torrent POWER

SUGEN
MEGA POWER PROJECT
Off.: National Highway No.8,
Tal.: Kamrej,
Dist.: Surat - 394155 India
Phone : +91-2621-661000
Fax : +91-2621-661151

TPL/SUGEN/COMMERCIAL/18-19/086

January 28, 2019

The Secretary,
Central Electricity Regulatory Commission,
3rd & 4th Floor, Chanderlok Building,
36, Janpath,
New Delhi - 110 001

Sub: Draft CERC (Terms and Conditions of Tariff) Regulations, 2019

Dear Sir,

This is in reference to Public Notice No. L-1/236/2018/CERC dated 14th December 2018.

We humbly submit our comments and suggestions on the Draft CERC (Terms and Conditions of Tariff) Regulations, 2019. Please refer Annexure-1. We look forward to the Hon'ble Commission's positive consideration of such suggestions.

Yours faithfully,
For **Torrent Power Limited**

Authorised Signatory

TORRENT POWER LIMITED *

Encl: Annexure-1

Annexure-1

Torrent Power Limited (TPL) – Generation
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30 (2) i	Return on equity in respect of additional capitalization after cut off date within or beyond the original scope shall be computed at the weighted average rate of interest on actual loan portfolio of the generating station or the transmission system;	Due to unprecedented financial stress in power sector, it is difficult to fund the additional capitalisation through 100% debt financing. In such scenario, the Power plant may require to fund it through internal resources. However, if such funding is recovered at weighted average rate of interest on actual loan portfolio, it would lead to heavy under recovery and may discourage generator from investing in the genuine requirement of additional capitalisation. ***In view of the above, we request the Hon'ble Commission to keep balanced approach i.e. allow additional capitalisation linked with actual funding subject to 70-30 (Debt: Equity ratio). Further, any additional capitalisation is admitted by Hon'ble Commission after prudence checks only.***
34(b)(ii)	Liquid fuel stock for 15 days corresponding to the normative annual plant availability factor and in case of use of more than one liquid fuel, cost of main liquid fuel duly taking into account mode of operation of the generating stations of gas fuel and liquid fuel	The subject provision of fuel stock for gas based power plants allows liquid fuel stock for 15 days in IOWC. In this context, we would like to submit that such liquid fuel stock is not a viable generation fuel in the current situation. Compared to such liquid fuel, LNG stock is much more viable and has advantages as mentioned below. **(a) <u>Reliable power supply at competitive rate</u>** The delivery process of LNG can be divided into two broad categories i.e. (a) contractual process and (b) operational process. The contractual process involves floating of RFP, Bid Evaluation and Contract award. It generally takes 15 days period. Operational process involves (for delivery) nomination / booking of loading port, LNG delivery ship and unloading port. As per standard practice, such nomination process is provided 45 days period. Such period is required to keep margin for unforeseen or force majeure events

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		and transportation time to ensure timely delivery. In view of the above, it is prudent to keep inventory of 60 days. Further, such two months process is also evident in prices assessment of LNG published by Platt (i.e. price assessment of 2.5 months is published). The cost of such inventory is expected to be around ~ 7.5 paisa per unit. However, the benefit of direct import of LNG through ICB/Spot in price discovery (vis-à-vis Govt. of India contracted Rasgas RLNG gas being supplied to Power Plant/Others) compensates more than such cost. As per the past record, the price delta of ~ 1.60 USD per MMBTU is observed which translates to a delta of ~ Rs. 1 per unit. It is also worth noting that such direct import of LNG also optimises tax cost (additional benefits). **(b) <u>Flexibility in operation due to LNG stock.</u>** In addition to the above, there is an advantage of operational flexibility in offtake. Such advantage is substantial and could be assessed in terms of (a) higher power offtake in summer and after monsoon period and (b) bare minimum offtake in winter & monsoon months. Further, it also provides flexibility to balance renewable power offtake vis-à-vis thermal power offtake which needs to be exercised on day to day basis. ***In view of the above, we request the Hon'ble Commission to add enabling provision in IOWC (for gas based power plants) related to 60 days of LNG stock. Such enabling provision should allow the stock of LNG in IOWC after verification of actual data at the time tariff petition (on case to case basis). Hence, it will not lead to additional normative recovery of cost of LNG stock for all generators but for generators which are maintaining such inventory on actual basis.***

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<table>
<tr><th>Regulation No.</th><th>Draft Regulations, 2019</th><th>Submission</th></tr>
<tr><td>34 (b) iv</td><td>Receivables equivalent to 45 days of capacity charge and energy charge for sale of electricity calculated on normative plant availability factor, duly taking into account mode of operation of the generating station on gas fuel and liquid fuel; and.......</td><td>The invoices are normally raised to beneficiaries once the State & Regional Energy Account is published by SLDC/RLDC and receipt of invoices by fuel supplier and transporters. It may be noted that the SEA/REA contains all details required for the billing (for all transactions including revision). Hence, it requires lots of data processing, verification / confirmation and compilation. SLDC/RLDC generally takes 7-10 days to prepare & publish REA/SEA (for the previous month). Further, it takes two to three days for preparation and raising the invoices (after due verification of data). Hence, the existing actual cycle of receivable is already 70 days i.e. 10 days time for raising the invoice and 60 days of payment period. From the above it is evident that, there is already a gap of 10 days in the existing cycle which is not covered in IOWC.

In view of above, it is requested to maintain existing provision of receivable of 60 days for IOWC.</td></tr>
<tr><td>35(1)(3)</td><td>Normative O & M Exps. For Advance F Class Machines

<table><tr><td>Year</td><td>In Rs. Lakh / MW</td></tr><tr><td>2019-20</td><td>25.00</td></tr><tr><td>2020-21</td><td>25.80</td></tr><tr><td>2021-22</td><td>26.63</td></tr><tr><td>2022-23</td><td>27.48</td></tr><tr><td>2023-24</td><td>28.35</td></tr></table></td><td>There are generators who have been procuring LNG (including booking of the regasification capacity) and have been directly sourcing LNG (at very competitive rate) as per the requirement of its beneficiaries. Based on the same, the operating level of gas based power plants is expected to be around normative level. Further, for operating level of 60% and above O&M expenses will remain fixed i.e. the generator will have to bear 100% O & M expense. (especially the expenses related to LTSA/LTMA for advanced F Class machine). The LTSA / LTMA contracts are also co-terminus in nature (i.e. fixed payment are to be made). However, such contracts are sort of insurance premium to maintain high availability & reliability of the plant. Further, other major components of O&M expenses (i.e. employee expenses and</td></tr>
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		administrative expenses) also remain fixed irrespective of operating level (to maintain plant availability for generation). From the above it is evident that, the pro-rata reduction in O&M expenses does not happen with reduction in PLF as considered by the Hon'ble Commission. From Tariff Regulations 2009-14. the operating life of gas based power plant has been revised from 15 years to 25 years. Hence, the support of OEM is also required to be extended. Further, such extended operating life would lead to higher risk of fast change in technology including obsolesce of parts / technology upgradation. OEM has already indicated Rs. 60 Cr for up gradation of DCS system and it has stopped support for BOP. Thus to handle obsolescence, there should be additional provision of Rs. 2-3 Lacs per MW in O&M expenses. ***In view of the above, we would like to submit that the O&M expenses of Rs. 32 Lacs per MW (i.e. O&M expenses at 85% operating level plus Rs. 2-3 Lacs per MW for obsolesce of parts / technology upgradation) may be provided for the base year.*** Further, Hon'ble CERC has considered YoY escalation rate of 3.2% which is also very low. In this context, we would like to submit that the O&M expenses primarily consist of employee expenses, repair and maintenance expenses and admin & general expenses. It is known that the employees expenses cannot just increase by 3.2% (it increase minimum by 9-10% - please refer report of known consultancy firm on India's Annual Compensation

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		Trends survey 2018-19), the service and supply contract (even if the ARC is placed) increase by 10% on year on year basis. The exchange rate has also increased by ~6.50% in last year. Further, the cost of Petro/Diesel (which is also major sub cost/cost driver in Admin & General expenses) has been increasing and very erratic (i.e. highest Rs. 84/liter to Rs. 70/liter) in last year. In this context, all major heads of O&M expenses are expected to increase much more than 3.2%. ***Hence, we humbly request the Hon'ble Commission to consider balanced escalation rate i.e. approx. 7% (if not 10%) for O&M expenses in subsequent years.***
51(1) & (2)	(1) The fixed cost of a thermal generating station shall be computed on annual basis, based on norms specified under these regulations, and recovered on monthly basis under capacity charge. The total capacity charge payable for a generating station shall be shared by its beneficiaries as per their respective percentage share or allocation in the capacity of the generating station. Capacity Charge for the month shall be recovered in two parts viz., Capacity Charge for Peak period of the month and Capacity Charge for Off-Peak period of the month. (2) The Capacity Charge rate for Peak hours shall be 25% more than that of Off-Peak hours. The Capacity Charge payable to a thermal generating station for a calendar month shall be calculated in	**1. <u>Recovery of Capacity Charges on annual cumulative basis</u>** The capacity charges recovery on annual cumulative basis is well deliberated principle to ensure sufficient cash flow for meeting expenses like debt and O&M expenses (which are fixed in nature whether the plant is in operation / under maintenance). In the existing situation of financial market, it is very critical to maintain cash flow specifically for maintaining availability. The existing formula of cumulative availability (till month) ensures the same. The proposed formula (i.e. peak and off peak segregation) is too complex in terms of calculation and data handling. It would lead to disputes related to reconciliation and verification. Further, there will be many generating stations that have multiple beneficiaries having their own peak and off peak period. There may be some beneficiaries which may not agree to pay higher capacity charges for peak period as decided at regional level which actually may not be peak period for such specific beneficiary / state. Such a

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	accordance with the following formulae..... (3) ----------- (4) The generating company shall be allowed to recover the monthly Peak period Capacity Charge upon achievement of PAF equivalent to the NQPAF for cumulative Peak period during the month, and the monthly Off-Peak Period Capacity Charge upon achievement of PAF equivalent to the NQPAF for cumulative Off-Peak period during the month. (5) Achievement of PAF less than the specified NQPAF in "Peak" or "Off-Peak" periods shall result in pro-rata reduction in recovery of Capacity Charge for the appropriate period. Provided that if the cumulative peak period PAF achieved during a quarter is more than the specified NQPAF for peak period and the cumulative Off-Peak period PAF achieved during the quarter is less than the specified NQPAF for Off-Peak period, the loss in recovery of Capacity Charge for Off-Peak period shall be off-set against the notional gain on account of over-achievement in Peak period, subject to the ceiling of full recovery of Capacity Charge for Off-Peak period;	situation would be difficult for State(s) having substantial renewable power generation. Such State(s) require availability throughout the day. ***In view of the above, the existing formula for recovery of Capacity charges (i.e. cumulative basis and uniform through the day) is to be continued.*** **2. <u>Incentive linked to PAF</u>** We humbly submit the following major rationales for linking incentive with PAF. **(A) <u>Lower requisitions by beneficiaries does not reflect poor performance of the plant</u>** The Hon`ble Commission has itself recognized the need for linking incentive with availability in its Explanatory Memorandum to Draft Regulations for 2009-14. It states that the Incentive/disincentive for generating stations should be linked to parameters which are under the control of station personnel as generator is responsible to make the plant available. Hence, the criteria for granting incentive should remain linked to the availability and not to PLF. PLF is based on actual station dispatch which in turn depends upon many factors like climatic changes, festival / holidays, abrupt demand changes, renewable generation, transmission / grid considerations etc which are beyond the control of the Generator. In fact such factors compel the DISCOM / beneficiaries to not utilise the availability as

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51(7)	**Incentive** In addition to the capacity charge, an incentive shall be payable to a generating station or unit thereof @ 65 paise / kWh for ex-bus scheduled energy during Peak period and @ 50 paise / kWh for ex-bus scheduled energy during Off-Peak period corresponding to scheduled generation in excess of ex-bus energy corresponding to Normative Quarterly Plant Load Factor (NQPLF) as specified in Regulation 59 (B) of these regulations.	per declaration. Further, the reimbursement of fixed charges and computation of Incentive on PAF basis were worked out after careful consideration of the long-term interest of the generators and consumers. It may be noted that lowering of scheduled PLF on account of lower requisitions by beneficiaries does not reflect and therefore must not be considered as a lowering of plant's performance. The perception that the measure of "service rendered" is the energy supplied by a station has to change, and the capability to supply power (which would normally be fully harnessed and utilized) has to be accepted as the measure of service rendered. **(B) <u>Availability linked incentive serves better the current need of beneficiaries & the grid</u>** We submit that the proposed regulations should take into account the existing situation. Availability is required throughout the day in the developing scenario of renewable heavy grid. Due to variability of renewable generation, thermal and gas based capacity need to maintain very high availability irrespective of peak and off peak period (decided by demand). Hence, we humbly request the Hon'ble Commission to provide incentive linked to availability in line with the Tariff Regulations 2009-14. It is a fact that the consumers' interest can be taken care of through the supply of continuous and reliable power. Further, it is well-established that Availability Based Tariff has dramatically improved the power supply/availability scenario with greater emphasis on continuity and quality. Linking incentive to plant availability is only an extension of this principle in the right direction.

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		(C) <u>**Equitable approach for Disincentive & Incentive and Regulatory certainty for large investment**</u> It may be noted that the recovery of fixed charges (including incentive & disincentive) is not independent of / exclusive of total investment of generating station (i.e. Debt and Equity). The disincentive is already in-built in the form of denial of normative fixed charge for availability lower than the normative level. Accordingly the incentive should also be in the form of additional fixed charge for availability higher than the normative level. Hence, we respectfully submit that the provision for an opportunity of incentive for better availability should also be provided in line with the provision for reduction in return on investment for lower availability. This is a more balanced & fair approach (i.e. in line with the principle of natural justice). Large investment decisions have been made by developers based on expectation of regulatory certainty. In this case, the approach of linking Incentive with PAF was a settled principle based on strong reasoning. ***Therefore, we request the Hon`ble Commission to provide recovery of incentive based on normative annual plant availability factor as in Tariff Regulations, 2009*** **OR** ***Notwithstanding the above, if the Hon'ble Commission decides to link incentive with PLF then it is humbly requested that it may be allowed on each block basis (on contracted***

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		capacity) for offtake of each beneficiary. We submit the following rationales. Generators have to maintain technical availability throughout the day irrespective of peak hours and off peak hours of the day. Hence, there is no incentive to generator for maintaining such technical availability over normative level. However, if the proposed incentive scheme is accepted then Generators would be incentivised to maintain better availability throughout the day and not only during the peak hours period as decided by RLDC (which is responsible for managing the regional demand (on overall basis) not the demand of individual beneficiary / state of the generator). Further, it will provide opportunity to each beneficiaries of the plant having different peak and off peak period to optimise its offtake and pay incentive for such offtake above normative. It may also be noted that the incentive on block basis (on contracted capacity) provides better management of peak and off peak demand of the beneficiaries rather than general norms of quarterly basis (with peak and off peak period decided at regional level)
59 (A)(a)	**(A) Normative Quarterly Plant Availability Factor (NQPAF)** (a) For all thermal generating stations, except those covered under clauses (b), (c), (d), & (e) - 83%	In line with the above rationales, the normative Plant Availability Factors is to be provided on annual basis
59 (C) (a)(vi)	**Normative Heat Rate of SUGEN power plant**	The Hon'ble Commission has retained the Norms for Generating Stations that achieved COD after 01.04.2009 e.g. OTPC. Under the Regulations 59(C)(c) In this context, we humbly submit that our Sugen plant is

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		commissioned on 15th August, 2009 and accordingly Sugen plant is also covered by Regulation 59(C)(c). Hence, we request the Hon'ble Commission that the heat rate of SUGEN should be 1853 kcal/kWh (i.e. based on Design Heat Rate + 5%). In addition to the above, the Hon'ble Commission has been framing regulations under the EA, 2003 duly guided by (a) principle of rewarding the efficiency (b) multiyear tariff principles and (c) National Electricity Policy and Tariff Policy. The said guidance requires operating norms should be at normative level (not at lower of normative or actual). It should not be made more stringent on historic data and should not penalise for being efficient. We humbly request the Hon'ble Commission to view our above-mentioned request in this aspect also.
69	**Late payment surcharge:** In case the payment of any bill for charges payable under these regulations is delayed by a beneficiary or long term transmission customers as the case may be, beyond a period of 45 days from the date of billing, a late payment surcharge at the rate of 1.25% per month shall be levied by the generating company or the transmission licensee, as the case may be.	We propose to keep late payment surcharge period as 60 days in terms of existing Tariff Regulations, 2014. Further, the late payment surcharge should be kept at 1.50% as per existing Tariff Regulations, 2014.
70(2)	The financial gains by the generating company or the transmission licensee, as the case may be, on account of controllable parameters shall be shared between generating company or transmission licensee and the beneficiaries or long term transmission customers, as the case may be, on monthly basis with annual reconciliation. The financial	The Sharing of gains on Heat rate and Auxiliary consumption is completely in contradiction to the provisions under Regulations 59 to 62 which clearly provide that these elements are normative parameters. The Sharing of gain or loss on any parameter, defeats the very concept of fixing a normative parameter.

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	gains computed as per the following formulae in case of generating station other than hydro generating stations on account of operational parameters as shown in Clause 1 of this Regulation shall be shared in the ratio of 50:50 between the generating stations and beneficiaries.	In addition to the above, we would like to submit that the Heat Rate is dependent on (a) Site and ambient conditions (b) Scheduling and generation (c) stand-by of units (d) Deterioration due to ageing etc. and the Auxiliary Consumption is dependent on (i) operation of Plant at considerably lower load (ii) Loss of Bus Reactor, if any (iii) Losses of Inter-connecting Transformers inside Switchyard (iv) Losses of Generator Step-up Transformers, Auxiliary Transformers (v) Power Consumption for Water Intake Pump Facility, when the same is away from the Power Station etc. Hence, in the current power supply-demand situation, it would be difficult to operate with significant margin vis-à-vis normative parameters. ***In view of above, gain/loss (both), if any, on account of controllable parameters should be shared at 50:50 (generator: beneficiary) and such sharing is to be done on annual basis only since there would be fluctuations (gain/loss) on month-to-month basis on account of various reasons.*** **OR** ***If the sharing of loss is not acceptable then we propose to continue with existing provision on sharing of gain 60:40 (Generator: Beneficiary) as generators are at disadvantage i.e. the existing provision of sharing of gain is not at parity i.e. loss on account of parameters below normative parameters is not shared by the beneficiary.***

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