Greetings from NLC INDIA LTD

NLC India’s Comments on Draft CERC (Terms and Conditions of Tariff) Regulations, 2024

Major Difficulties under Draft Tariff Regulation-2024

- Minimum value for Capital Spares & Add Cap Claim
- Settlement of Tariff Difference
- Depreciation Schedule for New Thermal Stations
- Special Allowance in lieu of R&M
- Normative O&M for 500 MW series
- Run of Mine Cost, RoE in Mine & NTI Sharing in Mine

Capital Spares

Draft Regulation:

“(12) 'Capital Spares' means spares individually costing above Rs. 20 lakh, which is maintained by the generating company or the transmission licensee over and above the initial spares.“

Capital Spares less than Rs 20 lakhs has to be met from Operation and Maintenance Expenses.

- Increase of base limit from Rs 1 lakh (As per Existing Regulation) to Rs 20 lakh will adversely impact the already under-recovered O&M expenses of NLCIL Stations of lesser capacity.
- From the table, it can be seen that capital spares with value < Rs.20 lakhs contributes majority of total consumption for NLCIL Station of capacity less than equal to 250 MW.

NLCIL Comment:

✓ Hence, **Capital Spares of value > Rs 1 lakh may be allowed separately over and above of normative O&M along with appropriate justification**

Capital Spares booked during FY 2019-23 (Crs)

	BTPS (2x125 MW)	TPS1E (2x210 MW)	TPS II (7x210 MW)	TPS2E (2x250 MW)	Total
2019-20	4.14	2.69	6.97	7.14	20.94
2020-21	3.51	1.81	5.15	5.94	16.41
2021-22	4.49	1.53	4.01	7.62	17.65
2022-23	3.83	2.39	5.23	9.14	20.58
Total	**15.96**	**8.42**	**21.36**	**29.84**	**75.59**
Spares Value less than Rs 20 Lakhs (approx)	**10.80**	**5.07**	**18.60**	**13.60**	**48.07**
% of Total	68%	60%	87%	46%	64%

Additional Capital Expenditure

Draft Regulation	
Within Original Scope after Cut off Date Reg 25	➢ **Asset replacement < Rs 20 lakhs under "obsolescence of technology" not to be allowed under addl. Cap and covered only from O&M**
Beyond Original Scope Reg 26	➢ **Add. Capex <Rs. 20 lakhs shall not be considered under additional capitalization**

NLCIL Comments:.

- Any order/guideline/recommendation issued by Government or any statutory authority must be complied and asset addition in such compliances which are beyond the original scope shall be treated as mandatory requirement
- Also, expenditure made towards assets procured for the enhancement of efficiency of the station, safety and security of the Station shall not be discouraged by limiting on the claim amount of Rs 20 lakhs.
- Certain assets such as **PLC/Controller modules in DCS System, Analysers in Lignite Conveyor System and intangible assets** such as software and Computers need frequent replacement and claim of additional capitalisation on account of any change or compliance in law, Force Majeure, enhancing safety and security shall be considered under Clause (1) of Regulation 26 of Draft Tariff Regulation 2024 irrespective of item value.

Settlement of Tariff Difference

Draft Regulation

- **Settlement Rate changed from 1 year SBI MCLR + 350 BP to 1 year SBI MCLR +100 BP**
- **Interest computation up to date of Order only (specified now in regulation)**
- **Add. Cap projected > 10% of Actuals shall be refunded with 1.2 times of (MCLR+100 BP)**
- **Final Tariff < 90% of Interim Tariff shall be refunded with 1.2 times of (MCLR+100 BP)**
- **Bills to recover or refund shall be raised by the generating company within 30 days from the issuance of the Order.**
- **If not raised for refund cases, LPS is applicable**

For New Projects:

- As Capital cost includes cost overrun, IDC & IEDC which may be a considerable value if the project got delayed by substantial period.
- If Interim tariff is approved up to 90% of petition value, final tariff approved may happen to be lower than the interim tariff approved though generators had exercised realistic projections.
- In such cases, refund of excess recovery @1.2 times of 1 year SBI MCLR+100 basis points would be burdensome.

NLCIL Comments:

✓ Requested to change the rate to 1 year SBI MCLR+100 basis points only to settle the differential tariff (for both refund/recovery).

Settlement of Tariff Difference Cont..

For Existing Projects:

- Tariff determination by Commission practically may take substantial period of time.
- As per Reg 10(4), Generators continue to bill DISCOMs capacity charge as approved by Hon'ble Commission applicable as on 31.3.2024 till the approval of Tariff for the control period 2024-29.
- Interim refund as per above regulation 10(8) may not be practically possible as Generator has to bill DISCOMs based on Regulation 10(4) till the Tariff Order is issued.
- At the time of filing Tariff Petition 2024-29 projection for Additional Capital Expenditure for is based on the corporate plan approved by the Management with presumed timeline but due to extraneous reasons the year-wise actual expense may be less than the projected amount or may be rolled over to the next year.

NLCIL Comments:

- ✓ Due to practical difficulty with reconciliation of Tariff based on actual Additional Capital expenditures year wise during the control period as per Reg.10(8), provision may be considered to allow Generators to bill @90% of petitioned price till the issuance of Tariff Order.
- ✓ Billing based on capacity charge applicable as on 31.03.2024 may be continued upto the date of filing of Tariff petition as per regulation 10(4).

Settlement of Tariff Difference Cont..

NLCIL Comments:

- ✓ In order to have parity, any tariff difference (**refund/recovery**) based on actuals with respect to billed at the end of the year may be permitted to settle on year on year basis at **1 year SBI MCLR+100 basis points** in order to avoid unwarranted carrying cost for both generators and DISCOMs as well.
- ✓ Also, the **settlement period of differential Tariff shall be revised to within 90 days** from the issuance of the Order, as was in existence in Tariff Regulation 2014-19.

Depreciation Schedule for New Thermal Stations

Draft Regulation:

"(6) Depreciation for New Projects shall be calculated annually based on the Straight Line Method and at rates specified in Appendix-II to these regulations for the assets of the generating station and transmission system:

Provided that the remaining depreciable value as on 31st March of the year closing after a period of 15 years from the effective date of commercial operation of the station shall be spread over the balance useful life of the assets."

NLCIL Comment:

- As per the Regulation (6), assets will be depreciated over the period of 15 years for new project.
- The project loan's duration is affected by current market conditions when the loan is availed , as well as the loan's terms and conditions, RBI policy, and other various factors.
- NLCIL has commercial loans of tenure **12 years or lesser period.**

✓ ***Hence it is requested to retain period of depreciation to 12 years and the depreciation schedule as per the current Tariff Regulation 2019-24***.

Special Allowance in lieu of R&M

As per Draft Tariff Regulation 2024,

The Special Allowance admissible to a generating station shall be @ Rs 10.75 lakh per MW per year for the control period.

- Special Allowance introduced first in the 2009-14 tariff period was a sustainable and cost-effective approach which avoids seeking fresh approvals and clearances where works can be carried out on need basis so that they are well maintained and continue to operate efficiently without the need of relaxed norms. These units are required to provide base load and balancing requirements for RE integration.
- Regulations proposed 10.75 lakhs per MW without escalation for control period 2024-29.
- Aged units fixed cost is proportionally lower as the depreciation of assets under Original scope would have been already recovered and loan would have been fully repaid. The RoE for generators will also be negligible.
- For instance ROE for NLCIL Station of TPS II Stage-I ROE is **1.7 paisa** per kWhr and Stage II is **4 paisa** per kWhr which is very minimum as compared to Industry.

Rs.per Unit

Particulars	**TPS II S-I**	**TPS II S-II**
Return on Equity	0.017	0.04
Depreciation	0	0
Interest on Working Capital	0.094	0.094
Operation & Maintenance Expenses	0.591	0.591
Special Allowance in lieu of R&M	0.141	0.141
Annual Fixed Cost per Unit	**0.842**	**0.866**

Special Allowance in lieu of R&M Cont..

NLCIL Comments:

- ✓ Appropriate escalation factor in Special Allowance may be provided in order to meet the inflations.
- ✓ Also planning and execution of need-based works under special allowance takes substantial time period from conceptualization to final completion of the required works and there will be lag in commissioning of the works funded through special allowance.
- ✓ Hence Normative based Special allowance will incentivize the efficient older units having minimal fixed cost & negligible RoE by considering the fact that Special allowance is receivable only on achievement of Normative Plant Availability Factor.

O&M Norms for 500 MW series

Draft Regulation:

Year	500 MW Series
2023-24	25.84
2024-25	26.22
2025-26	27.77
2026-27	29.41
2027-28	31.14
2028-29	32.97

NLCIL Comment:

- *The Normative O&M expenses for the FY 2024-25 was escalated only by 1.47% from the normative O&M of FY 2023-24. However, for other series, it is escalated by at least 3.93%.*

✓ *Hence, it is requested to consider the escalation rate of 3.93% for 500 MW series also and fix the normative O&M for the FY 2024-25 at ₹ 26.85 lakh/MW and escalate for the other years at the rate of 5.89%.*

Run of Mine Cost

Reg 39 ROM Cost for integrated mine =
[(Annual Extraction Cost / (ATQ or Actual production whichever is higher) + Mining Charge] + (Fixed reserve Price).

NLCIL lignite mines are unique in nature and incomparable to coal mines and are subjected to multifarious vagaries as depicted below

- Dynamic strata of Lignite Mines and Pressurized aquifer beneath the lignite seam which exerts upward pressure and hence continuous pumping of ground water is mandatory.
- Lignite seam thickness varies from 18m to 11m due to which average stripping ratio varies significantly.
- Neyveli receives very high rainfall due to its predominant location in monsoonal and cyclonic prone Zone. Also average annual rainfall in Neyveli is more than 1500 mm which requires evacuation of rain water from the mines which is dependent on the concurrence of District Administration. Also mining operation get affected during high velocity wind flow during those times. These are the factors beyond the control of mining company.

Run of Mine Cost Cont..

- Apart from above, mining operations are risky in nature due to various operational conditions, space constraints, blasting requirements, Issues in land availability & its acquisition.
- As per Draft Regulation,

When Actual Production < ATQ	• **Mining company will bear the loss**
When Actual Production > ATQ	• **Benefits are passed on to beneficiary in terms of lower RoM cost**

NLCIL Comment:

✓ If production achieved is lesser than 85% during any particular year on account of reasons beyond the control of mining company, Relaxation in ATQ may be continued in a similar provision as extended in 2019-24 input price regulations.

✓ Hence it is suggested that the RoM cost shall be computed based on ATQ with relaxation as allowed in the second Amendment to 2019 regulations.

Run of Mine Cost Cont..

Illustration (as per Draft Tariff Regulation 2024):

Particulars	**FY 1**	**FY 2**	**FY 3**
Capacity as per Mine Plan (in LT)	250	250	250
85% of Capacity (in LT) **(A)**	213	213	213
Actual Production (in LT) **(B)**	200	213	230
ATQ as per Draft Regulation-24 (in LT) **(C)** **(Higher of (A) and (B))**	213	213	230
Total Extraction Cost (in Crs) **(D)**	5000	5500	6000
LTP as per Draft Reg24 **(Rs/Tonnes) (D)/(C)*100**	2353	2588	2609
Recovery of Annual Extraction Cost (in Crs)	**4706**	**5500**	**6000**
Under-recovery of Cost (in Crs)	**-294**	**0**	**0**

Return on Equity (RoE) for Mines

As per Draft Tariff Regulation 2024,
Return on Equity for Mines @ 14% with grossing up of tax rate.

<u>NLCIL Comments:</u>

- ✓ Since the funding mix for mine is proposed to be similar to that of Power generation, the rate of return admissible for power generation may be adopted for integrated mining project also.
- ✓ **Return on Equity for Integrated mines to be considered @15.5% as like Thermals as per *the report of Working Group on Regulatory framework for Determination of Input price for Integrated Mine*.**
- ✓ Commission may appreciate the fact that earlier **MoC guidelines also allowed Return on Equity for mines @15.5%** considering the higher Risks involved in Mining Operation.
- ✓ Hence, It is requested that **RoE for Input Price of Lignite/Coal may be revised to 15.5%.**

Adjustment of Non-tariff Income in Mines

Draft Regulation (53):

Adjustment on account of non-tariff income (NTI Adjustment) for any year, such as income from sale of washery rejects in case of integrated mine of coal and profit, if any, from supply of coal to the Coal India Limited or merchant sale of coal as allowed under the Coal Mines (Special Provisions) Act, 2015 shall be worked out as under:

NTI Adjustment = (2/3) x (Total Non-tariff income during the year)/(Actual quantity of coal or lignite extracted during the year)

- The risk & expenditure in Mining Operation and any under-recovery of cost are entirely bone by the mining companies.
- The Mines and Minerals (Development and Regulation) Amendment act, 2021 allows the miner to sell up to fifty per cent of the total coal or lignite produced in a year after meeting the requirement of the end use plant considering that the risk & expenditures for mining operations are completely borne by mining company.

Adjustment of Non-tariff Income in Mines Cont..

- As MMDR Act also allows the miner to sell up to 50% after meeting the requirement of end use plants, commission may consider allowing the gain or loss.
- Any risk or reward on account of outside sales shall be purely with the generating company in line with MoC letter to CERC vide dated 23.08.2022 with respect to amending the clause relating to adjustment on account of non-tariff income(NTI Adjustment) as the same has been followed in earlier MOC guidelines.

- As shown in the table, Recovery from beneficiaries is made to the extent of quantity supplied to linked thermal power Stations only which is less than the actual production cost of Mine. This leads to under recovery of Mines AEC which could be compensated by resorting to outside sales without burdening the beneficiaries. Hence any risk or reward on account of outside sales shall rest with mining company as was allowed in the past under MOC regime.

NLCIL Comment:

✓ ***Sale of coal or lignite may be kept outside the purview of NTI.***

Particulars	values
Mine Capacity as per Mine Plan (LT)	250
ATQ 85% of above (A)	212.5
Actual Production (B)	200
Outside Sales (C)	10
Actual qty. supplied to linked TPS (D)=(A-B)	190
Total Annual Extraction Cost(AEC) (E)	1,00,000
ROM Cost F=(E/A)	470.59
Annual Extraction Cost recovered from beneficiaries (G)	**89,412**
Unrecovered Cost (E-G)	**10,588**


Thank You