HARYANA POWER GENERATION CORPORATION LIMITED
SHAKTI BHAWAN, SECTOR 6, PANCHKULA, HARYANA

Before the Hon'ble Central Electricity Regulatory Commission

In the matter of 'Draft Tariff Regulations for the years 2009-14

Comments of Haryana Power Generation Corporation (a State Sector Generator)

Background / legal provisions:

The Electricity Act in Section 61 provides as under:
The Appropriate Commission shall, subject to the provisions of this Act, specify the terms and conditions for the determination of tariff, and in doing so, shall be guided by the following, namely:-

(a) the principles and methodologies specified by the Central Commission for determination of the tariff applicable to generating companies and transmission licensees;

(b) the generation, transmission, distribution and supply of electricity are conducted on commercial principles;

(c) the factors which would encourage competition, efficiency, economical use of the resources, good performance and optimum investments;

(d) safeguarding of consumers' interest and at the same time, recovery of the cost of electricity in a reasonable manner;

(e) the principles rewarding efficiency in performance

(**f) multi year tariff principles;**

(g) that the tariff progressively reflects the cost of supply of electricity and also, reduces and eliminates cross-subsidies within the period to be specified by the Appropriate Commission;

(h) the promotion of co-generation and generation of electricity from renewable sources of energy;

(i) the National Electricity Policy and tariff policy:
Provided that the terms and conditions for determination of tariff under the Electricity (Supply) Act, 1948, the Electricity Regulatory Commission Act, 1998 and the enactments specified in the Schedule as they stood immediately before the appointed date, shall continue to apply for a period of one year or until the terms and conditions for tariff are specified under this section, whichever is earlier.
The Electricity Act in Section 66 reads as under:
The Appropriate Commission shall endeavour to promote the development of a market (including trading) in power in such manner as may be specified and shall be guided by the National Electricity Policy referred to in section 3 in this regard.

The Tariff Policy in its introductory note focuses as under:

1.2. **The National Electricity Policy has set the goal of adding new generation capacity of more than one lakh MW during the 10th and 11th Plan periods to have per capita availability of over 1000 units of electricity per year and to not only eliminate energy and peaking shortages but to also have a spinning reserve of 5% in the system. Development of the power sector has also to meet the challenge of providing access for electricity to all households in next five years.**

1.3. It is therefore essential to attract adequate investments in the power sector by providing appropriate return on investment as budgetary resources of the Central and State Govts are incapable of providing the requisite funds. It is equally necessary to ensure availability of electricity to different categories of consumers at reasonable rates for achieving the objectives of rapid economic development of the country and improvement in the living standards of the people.

1.4. Balancing the requirement of attracting adequate investments to the sector and that of ensuring reasonability of user charges for the consumers is the critical challenge for the regulatory process. Accelerated development of the power sector and its ability to attract necessary investments calls for, inter alia, consistent regulatory approach across the country. **Consistency in approach becomes all the more necessary considering the large number of States and the diversities involved.**

Objectives of Tariff Policy given in section 4

- (a) Ensure availability of electricity to consumers at reasonable and competitive rates;
- (b) Ensure financial viability of the sector and attract investments;
- (c) Promote transparency, consistency and predictability in regulatory approaches across jurisdictions and minimise perceptions of regulatory risks;
- (d) Promote competition, efficiency in operations and improvement in quality of supply.

Tariff Policy on ‘Return on Investment’ has provided :

- Balance needs to be maintained between the interests of consumers and the need for investments while laying down rate of return. Return should attract investments at par with, if not in preference to, other sectors so that the electricity sector is able to create adequate capacity. **The rate of return should be such that it allows generation of reasonable surplus for growth of the sector.**

The Tariff Policy while deliberating ‘Operating Norms’ has provided :

- Suitable performance norms of operations together with incentives and dis-incentives would need be evolved along with appropriate arrangement for sharing the gains of efficient operations with the consumers. Except for the cases referred to in para 5.3 (h)(2), the operating parameters in tariffs should be at “normative levels” only and not at “lower of normative and actuals”. This is essential to encourage better operating performance. **The norms should be efficient, relatable to past performance, capable of achievement and progressively reflecting increased efficiencies and may also take into consideration the latest technological advancements, fuel, vintage of equipments,** nature of operations, level of service to be provided to consumers etc. Continued and proven inefficiency must be controlled and penalized.
- The Central Commission would, in consultation with the Central Electricity Authority, notify operating norms from time to time for generation and transmission. **The SERC would adopt these norms.** In cases where operations have been much below the norms for many previous years, the SERCs may fix relaxed norms suitably and draw a transition path over the time for achieving the norms notified by the Central Commission.

The Tariff Policy while deliberating ‘Multiyear Tariff’ has provided :

1) Section 61 of the Act states that the Appropriate Commission, for determining the terms and conditions for the determination of tariff, shall be guided inter-alia, by multi-year tariff principles. The MYT framework is to be adopted for any tariffs to be determined from April 1, 2006. The framework should feature a five-year control period. The initial control period may however be of 3 year duration for transmission and distribution if deemed necessary by the Regulatory Commission on account of data uncertainties and other practical considerations. In cases of lack of reliable data, the Appropriate Commission may state assumptions in MYT for first control period and a fresh control period may be started as and when more reliable data becomes available.
2) **In cases where operations have been much below the norms for many previous years the initial starting point in determining the revenue requirement and the improvement trajectories should be recognized at “relaxed” levels and not the “desired” levels.** Suitable benchmarking studies may be conducted to establish the “desired” performance standards. Separate studies may be required for each utility to assess the capital expenditure necessary to meet the minimum service standards.

3) Once the revenue requirements are established at the beginning of the control period, the Regulatory Commission should focus on regulation of outputs and not the input cost elements. **At the end of the control period, a comprehensive review of performance may be undertaken.**

4) **Uncontrollable costs should be recovered speedily to ensure that future consumers are not burdened with past costs.** Uncontrollable costs would include (but not limited to) fuel costs, costs on account of inflation, taxes and cess, variations in power purchase unit costs including on account of hydro-thermal mix in case of adverse natural events.

Tariff Policy while deliberating 'Renovation and Modernisation' has provided:

- Renovation and modernization (it shall not include periodic overhauls) for higher efficiency levels needs to be encouraged. A multi-year tariff (MYT) framework may be prescribed which should also cover capital investments necessary for renovation and modernization and an incentive framework to share the benefits of efficiency improvement between the utilities and the beneficiaries with reference to revised and specific performance norms to be fixed by the Appropriate Commission. **Appropriate capital costs required for pre-determined efficiency gains and/or for sustenance of high level performance would need to be assessed by the Appropriate Commission.**

Functions of Central Commission:

- In view of above, CERC has to perform following functions:
- To specify the terms and conditions for the determination of tariff,
- To ensure that the generation, transmission, distribution and supply of electricity are conducted on commercial principles;
- To safeguard consumers' interest and at the same time, recovery of the cost of electricity in a reasonable manner;
- To prescribe multi year tariff principles;
- To create atmosphere to attract adequate investments in the power sector by providing appropriate return on investment as budgetary resources of the Central and State Governments are incapable of providing the requisite funds.
- To ensure Consistency in approach becomes all the more necessary considering the large number of States and the diversities involved.

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Functions of Central Commission

- To Ensure financial viability of the sector and attract investments;
- To ensure that the rate of return should be such that it allows generation of reasonable surplus for growth of the sector.
- To ensure that Uncontrollable costs should be recovered speedily to ensure that future consumers are not burdened with past costs.
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  To ensure that appropriate capital costs required for achieving pre-determined efficiency gains and/or for sustenance of high level performance would need to be assessed by the Appropriate Commission.
- To prescribe performance norms which should be efficient, relatable to past performance, capable of achievement and progressively reflecting increased efficiencies and may also take into consideration the latest technological advancements, fuel, vintage of equipments.
- The SERC would adopt these norms.

Present Status/Proposals

- CERC has done commendable job by prescribing terms and conditions of recovery of fixed charges (Depreciation, Interest on loans, RoE, interest on working capital, O&M expenses, etc.). However, in this area as well following needs consideration:
- ROE has been provided net of tax. However, practically generators are recovering actual amount of Income Tax paid for the core business. In this way tax holiday benefit is passed to the consumers and simultaneously tax on efficiencies is also passed on to the consumers. However, State Sector Utilities which are paying MAT or are in loss are not able to earn the return at par with CPSUs. This makes their position more worse. Actually uniform principle should be followed by allowing gross rate of return (Pre-tax) instead of net of tax.

Present Status/Proposals

- Receivables equal to 60 days (proposed to be reduced to 45 days) are included in the working capital for working out the interest thereof. Rebate is allowed @ 12% p.a. for early payment on presentation of bill/ one month thereafter. Surcharge is leviable @ 15% p.a. for delayed payment. However, adequate payment security mechanism has not been provided (LC & Escrow should be mandatory)
- Power is supplied through out a month and is billed in next month. Accordingly average blockage of funds on this account is for 15 days power supply. The energy account is available on 6th of a month and in State Sector, much later. This period is in addition to 15 days, which requires to be considered additionally

Present Status/Proposals

- CERC has fixed performance parameters (operating norms) for CPSUs only, whereas it is required to prescribe principles for fixing norms for State Utilities as well as SERCs are supposed to follow those norms. However, CERC has not performed this obligation so far.
- CPSUs and State Sector Utilities are not comparable. CPSUs are paying tax in 100- 1000 Crores whereas State Generators are generally in loss. State Sector is also required to be developed and provided sufficient funds future growth/ investments. However, the position is otherwise
- CERC in the draft regulations has taken 3 years average (2004-05 to 2006-07) as base (worst plus some margin). It has also compared a few well maintained State Sector Plants. It can be seen that these are not better than CPSUs. Now as SERC has to follow the CERC prescribed norms, the State generator will loose in case these norms are adopted by the SERC. In case SERC allows relaxed norms, it shall draw trajectory to achieve normative (CERC) level without allowing any capital investment. All this makes state generators as loosing proposition as the ROE allowed is actually taken away by way of fixing unachievable norms.

Present Status/Proposals

- In this exercise even norms are prescribed by SERC for such elements where State generator has no control (e.g. loss of coal in transit)
- **Actually CERC should prescribe that no SERC shall fix norm stringent than 3 yr average (2004-05 to 2006-07) and if any improvement trajectory is prescribed, adequate capex will be allowed to be recovered.**
- SERC asks state generators to file ARR on annual basis whereas multiyear norm should be fixed which should not be subject to change on annual basis or otherwise except for R&M so that the generator can do its best to improve its efficiency and reap the benefits thereof. CERC should actually specify so in its tariff regulations.
- CERC has proposed to fix norms for 300 MW plants at par with 500 MW plants whereas these plants have no track record and therefore should be comparable with 210/250 MW Plants

Present Status/Proposals

- State Sector generators are have more manpower than CPSUs and can not lay them off. Accordingly these costs are required to be allowed as per actual. Other O&M expenses are required to be separated.
- Instead of prescribing uniform escalation factor for the 5 year period, it will be advisable to adjust the same on the basis of actual WPI / CPI for the relevant period.
- State Sector needs extensive training for its manpower to improve upon its efficiency level, for which at least 5% of its employee cost should be allowed extra in the O&M.
- Improved norms (than earlier prescribed) should be prescribed only for the projects for which the EPC (order) has not been finalized.

THANKS YOU