



Comments on Consultation paper

(Terms & Conditions of Tariff for the period 19-24)

Comments on Consultation paper

| Sl No. | Clause No. | Proposal | Comments / Suggestions |
|--------|------------|--|--|
| 1. | Clause 9.3 | Whether the AFC is to be determined to the extent to the capacity tied up under Section 62 or for the entire capacity? | In our opinion, the annual fixed charges and energy charges should be determined for the entire capacity . The recovery of annual charges may be restricted on pro-rata basis in case of signed power purchase agreements and balance capacity should be treated as merchant capacity for trading through energy exchange. In case of merchant trading, the generating company should be allowed to sale its power at higher/lower rates depending upon the energy market scenario. |

Comments on Consultation paper

| Sl No. | Clause No. | Proposal | Comments / Suggestions |
|--------|-------------|--|--|
| 2. | Clause 11.8 | <p>In case of hydro power projects, there is wide variation in project cost with respect to original sanctioned cost. The developers are getting return on full equity.</p> <p>It is intended to determine tariff on benchmark cost (which is not established).</p> <p>It is also proposed to restrict fixed rate of return on equity based on investment approval / benchmark cost</p> | <ul style="list-style-type: none"> ❖ The project cost in case of hydro power projects are project/site specific. ❖ Problems encountered during project execution causing to time and cost over run in the projects are also not uniform. ❖ In view of above, any benchmarking of project cost specifically in case of hydro power project is not advisable. ❖ The present system of prudence check of capital cost should be continued. |

Comments on Consultation paper

| Sl No. | Clause No. | Proposal | Comments / Suggestions |
|--------|------------|---|--|
| 3. | Clause 13 | <p>In present tariff norms, except for ROE, the other parameters are based on actual basis viz. Interest on loan, depreciation linked to repayment & O&M expenses.</p> <p>The approach paper intends to introduce normative parameters for all components of tariff.</p> <p>The proposal is for improving operational efficiency.</p> | <p>In present tariff norms –</p> <ol style="list-style-type: none"> ROE is on normative basis Intt on loan is on actual basis Depreciation is linked with repayment O&M is based on actual basis Project specific machine availability is on normative basis <p>In our opinion, all components of tariff parameters cannot be on normative basis. Hence, the present combination of normative and actual parameters for tariff determination should be continued</p> |

Comments on Consultation paper

| SI No. | Clause No. | Proposal | Comments / Suggestions |
|--------|------------------|---|---|
| 4. | Clause 14.3(iii) | The paper intends to spread the recovery of depreciation on uniform basis throughout the life of the project in order to reduce the initial year tariff. | <ul style="list-style-type: none"> ❖ The proposal is silent on the source of cash for repayment of loan. ❖ In case, the tenure of debt is being extended to 18-20 years then the cost equal to 70% of the project cost (i.e. to the extent of debt portion) needs to be depreciated in 18-20 years so as to match the cash flows for repayment of debt. The recovery of depreciation should remain linked with debt repayment schedule. |

Comments on Consultation paper

| Sl No. | Clause No. | Proposal | Comments / Suggestions |
|--------|--------------------|---|---|
| 5. | Clause 18.6 & 18.7 | Based on assessment of CEA, it is concluded that addition of thermal power stations in next 10 years is not envisaged. Due to this reason and keeping in view the market scenario, it is proposed to reduce the Return on Equity | <p>It is accepted in the paper that ratio of hydro power has declined from optimum share of 40% to 14%. In view of addition of more and more renewable projects, addition of hydro power is very essential from grid security point of view also. It is established that even with at par ROE with thermal & transmission projects, the internal rate of return is lower in hydro projects due its long gestation period.</p> <p>In view of above, the present rate of ROE in case of hydro power projects should be suitably increased or atleast the status-quo should be maintained.</p> |

Comments on Consultation paper

| Sl No. | Clause No. | Proposal | Comments / Suggestions |
|--------|----------------|---|---|
| 6. | Clause 20.3(d) | The paper intends to remove maintenance spares from working capital for reducing interest on w/c | <p>The approach is not correct. The hydro power projects has to maintain sufficient inventory for maintaining better availability of machines.</p> <p>The removal of maintenance spares from working capital for IWC will affect the cash flow of generating companies.</p> |

Comments on Consultation paper

| Sl No. | Clause No. | Proposal | Comments / Suggestions |
|--------|-------------|--|---|
| 7. | Clause 27.2 | The paper intends to introduce better incentive for availability of generation during peak & off peak periods | <p>Presently, an incentive of 90paise/unit is being allowed to hydro power generator for generation beyond design energy (i.e secondary energy). Keeping in view the peaking requirements & intermittent deficit in supply side due to Renewable Energy projects, a better incentive provision is required for hydro power projects. It is also suggested to differentiate the rate of incentive during peak and off peak periods.</p> <p>In view of above, the rate of incentive should be linked with grid frequency and may be treated in line with DSM charges. The minimum rate of incentive may be fixed at ₹1.78/unit which is allowed for infirm power.</p> |

Comments on Consultation paper

| Sl No. | Clause No. | Proposal | Comments / Suggestions |
|--------|---------------------|--|---|
| 8. | Clause 37.3 to 37.6 | The paper intends to introduce normative tariff by benchmarking of capital cost | <p>Each individual hydro project is not similar in terms of capacity, design, location, Geographical conditions etc. Hydro Projects are Capital intensive having long gestation period as they are constructed at remote and inaccessible regions. Other factors which contribute in long gestation period are Geographical surprises, natural calamities etc. which are beyond the control of developer.</p> <p>As such, benchmark on capital cost for Return on Capital, if considered is not favorable for Hydro Sector.</p> |
| | | | |

Comments on Consultation paper

| Sl No. | Clause No. | Proposal | Comments / Suggestions |
|--------|--------------|--|---|
| 9. | Clause 37.20 | <p>The paper intends to introduce concept of differential tariff on seasonal basis in the following manner:</p> <ul style="list-style-type: none"> ❖ Recovery of 80% AFC for declaration of 80% PAF during off-peak period ❖ Recovery of 20% AFC for declaration of 95% PAF during peak period ❖ Peak & off peak months are to be declared by concerned RLDCs ❖ High peak price – 25% over off peak price | <p>The introduction of differential tariff for peak & off-peak periods will be beneficial to hydro power sector only if the peak period incentive is allowed <u>over & above the AFC</u> determined for that period.</p> |

Thank You