THE COMMENTS/ SUGGESTIONS/ OBJECTIONS OF GRIDCO LIMITED ON THE PROPOSED DRAFT REGULATION ON TERMS AND CONDITIONS OF TARIFF

FOR THE TARIFF PERIOD 2009-14

1. Useful Life of Plant

At present Thermal & Hydro Plant life are 25 yrs & 30 yrs respectively.

We propose plant life of 30 Years for Thermal and 40 Years for Hydro Gen. Stations due to the following reasons.

(i) Availability of **better equipments** at their disposal due to **technological advancement**.

(ii) As these plants and equipments are operated and maintained by the **highly skilled men-power** with **adequate resources.**

(iii) The physical life of the assets often exceeds economic life of the assets.

2. Renovation & Modernization

I. The objective of the R&M activity must be confined to

(i)the extension of life beyond the useful life

(ii) the restoration of the lost capacity,(if any)

(iii) and improvement in the performance indices (both financial & operational) of the plant and equipment.

II. Para 5.3(g) of the tariff policy stipulates that **Sharing of benefits of efficiency improvement between the utilities and the beneficiaries.**

III. The commission may make it mandatory and direct the generating utility to

(i) Have a benchmark improvement in operational & financial parameters.

(ii) Disclose the performance indices of his plant and share benefits.

(iii) No R&M expense shall be capitalized if it does not result in to capacity restoration or life extension or improved operation norms.

(iv) O&M expenses must be reduced in commensurate with R &M expenditure.

IV. As proposed in draft notification at Clause-11 (3), the R & M cost to be capitalized after writing off the original amount of the replaced assets and deducting the accumulated depreciation already recovered from the original project cost, which shall form the basis for determination of tariff / capital base. The above principle should be made applicable from 2001-04 tariff period onwards since the then tariff notification was silent in this regard.

However, due to non-finalization of the R&M policy the beneficiaries are compelled to pay abnormally high capacity charge, which ultimately affects the interest of the consumer.

3. Special Allowance @ Rs. 5 lakh/MW/Year

'Special Allowance' of Rs. 5 lakh/MW/year (which works out to additional burden of 6 P/U in tariff) towards R & M compensation beyond the useful life of thermal generating station is not acceptable since the physical life of assets often exceeds economic life of assets.

4. Separate Compensation Allowance

On account of additional capital expenditure on new asset not within the original scope of work including minor assets need not be considered as the generating companies are already in receipt of lot of benefits. May be considered as spare and should not be capitalised.

5. Adoption of Net Fixed Assets Approach

(i) CERC has proposed to adopt Gross Fixed Asset approach (GFA) in which equity stake remains constant throughout life and is not reducing even after repayment of loan.

(ii) The K.P.Rao Committee accepted the NFA approach in which the equity component gets reduced through depreciation after repayment of loan leaving behind 10% equity.

(iii) GRIDCO proposes that the adoption of NFA approach would be just and equitable for the Utility and the beneficiaries.

6. Norms for O&M Expenses in Transmission

The O&M charges for an S/C configuration are extra ordinarily high in comparison to the D/C configuration. The Commission has also mentioned that the majority of the expenses are not affected by the circuit configuration Hence, the O&M charges may continue to remain on ckt-km basis rather than based on per km basis.

7. Interest on Working Capital

I. The proposal for allowing the cost of coal or lignite for **one and half months** for pithead generating stations and **two months** for non-pit-head generating stations may be reduced to **half month** and **one month** respectively because keeping such a huge stock for two months would have the effect of reducing its calorific value and practically the generators are not maintaining such stocks.

II. Similarly the cost of secondary fuel oil for **two months** generation may be reduced to **one month.**

III. The provision of keeping stocks at higher side helps the utilities in claiming undue interest on working capital as the interest on working capital is payable on notional basis.

IV. In fact, the generating companies are not availing adequate working capital loan from outside but are claiming interest based on norms.

8. Debt-Equity Ratio

I. The Tariff Policy, issued by the Government of India stipulates that all the new power projects would be financed in the debt-equity ratio of 70:30.

II. The utilities have benefited enough on the normative debt-equity ratio at the cost of electricity consumer.

III. It is, therefore, proposed that the Commission may consider to adopt a uniform debt-equity ratio of 80:20 for all the past and future power projects instead of 70:30 proposal.

9. Norms of Operation

I. The norms of operation proposed in the draft regulations for the tariff period 2009-14 are still very liberal and if not reviewed and modified would result in undue profit to the generating utilities.

II. The operating parameters achieved (as per annual audited accounts) during last five years or at least for last three years up to 07-08 FY should form the basis for fixing the norms. The Hon'ble commission may call for the figures of 07-08 FY and consider the same.

III. Adoption of mutually agreed improved operational norms is a good proposal by the commission.

IV. The Commission may also direct the generating companies/transmission licensee for disclosure of facts on the operation norms regularly on a quarterly basis to all the beneficiaries.

V. In case of TTPS (old plant) the commission has proposed to keep the existing operating parameters on the ground that the R&M works are almost over, but in fact Rs.355.83 Crores (38.49%) have been capitalized up to 31.03.04 by Hon'ble CERC where as another Rs.568.68 Crores (61.51%) are yet to be capitalised as per NTPC's submission till 22.09.08. Extention of life allowed by commission for 20 yrs from 01.04.01 needs to be reconsidered and fixed at least for 20 years after completion of R & M.

10. Normative Annual Plant Availability Factor(NAPAF) for recovery of fixed charge and for incentive for Thermal Stn.

I. The draft notification envisages Normative Annual Plant Availability Factor (NAPAF) for recovery of fixed charge and incentive.

II. The scheme of incentive and disincentive in case of the thermal generating stations, have been traditionally linked to station performance in terms of the station Plant Load Factor (PLF).

III. The linkage of incentive to availability instead of scheduled PLF shall have the following draw backs:

- Efficiency in performance of the station can not be evaluated.
- Incentive can not be perceived by the beneficiary/electricity consumer
- The lack of effort on the part of the generating company can be manipulated since all the parameters related to the availability are within the control of the thermal power station.

Gridco proposes linking incentive with the PLF as the same is in accordance with the provisions of section 61(c) & 61(e) the Electricity Act, 2003.

11. Return on Equity and Other Charges for Transmission and Thermal Generation

I. Due to liberal operational norms, the Transmission as well as generation licensee are receiving around 20-25 % overall return on various accounts such as ROE, TMF, Incentive etc.

II. Therefore, CERC may review the entire benefits, which are presently available to the transmission licensees & generating companies and permit the recovery of the cost of electricity in a reasonable manner keeping in view section 62 (5) of the Act,2003.

12. Conclusion

I. It is also submitted that the Commission has a statutory duty to Safeguard the interest of consumer and allow only the cost of electricity, which is reasonable in accordance with Section 61 (d) of the Electricity Act, 2003.

II. Hon'ble Commission may consider the comments/suggestions/objections of the Gridco Limited before finalizing the tariff regulation for 2009-14.

Place: New Delhi **(A. C. Mallick)**

Dated: 3rd November 2008 Director (Commercial)

GRIDCO LTD, ORISSA

Thank You