Comments/ Suggestions on Terms and Conditions of Tariff) Regulations, 2019 for the tariff period from 1.4.2019 to 31.3.2024

Points for Consideration –

Para 7 of Consultation Paper – Tariff Design Generation

Point No. 1 – In case of long term PPA executed with generator and beneficiaries (i.e. power procurers), the beneficiaries are consisting of States and Union Territories (UTs). In most of the cases, states are having approximately 85 to 90% of the contracted capacity, UTs are having shares of 10 to 15%. In case of some power plants, it has been noticed that states are not scheduling the power on account of higher landed cost and accordingly, the generators are not operating the plant on account of minimum technical requirement in spite of the fact that there is scheduling from the UTs. Such generators are forcing to take the minimum technical power requirement from the UTs (i.e. 65% to 80% of power of the plant capacity, whereas the demand of UT is around 10% of contracted capacity). In such scenario, the UTs are being panelised paying the fixed costs of these plants and procuring the short fall of power through power exchange.

Accordingly, it is being requested that a suitable provision may be included in the tariff norms to protect the interest of UTs. Where the plant is not in operation on the basis of minimum technical requirement, the respective states will bear the share of capacity charges related to UTs also. **(Applicable for Thermal & Gas)**

Point No. 2 – Presently, on account of decreasing PLF (on account of excess capacity coupled with the coal shortage), the concept of two part structure is not suitable as discussed in the approach paper.

Accordingly, the existing situation demand the introduction of tariff structure comprising of three parts, namely,

- fixed charge (return on equity, interest on loan capital, depreciation only) to be paid on the basis of availability,
- variable charge (interest on working capital and O&M expenses) on the basis of actual export of power)
- Energy charges on the basis of actual export of power.

Para 13, 14 and Others of Consultation Paper – Financial Parameters

Point No. 1 – Presently, there is reduction in PLF for gas and thermal based power plants. The same is on account of various factors such as excessive generating capacity, availability of coal and non-operation of certain plants on account of higher landed cost etc. Considering the excessive transmission capacity, the industrial tariff rates across all the states are around Rs. 7.30 or more per unit and one of the factor which have bearing on the industrial growth rate. In such a scenario, the two objectives i.e. availability of electricity at reasonable rate and financial viability of sector should be addressed by giving more weightage to the following financial parameters;

- Return on equity @ 19.76% (after gross up considering MAT rate) is much higher. The whole sale bond market rate for a tenure of 20 years is around 8% to 9% and even if the risk premium of further 10 years are also considered the rate may not go beyond the bank rate considered for the working capital loan management. In the present scenario, still continuing with the tax free rate of 15.5% for return on equity is not desirable, when there is excessive capacity and market is stabilised for ample source of financing. There is drastic need of the industry to fix the return on equity as 15.5% inclusive of income tax.
- The existing one year MCLR rate is around 8.15% and further allowing 350 basic points for calculation of interest on working capital is much excessive. The additional basis points should be restricted under the 25% cap of MCLR rate.
- The late payment surcharge is 15%, it is very higher and should be kept at the same percentage as allowed for the interest for the working capital.
- **Depreciation:** This is one of major component having a material implication over the computation of tariff. The fund market is already stabilised and long term funding is available for a period of 25 years. Continuing with the higher depreciation rate for first 12 years to ensure the payment of debt obligation is presently not required. The initial return on equity effectively 4.65% (15.5% of 30%) and normal depreciation rate is sufficient enough to make the payment of debt obligations. Hence, there should be one depreciation rate over the useful life and further the life of assets should be optimum one as prescribed under the Companies Act, 2013.
- **Working Capital:** For computation of interest on working capital. The working capital includes the O&M expenses for 30 days (one month). This is not required at all because the employees expenses are being paid at the end of the month and O&M inventories are procured by generators with 30 days normal credit period. After the end of the month, they are raising bills on the first day of month and which is generally being settled on T+2 basis.

Para 32 of Consultation Paper – Standardization of Billing Process

Point No. 1 – This is very much required, not even the format but the list of documents and calculation details are also required to be standardised. The beneficiaries are unable to have the verification of details as the whole process is not standardised and the generators / transmission service provider are not raising the bills giving the complete information.

Other Input – Implication of Ind AS

Point No. 1 – Under the applicable Ind AS provisions, an item of Property, Plant and Equipment (i.e. spare) having useful life more than one year is required to be capitalized and depreciated over its independent useful life. Moreover, even the inspection / overhaul costs carried out periodically (i.e. more than one year) are allowed to be capitalized under Ind AS provisions.

This may have implication by way of increasing in the base of fixed assets and resulting in reduction in the O&M cost, accordingly, the O&M norms may be suitably addressed during the course of finalization of O&M norms.

28/01/2019

(CA Pawan Kumar Mishra)