ESSAR POWER

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Date – 28.01.2019

To,

Shri Sanoj Kumar Jha
Secretary, CERC
Chanderlok Building
36, Janpath,
New Delhi -110 001

Sub: - Comments Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2019 for the tariff period from 1.4.2019 to 31.3.2024.

Dear Sir,

This is in response to public notice dtd. 14.12.2018 in the matter of Draft Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2019 for the tariff period from 1.4.2019 to 31.3.2024.

Please find attached the comments on the draft regulations on behalf of Essar Power, Mumbai.

Thanking you,

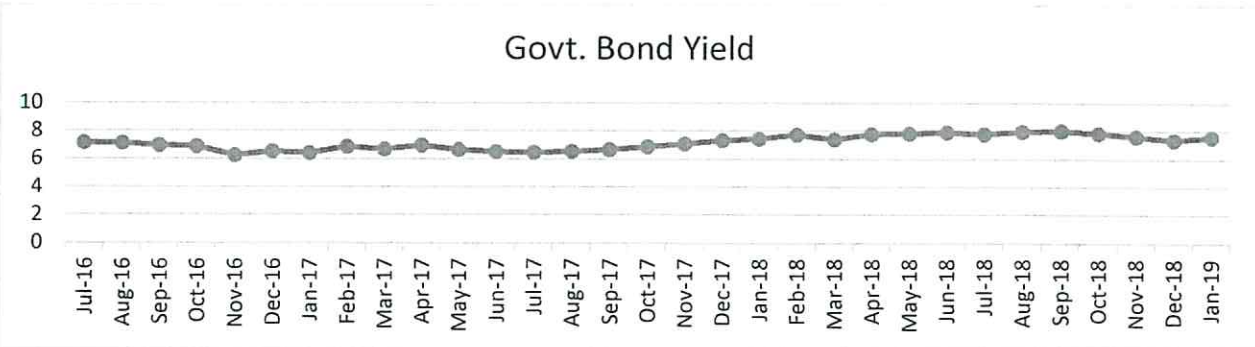
Yours sincerely,

Rishabh Roshan

for Essar Power

S. No.	Clause	Suggestion	Comments
1	30 (2) - Return on equity shall be computed at the base rate of 15.50% for thermal generating station, transmission system including communication system and run of the river hydro generating station, and at the base rate of 16.50% for the storage type hydro generating stations including pumped storage hydro generating stations and run of river generating station with pondage:	Hon'ble CERC could consider revising upward the return on equity on transmission projects.	The Transmission lines are unique in nature. The transmission lines pass through different difficult terrains and mostly face RoW issues in various stretches which are beyond the control of the transmission licensees. The transmission licensees face huge gestation period due to issues beyond their control like RoW issues and delay in getting necessary approvals. The transmission licensee does not receive any ROE during gestation and construction period which includes time taking processes of necessary approvals and RoW issues. The Govt. bond rates are increasing since past 1 year. The bond rates have risen from 6.46% in July'17 to 7.57% in Jan'19.The graph is shown in the table below.

Table- 1 showing Govt. Bond yield movement from July-16 to Jan-19 latest available data



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S. No.	Clause	Suggestion	Comments
2	35 (3). The following normative operation and maintenance expenses shall be admissible for the transmission system:	It is suggested to provide a factor of 20%-30% for standalone companies over the charges provided by CERC. Separate O&M norms for reactors should be specified.	a.Reactors form an important part of the transmission system and O&M charges of Reactors should be defined separately. The O&M charges provided by Hon'ble CERC are below the actual charges incurred by the stand alone transmission companies. Unlike the larger players, the standalone transmission companies have assets in smaller quantities and are not able to utilize economies of scale. The draft O&M charges would lead to under recovery for charges. Further, Hon'ble CERC has slightly reduced the O&M escalation percentage from 2014-19 regulations. To avoid mismatch between the CERC parameters and actual O&M expenses, a mid-term review of normative O&M expenses is necessary. The uniform escalation rates for a 5 year period do not precisely estimate the actual incurred operational and maintenance expenses. A mid-term review during the tariff period will allow correction for the expenses. The mid term review would align the expenses to a more realistic figure, which may move both upwards and downwards.

<table>
<tr>
<td>3</td>
<td>59 (B)
"...Provided that the design heat rate shall not exceed the following maximum design unit heat rates depending upon the pressure and temperature ratings of the units:
<table>
<tr><td>Pressure Rating (Kg/cm2)</td><td>150</td><td>170</td><td>170</td></tr>
<tr><td>Sub-Bituminous Indian Coal</td><td>0.86</td><td>0.86</td><td>0.86</td></tr>
<tr><td>Bituminous Imported Coal</td><td>0.89</td><td>0.89</td><td>0.89</td></tr>
<tr><td>Sub-Bituminous Indian Coal</td><td>2273</td><td>2267</td><td>2250</td></tr>
<tr><td>Bituminous Imported Coal</td><td>2197</td><td>2191</td><td>2174</td></tr>
</table>
</td>
<td>If the imported coal is sub-bituminous then the boiler efficiency related to sub-bituminous coal should be considered and the word domestic or imported coal mentioned should be ignored.

OR

Two separate categories i.e.

(a) Sub Bituminous Imported Coal
(b) Bituminous Indian Coal should be added along with the existing norms.</td>
<td>Boiler efficiency should be based on bituminous or sub-bituminous coal and not based on source of coal i.e. imported or domestic. This is because the boiler efficiency depends on type of coal (Bituminous or sub-bituminous coal.

Major quantities of thermal coal imported in India is from Indonesia and more than 95% of reserves of Indonesia is sub-bituminous coal.</td>
</tr>
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4.	61. (2) *"..Provided also that for AC system, two trippings per year shall be allowed. After two trippings in a year, for every tripping, additional 12 hours outage shall be considered in addition to the actual outage hours.."*	**It is suggested to increase the no. of allowable tripping to 4 per year and the outage hours to be reduced to 6 hours for tripping more than 4 per year.**	The allowable two trippings in the draft regulations are very stringent particularly for transmission lines having large line lengths and passing through difficult terrain. Many a times tripping of lines do take place due to reasons beyond the control of transmission licensee. Further the addition of 12 hours outage after two trippings leads to a very high penalty.
5.	56 (2) *For AC system:* *a) For TAFM < 98.00% AFC x (NDM/NDY) x (TAFM/98.00%)* *b) For TAFM: 98.00%< TAFM < 98.50% AFC x (NDM/NDY) x (1)* *c) For TAFM: 98.50%< TAFM < 99.75% AFC x (NDM/NDY) x (TAFM/98.50%)* *d) For TAFM > 99.75% AFC x (NDM/NDY) x (99.75%/98.50%)*	It is suggested to increase the margin of incentives applicable to the transmission companies the incentive capping at 99.75% should be removed and incentive should be provided for availability greater than 99.75%.	The annual fixed charges go on decreasing with in each subsequent year. Thus the quantum of incentive also decreases. Despite having a target availability for incentive greater than 98.50%, the transmission companies are not actually incentivized due to decreasing AFC. Further there is no incentive available when the transmission system is available for higher than 99.75%. Incentive should be provided for availability higher than 99.75%.

6.	48. Transit and Handling Losses: The landed cost of coal or lignite during the month shall include the transit and handling losses as per the following norms :- Pit head - 0.20% Non-pit head – Upto 1000 KM - 0.80% Above 1,000 KM 1.20%	**For every subsequent handling by Road/Rail, and additional 0.2% loss should be granted**	**The current norm of 0.2% for the pit head station and 0.8% for the non-pit head stations as loss in transit and handling proves to insufficient.**
7.	Misc – **GST applicable on O&M charges for the O&M services provided by PGCIL/other contractor**	GST charged by PGCIL/other contractor on O&M charges to the transmission licensees should be made pass-through.	There are various cases where transmission licensees award PGCIL/other contractors deposit works contract for construction of bays, tie bays etc. As the bays are in the premises of PGCIL, the O&M contract have to be necessarily awarded to PGCIL. Under this mechanism, licensees additionally incurs GST on the O&M services. As the asset is in the premises of PGCIL, this GST on O&M services is unavoidable. This GST is an additional cost to transmission licensees and hence GST on O&M services should be made pass through.

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9.	71. Sharing of saving in interest due to re-financing: If re-financing of loan by the generating company or the transmission licensee, as the case may be, results in net savings on interest and in that event the costs associated with such re-financing shall be borne by the beneficiaries and the net savings shall be shared between the beneficiaries and the generating company or the transmission licensee, as the case may be, in the ratio of 50:50.	The benefits sharing ratio should be modified to 70:30 with 70% in the favour of transmission licensees and 30% in the favour of beneficiaries.	The benefits sharing ratio should be increased in favour of transmission licensees for incentivizing thje efforts of transmission licensees.

8. Additional Comment on Late payment Surcharge

As per the draft tariff regulations –

"..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.."

As per the 2014-19 tariff regulations, the late payment surcharge was levied on a delay of 60 days from the date of billing at the rate of 1.50% per month.

A sample comparison has been made for late payment surcharge calculation in draft regulations and 2014-19 tariff regulations. As per the calculation, after a delay of 135 days from the date of billing, the transmission licensee would incur loss as compared to the previous tariff regulations. Further, most of the payment from CTU to transmission licensee is received after a delay of 4-5 months.

Enclosure - Comments on behalf of Essar Power, Mumbai

Payment delay in days	60	75	90	105	120	135	150	165	180	195	210	225	240	255	270	285	300	315	330	345	360
Interest Days	15	30	45	60	75	90	105	120	135	150	165	180	195	210	225	240	255	270	285	300	315
Interest payable @1.25% (Draft regulation)	*0.62*	*1.23*	*1.85*	*2.47*	*3.08*	*3.70*	*4.32*	*4.93*	*5.55*	*6.16*	*6.78*	*7.40*	*8.01*	*8.63*	*9.25*	*9.86*	*10.48*	*11.10*	*11.71*	*12.33*	*12.95*
Interest Days	0	15	30	45	60	75	90	105	120	135	150	165	180	195	210	225	240	255	270	285	300
Interest payable @1.5% (2014-19 regulation)	-	*0.74*	*1.48*	*2.22*	*2.96*	*3.70*	*4.44*	*5.18*	*5.92*	*6.66*	*7.40*	*8.14*	*8.88*	*9.62*	*10.36*	*11.10*	*11.84*	*12.58*	*13.32*	*14.05*	*14.79*
Benefit/Loss	0.62	0.49	0.37	0.25	0.12	-	-0.12	-0.25	-0.37	-0.49	-0.62	-0.74	-0.86	-0.99	-1.11	-1.23	-1.36	-1.48	-1.60	-1.73	-1.85

Suggestion - It is requested to continue with the late payment surcharge rate as per the 2014-19 tariff regulations. i.e – 1.50% per month for a delay of 60 days from the date of billing.