date is rarely required in the case of transmission systems unless due to completion of useful life, performance degradation, the need for induction of new and efficient technology, Obsolescence of assets, or the absence of support from Original Equipment Manufacturer (OEM). Therefore, we are agreeing with the view of the commission that for transmission system additional capitalisation post cut-off date may be allowed on technological obsolescence, change in law, force majeure, or due to replacement as presently allowed under Regulation 26 and 27 of the CERC Tariff Regulations, 2019.
- 3. O&M expenses:** All O&M Expenses may be allowed on actual basis after prudence check, duly supported with CA certificate. O&M expenses (like Employees expenses &

other O&M expenses includes Repair and Maintenance and Administrative and General Expenses).

4. **O&M Norms for Special cases:** North East Transmission Company Ltd. is a single project company and is present in North Eastern part of the country. The transmission line is traversing through difficult terrains of Assam, Meghalaya and Tripura States, which is also influenced by insurgencies and vulnerable for land sliding due to heavy rainfall in this part of the Country (about 7-10 times more than All India Average) (Refer table below).

Average annual rainfall of the states of India

Sl. No.	State	Meteorological Divisions	Average annual rainfall (mm)
1	Assam	Assam and Meghalaya	2,818
2	Meghalaya	Assam and Meghalaya	2,818
3	Tripura	Nagaland, Manipur, Mizoram and Tripura	1,881
4	Average rainfall in India		300-600

The O&M of the transmission assets becomes a challenge in such difficult terrain and requires additional man power resources and establishment of additional site offices to mitigate the logistical obstacle in movement of man, machine and material in the remote inaccessible location as comparison to transmission assets in plain area. It costs additional money to the company.

As the national average of O&M expenses being allowed by Hon'ble CERC in north east region also, it may not be able to meet Company's O&M expenses present in North Eastern part of the country. In the past 5 years, NETC has spent excess money towards O&M expenditure over and above CERC norms (Refer table below).

(Amount in Lakhs)

S.No.	Year	*O&M Charges Spent By NETC	*O&M Charges Allowed by CERC	Variance (short)/Excess	%tage (Short)/Excess
1	2018-19	2,283.92	534.22	-1,749.70	-427.52%
2	2019-20	1,860.85	635.85	-1,225.00	-292.66%
3	2020-21	1,856.17	658.48	-1,197.69	-281.89%
4	2021-22	2,207.81	681.35	-1,526.46	-324.03%
5	2022-23	1,913.42	705.3	-1,208.12	-271.29%
		10122.17	3215.2	-6,906.97	-319.48%

*O&M charges for the F.Y.2018-19 to 2022-23 have been taken from Audited financial statements and O&M Charges as allowed by CERC vide order dated 28.02.2022 in the petition No.308/TT/2020.

As stated in the above table NETCL has spent on an average 319.48% more than the amount allowed by CERC. Hence, a separate mechanism needs to be evolved to address

this genuine issue, absence of such mechanism is hurting the transmission licensees of NER region very hard.

Considering the above facts, the additional O&M expenses may be allow for transmission assets being operated in the North Eastern and Hilly Regions and the manner in which such additional costs can be considered. In our case allow additional O&M beyond the O&M norms being allowed to transmission operators operating in other areas.

5. **Depreciation:** Depreciation rate may be specified considering a loan tenure of 15 years instead of the current practice of 12 years.
6. **Return on Equity:** Maintaining ROE at 15.50%, if not increasing further, is must as without this none of the transmission utility will be interested to invest in this business and this sector will fail to grow further. It may also happen that with any reduction in ROE, the existing projects may also be neglected and become ailing asset. In most of the business, investor are investing only with a view to earn return in the range of 16% to 20%. Further it is fact that until and unless project is yielding good return the project will remain in good shape else the investor will lose its interest in running the project. **Considering the above facts, we humbly request that the ROE may be retained @15.50%.**
7. **Rate of return on Equity:** The tax rate shall be allowed only in cases where the company has actually paid taxes as under no circumstances tax can be allowed to be recovered if the company has not paid any tax for the year under consideration.
8. **Interest on Working Capital:** The Existing norms may be retained.
9. **Rate of Interest on Working capital:** The Existing norms may be retained.
10. **Sharing of Gains:** The Existing norms may be retained. However, in case of sharing of refinance benefit, CERC shall advise CTU to consider the actual rate of interest being paid by the licensee for calculation of refinance benefit, which may be supported by CA Certificate.
11. **Treatment of Interest on differential tariff after trueing up:** The Existing norms may be retained.

Thanking you,

Yours' faithfully,

For-North East Transmission Company Limited


(Naveen Kumar Mishra)

Sr. Manager-Commercial & F&A