Greenko Energies Private Limited
(CIN: U40109TG2000FTC034990)

Greenko

Dated: 28-Jan-2019

To,
The Secretary,
Central Electricity Regulatory Commission
Janpath, New Delhi

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

Ref: Public Notice No. L-1/236/2018/CERC dated 14-Dec-2018

1. At the outset, we wish to suggest that our country has been blessed with immense hydro-power power potential. However, we have been able to harness only about 45 GW out of the estimated potential as on 31.12.2018[1] even after the lapse of a multiple decades since hydro power plants stated commissioning in the country. With this pace, we may not be able to harness the estimated hydro potential in the country even by the end of next 2-3 decade.

Considering the risks implicit in development and construction of hydro power plants, there has been dwindling interest amongst the power sector players to invest in this sector. Hence, it is humbly requested to consider the below provided suggestions w.r.t. respective tariff normative parameter as discussed below.

2. Clause 6: Treatment of mismatch in date of commercial operation

Sub-Clause (b) of the clause 6 of the draft regulation is provided herein below:

"*Where the associated transmission system has not achieved the commercial operation as on the date of commercial operation of the concerned generating station or unit thereof, the transmission licensee shall make alternate arrangement for the evacuation from the generating station at its own cost, failing which, the transmission licensee shall be liable to pay the transmission charges to the generating company at the rate of the applicable transmission charges of the region as determined in accordance with the Sharing Regulations till the transmission system achieves the commercial operation.* "

As per the above clause, in case of delay in commissioning of transmission system for evacuation of power from generating station, the suggested compensatory mechanism provides for payment of transmission charges to the generating station.

[1] As per CEA monthly executive summary for power sector for Dec 2018.

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We submit that the compensatory mechanism should be equitable to both generator and transmission licensee in terms of adequately compensating the revenue loss. Hence, we submit

that the above clause 6(b) should be modified to provide for payment of generation loss based on normative generation and tariff as determined by regulator/ determined through bidding process/ exchange price, as applicable as compensation penalty on transmission license for delay in commissioning of requisite transmission system.

3. Clause 21: Controllable and Uncontrollable factors

Sub-Clause (2) of the clause 21 of the draft regulation is provided herein below:

The "uncontrollable factors" shall include but shall not be limited to the following:
a. Force Majeure events;
b. Change in law; and
c. Time and cost over-runs on account of land acquisition except where the delay is attributable to the generating company or the transmission licensee;

In case of hydro projects, it is often the case that due to delay in finalization of evacuation scheme/ system for the hydro project, there is corresponding delay in execution/ commissioning of the hydro project(s) as the developer has to align the commissioning of the project with the development of associated transmission system. This impacts the capital cost of the hydro project on account of time-overrun and cost –overrun. Thus this cost over-run due to this factor should also be considered as an "uncontrollable factor".
Also, the statutory approvals like forest approval, environment approval, NOCs etc. delay the project development and should be considered as part of "uncontrollable factor".

4. Clause 30: Return on Equity

Sub-Clause (2) of the clause 30 of the draft regulation is provided herein below:

(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"
The development of hydro projects spanned normally over 5-8 years is fraught with multiple risk factors such as geological risk, delay in requisite approvals, evacuation risk / delay, harsh climate conditions, site access issues, land issues etc. The plethora of risks coupled with inadequate return on equity has led to dis-interest amongst the hydro developers to develop newer generation capacity. Thus, there has been consistent reduction in pace of commissioning of hydro project capacity (with/ without pondage) in the country.

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The development of hydro capacity is necessary considering the increase in RE capacity, fuel availability and pricing risk of thermal plants. Hence, to promote development of new hydro capacity in the country, the return on equity for hydro projects should be enhanced to 17.50% for pondage projects and to 16.50% for without pondage projects.

5. Clause 33: Interest on Working Capital

Sub-Clause (1) (c) of the clause 33 of the draft regulation is provided herein below:

"(c) Hydro generating station (including pumped storage hydro-electric generating station) and transmission system:

(i) Receivables equivalent to 45 days of annual fixed charges;

(ii) Maintenance spares @ 15% of operation and maintenance expenses specified in Regulation 35 of these regulations; and

(iii) Operation and maintenance expenses for one month."

The draft tariff regulations have reduced the number of receivable days to 45 from 60 days as provided in the previous tariff regulations. This suggested norm is not in practise as generators are getting their payment for power supply not before 60 days post bill submission. Infact, the utilities make power supply payment post period of 60 days.

Also, the payment of power supply invoice is made by the utilities as per the terms of payment in the PPA signed with them where the due date without penalty is 60 days, hence it is humbly submitted to at least keep the receivable days to 60 days instead of proposed 45 days.

6. Clause 35: Operation and Maintenance Expenses

Sub-Clause (2) (b) of the clause 35 of the draft regulation is provided herein below:

"(b) In case of the hydro generating stations declared under commercial operation on or after 1.4.2019, operation and maintenance expenses of first year shall be fixed at 2.5% of the original project cost (excluding cost of rehabilitation & resettlement works, IDC and IEDC) and, in case of hydro generating station which have not completed a period of three years as on 1.4.2019, operation and maintenance expenses of 2019-20 shall be worked out by applying escalation rate of 4.70% on the applicable operation & maintenance expenses as on 31.3.2019. The operation & maintenance expenses for subsequent years of the tariff period shall be worked out by applying escalation rate of 4.70% per annum."

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The above proposed norms are in deviation to the O&M tariff norms already in place. The O&M norms in practise till date differentiated O&M expenses based on capacity of the hydro

station being more or less than 200 MW. The hydro stations below 200 MW were provided with relatively higher O&M expense proportion of the original project cost as compared with stations above 200 MW considering the economics due to size of the hydro project. However, the same has been done away with and the proposed O&M expense proportion has been fixed lower @ 2.5% as compared to 4.0% already in practise for hydro projects with capacity lesser than 200 MW. This shall lead to under-recovery of O&M expenses by hydro projects below 200 MW capacity.

It is humbly submitted that the already principle in practice of providing higher O&M expense proportion (of 4.0%) to hydro projects with capacity less than 200 MW should be allowed else it may further aggravate the disenchantment of hydro developers in developing much needed hydro capacity in the country. Already the hydro developers are not enthused with developing additional capacity given multiple significant risks being exposed to, this reduction in allowable O&M expense shall further make development of hydro capacity in the country an uneconomic affair.

7. Clause 69: Late Payment Surcharge

Clause 69 of the draft regulation is provided herein below:

"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"

The draft regulations provide for late payment surcharge of 1.25% per month for payment beyond 45 days. The late payment surcharge of 1.25% has been reduced as compared to 1.5% already in practise as per existing CERC Tariff Regulations, 2014. The hydro developers would essentially prefer to get their billed dues being paid within the due date, however as already discussed above, this is not the case and generally their dues are paid beyond the bill due date. The proposed reduction in late payment surcharge rate shall further dissuade the utilities from making payment of billed dues within due date. Thus, it is humbly requested that in order to enforce the discipline of making payment of billed dues within due date, the honourable CERC may keep the late payment surcharge rate unchanged at 1.50% per month as already in place.

Sir, since the tariff determined under these Tariff Regulations shall be applicable for the entire duration of the Control Period from FY 2019-24, any tariff determination norm not aligned with the actual prevalent situation would severally impact the hydro projects commissioned

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during the control period (FY 19-24) as well as already operating projects and thus would dissuade private investors from investing in the hydro sector.

Hence, we humbly request your good self in this regard to consider our comments to the draft CERC Tariff regulation for FY 2019-24 period while finalizing the same.

Thanking You.

Yours Truly,
For Greenko Energies Private Limited

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Authorised Signatory