Tariff Balancing

CERC issues draft norms for 2014-19

Last month, the Central Electricity Regulatory Commission (CERC) unveiled the draft tariff regulations for the control period 2014-19 with the current regulations due to expire on March 31, 2014. The regulations, which will form the basis for tariff setting for the next control period, will introduce major changes in the tariff regime for regulated entities.

The proposed changes include stipulation of stringent tariff determination criteria such as tighter operational parameters for thermal power stations and transmission systems, a shift to computation of tax reimbursements based on actual tax paid and not on the corporate tax rate applicable, and linking of incentives to plant availability, among other things.

Explaining the rationale behind introducing these changes, G.B. Pradhan, chairperson, CERC, stated in a recent interview with *Power Line*, "The rationale is to maintain a balance between ensuring improvements in operational efficiency and adequate returns to generators. A fine balance has to be struck between the interests of consumers and those of generators." He added that the commission has tried to rationalise several costs being incurred by generators with the underlying intent of ensuring regulatory certainty.

While the draft regulations are yet to be finalised and could undergo major changes before the final notification, many power majors have expressed serious concerns over the new regulations. In a two-day public hearing held recently, several utilities stated that the stringent operating norms would be difficult to adhere to and would adversely impact their revenues.

The following is a brief summary of the proposed norms as well as stakeholder views on these...

PLF-linked incentives

A contentious norm in the draft regulations is the proposed shift to a structure where incentives would be linked to the plant load factor (PLF) as opposed to the availability factor of thermal power plants. As per the regulations, incentives for generating stations would be payable at a flat rate of 50 paise per kWh for generation in excess of the normative annual plant load factor and not the normative annual plant availability factor.

State-owned power companies have requested the regulator to continue with the existing norms as the new norms would hurt their profitability. According to the country's largest power generator, NTPC Limited, the incentive linked to availability should be retained since PLF is beyond the generator's control and could be subject to fuel shortages, deteriorating coal quality and ageing power plants.

In its presentation to the CERC, public sector power producer Neyveli Lignite Corporation stated that it would be grossly unfair to expect generating companies to absorb the financial losses resulting from a reduction in power offtake by beneficiaries.

As per private major Lanco, in a scenario of fuel shortages and discoms not purchasing adequate power, generators would be at a disadvantage in spite of all efforts and expenses required to maintain higher availability of units.

Return on equity

In the draft regulations, the regulator has retained the base return on equity (RoE) at 15.5 per cent and the additional RoE at 0.5 per cent for timely completion of projects. Further, a clause stipulating a 1 per cent reduction in RoE has been introduced in case commercialisation is declared without the commissioning of the telemetry and communication systems up to the load despatch centre.

Power producers have, however, sought reconsideration of the existing rates. NTPC has asked the commission to consider an RoE of 18-20 per cent in view of the increasing project development risks, operational risks, fuel shortages, etc.

Hydropower major NHPC Limited too has suggested an RoE of 19.5 per cent for hydropower projects in view of the higher risk that hydropower projects face during project execution. According to Lanco and Adani Power, the RoE should be increased to about 18 per cent.

Central transmission utility Power Grid Corporation of India Limited (Powergrid) has suggested that the RoE should be