



**Draft
CERC (Terms & Conditions of
Tariff) Regulations, 2019**

**Presentation
by
POWERGRID**

Acknowledgement of India's Stable Regulatory Framework by International Credit Ratings Agencies



Stable

Moody's

“Stable and established regulatory environment for the power sector in India

Power Grid's rating is supported by the well-developed regulatory framework for power transmission in India. The Central Electricity Regulatory Commission (CERC) has a fairly long 20-year record of setting tariffs (since 1998), with four past cycles of tariff determinations. Tariff components are well identified and the regulator also publishes a statement of reasons behind any changes in tariff particulars with regard to earlier regulations.....”

A Score of 'Aa' assigned to 'Stability & Predictability of Regulatory Regime' while rating POWERGRID

Consistent

S&P

“... Power Grid, NTPC, and NHPC are regulated by the Central Electricity Regulatory Commission (CERC). As an established regulator, in our view, CERC upholds a regulatory environment of transparency, consistency, and stability.....”

Well-Developed

Fitch

“... We note that India's regulators take a consultative approach and have a long record of delivering predictable outcomes.”

Return on Investment

▪ RoE post useful life:

- Tariff regulation shall be guided by the principle of economical use of the resources.
- Reduction of equity post useful life would dis-incentivise utilities from extracting full economic value of the assets
- Replacement of assets will increase consumer tariffs and therefore, deprive the consumers the benefit of reduced tariff after the assets have been fully depreciated.
- Reduction of Equity after the useful life would not fully compensate the higher O&M requirement and hence discourage the Transmission Licensees to keep asset in service.

▪ RoE post cut-off date:

- Conceptually Equity can not be treated as Debt
- Return on entire Equity invested at any stage of the project should be allowed at the same proposed rate of 15.5%.

Return on Investment

- **Additional RoE for early Commissioning**
 - Provision of Additional RoE should be retained in line with the principles of rewarding efficiency in performance (Section 61 of the Act)
 - With major part of generation being added through renewable resources where gestation period is less, Transmission Licensees should be encouraged to put in extra efforts for implementation of transmission system in a compressed timeframe.



Capital Cost

- Decapitalization of replaced assets
 - Replacements with higher capacity carried out based on system requirement and with approval of RPC & SCT as creation of new infrastructure would increase consumers' cost.
 - Existing equipment shifted to new location or kept as Regional Spares
 - Utilization of existing equipment not in the control of Transmission Licensees
 - Allow tariff of the existing assets alongwith gross cost of new assets till the existing is capitalised at new location.
- Additional Capitalization
 - After cut-off date should be allowed for works necessary for effective operation of the System
- Initial Spares
 - Higher norms for brown field and new technology equipment

Economic benefit of improving the performance of the existing assets results in lower tariffs to consumers



Availability Norms

- The transmission system of the country is an integrated system and all AC and HVDC elements combine to provide the desired level of services. Power flow in AC and HVDC elements does not take place in an isolated way. Hence combined performance of the all transmission elements in the region is a better indicator of regional performance of all transmission elements in the region.
- Availability of transmission system to be computed for each region for combined AC and HVDC systems.
- To cater to the requirement of Annual Maintenance, the availability should be calculated on an annual basis.
 - Monthly determination of availability is not justifiable for assets with annual maintenance cycles.

Operation & Maintenance Norms



■ Exclusion of PRP and additional manpower while fixing new O&M norms

- PRP should be considered since it is variable pay and is an integral part of Pay structure designed to bring efficiency.
- Due to geographically dispersed system, requirement of additional Manpower for timely restoration activities.
- With introduction of newer technology like 800kV HVDC systems there is limited experience in O&M, therefore fixation of norms should not be too aggressive.
- Maintenance not to be compromised, it may be a little amount but effect is large and affects the reliability of such a large interconnected Grid.

Assets about Rs. 1,77,000 Cr are handled with a small O&M expenditure of about Rs. 3,800 Cr.

■ SIS

- Transmission Licensees to be given flexibility to choose the mode of insurance cover i.e., through SIS or third party insurers. The premium towards SIS to be included in O&M norms. In case SIS expenditure is subjected to true up, all associated risks/losses to be borne by beneficiaries.

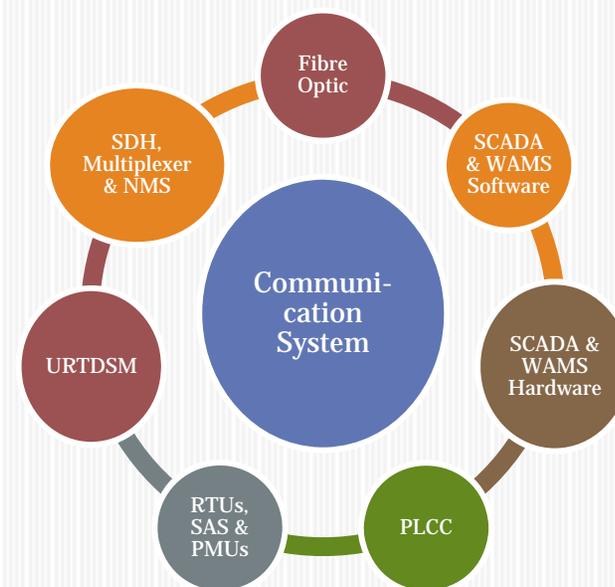


Mismatch in Commissioning

- Penalties in case of delay should be equitable and proportionate.
- In case of Generation, if alternate arrangement is provided at the cost of Transmission Licensee, there should be no penalty.
- In case of mismatch with other Transmission Licensees, the penalty should be commensurate with the level of investment by the defaulting Licensee i.e., limited to the lower of the transmission charges.
- The penalty to be paid by Transmission Licensee should be provisionally worked on FR cost in the absence of approved transmission charges.

Communication System

- Communication System Regulations, 2017 envisages centralized Network Management Systems to take care of availability/ performance requirements of ISTS communication system.
- Existing system and supporting tools for management of the same are not designed to cater to the requirement of the proposed draft Regulations.
- For Communication, determination of availability is premature at this stage and should be delinked with the recovery of charges in 2019-24.
- Once centralized NMS is established considerable expenditure shall need to be incurred on Communication System.
- O&M expenditure considered for last block is not ideal base for the expenses required in next block. Therefore, O&M to be allowed as per existing norms.
- Communication System comprises multiple components which fall under IT equipment and software. Their depreciation rates to be enhanced with salvage value to be Nil.





Rebate, LPS and IoWC

- The payment cycle of most of the beneficiaries has moved from 60 days to 90 days. To avoid additional burden of late payment surcharges, payment cycle of 60 days should be retained for payment as well as computation of Working Capital Management.
- Unlike interest on loan or interest on working capital, the late payment surcharge is a deterrent for delayed payment of the bills. The late payment surcharge should be sufficiently high to ensure prompt payments or cash flows of the Licensees would be affected.
- Rebate of 2% was fixed when 60 days credit period was allowed. Rebate may be reduced from 2% to 1.50% if payment period is reduced to 45 days.



Application for Tariff

- Size and configuration of schemes decided by Standing Committee & National Committee on Transmission
- There may be considerable gap in commissioning of the elements due to RoW issues, statutory clearances, progressive system requirement
 - Delay in filing would defer the revenue and delay the timely recovery of cost
 - Allow filing of Petition under following condition:
 - On capitalization of 50% of the cost in IA or Rs. 200 Cr, which ever is lower
 - One Petition under a Project in a FY for each Transmission System
 - Two Petition under a Project in a FY for Communication System
- Variation in the project Capital Expenditure
 - Variation in overall tariff should be compared instead of capital expenditure



Thank You