

Explanatory Memorandum

On

Draft Chhattisgarh State Electricity Regulatory Commission (Terms and Conditions of Multi Year Tariff) Regulations, 2020

1. Introduction:

1.1 Section 61 of the Act states that Appropriate Commission, for determining the terms and conditions, for the determination of tariff shall be guided by multi-year tariff (MYT) principles). Accordingly, Chhattisgarh State Electricity Regulatory Commission notified CSERC (Multi-year tariff) regulations, 2010 for the control period of three years FY 2010-2012. Subsequently CSERC notified two MYT regulation namely, CSERC (Multi-year tariff) regulations, 2012 for the control period FY 2013-2015, and CSERC (Multi-year tariff) regulations, 2015 for the control period FY 2016-2020.

1.2 The current MYT control period is coming to an end on 31st March 2021, hence, CSERC formulated the draft Chhattisgarh State Electricity Regulatory Commission (Multi Year Tariff) Regulations, 2020 (hereinafter referred as “draft CSERC MYT Regulations, 2020) covering the Generation Business, Transmission Business, Distribution Wires Business, Retail Supply Business, and SLDC for the next MYT Control Period commencing from FY 2021-2026.

1.3 The amendments, modifications in the proposed draft CSERC MYT regulations, 2020 are based on Central Electricity Regulatory Commission, MYT Regulations, 2019, draft MYT Regulations floated by Forum of Regulators, Tariff Policy, 2016 and experience in implementation of the MYT regulations for the previous control periods and also guided by provisions of regulations of other State Electricity Regulatory Commissions.

2. In this explanatory memorandum, the major changes, which have been considered by the Commission for finalising the draft Regulations, are briefly summarized below along with justification.

2.1 **The definition of ACCOUNTING STATEMENT is added in definition section to ensure submission as followings:**

- (a) Preparation of balance sheet, profit & loss account, cash flow in the prescribed format and duly certified by statutory auditors for each license business.
- (b) Balance sheet and profit & loss account prepared in accordance with company Act.

- (c) Cash flow statement as per Applicable Accounting standards.
- (d) Reconciliation of account.
- (e) Cost records as prescribed by Central Govt. under Company Act.
- (f) Supporting document as prescribed by Commission.

Submission of 'Accounts' in a prescribed manner shall facilitate to have quick verification and provides true picture of revenue receipts and expenditure by the licensee / utility. This will help to have 'true-up' process and bring in improved transparency in the process of tariff determination, as the Account will carries consistency in their reporting.

2.2 The definition of '**Expenditure Incurred**' is added in definition section to rationalize capitalization of assets on COD for assessing gross asset value which includes only the fund in cash or cash equivalent paid in actual and also to make it consistent with CERC MYT Regulation, 2019.

2.3 The definition of **Integrated Mines** is added in definition section in line with CERC MYT Regulation, 2019 as Ministry of Coal, Govt. of India is allocating integrated captive mines for supply of coal to the generating stations.

2.4 The definition of **Pit Head Generating Station** is added in definition section to distinguish pit head generating station from non-pit head generating station and also to have transparency.

2.5 Multi- year retail tariff:

Present MYT regulation provides determination of separate retail tariff for each financial year of the control period. Now it is proposed to fixed retail tariff of entire control period at the beginning of control period. This will facilitate the consumers to plan their business activities in advance.

2.6 Change in modalities for considering Base Rate:

Present regulation provides for levy of interest on loan considering the SBI base rate. As most of leading Banks, including SBI have shifted from Base Rate to marginal cost of lending Rate (MCLR) for granting loan, therefore, it is proposed to replace base rate system by MCLR to compute interest in line with CERC MYT, 2019.

2.7 Treatment of Income Tax on Return on Equity (RoE):

In order to bring the clarity on impact of income tax in the calculation of RoE in line with the procedure provided in CERC tariff regulation. Thus income tax liability on the income other than RoE shall now be borne by the licensee/utility.

Accordingly the following changes are proposed in the draft regulation:

For calculating the effective tax rate income tax arises based on following shall not considered.

1. On the amount of efficiency gains and incentive approved in ARR, or
2. On the income from Delay Payment Surcharge, or
3. Interest on Delayed Payment, or
4. Income from Other Business, or
5. On the income from any source that has not been considered for computing the ARR.

2.8 Working Capital Requirement:

Following amendments are proposed for assessing the requirement of working capital of Generating Company and Distribution licensee.

(a) Generating Company:

In case of a generating Company present MYT regulation allows working capital requirement equivalent to cost of one month coal stock for pithead power station and 45 days coal stock for non-pithead power station. Further the secondary fuel stock for two months was also considered for computing the working capital requirement of generating company.

Recently, Central Electricity Regulatory Commission in its MYT Regulation, 2019 has allowed only 10 days coal stock for pithead power station and 20 days coal stock for non-pithead power station for computing working capital requirement. Further CERC Regulation also allowed two months stock for secondary fuel to compute working capital requirement.

In view of the above revised provisions of the CERC regulation, 2019 are proposed to be adopted and also considering readily availability of secondary fuel in the market it is proposed to consider following for assessing the working capital requirement of generating station.

- a. Coal stock for pit head 10 days and for non-pithead 20 days.
- b. Secondary fuel stock for 30 days.

(b) For Discom:

Discom of our State vis-à-vis discoms of other State are also treating consumer security deposit to meet their working capital requirement. The present MYT Regulation also adopted same procedure i.e. to consider consumer security deposit as working capital requirement. However, in the event of the available security deposit exceeds the

working capital requirement and the Discom utilizes such excess security deposit for its own business then such excess use of fund shall attract interest by applying working capital interest rate and the same shall be treated as income of Discom and shall be reduced from ARR.

2.9 Change in treatment of Depreciation:

Presently depreciation on assets are being allowed considering the depreciation as allowed in CERC tariff regulation upto 15 years and beyond 15 years the balance depreciated value is spreaded equally up to the balance useful life of that assets.

In present practice, it is observed that the maintaining asset wise record of remaining useful life i.e. beyond 15 years is very cumbersome and it is not practically feasible to segregate the period wise asset. To simplify the present procedure for determination of depreciated value, it is proposed to apply depreciation rate as notified by CERC in its MYT Regulation, 2019 for the entire useful life of the assets with a capping @ 90% of asset.

2.10 Treatment of Late payment surcharge on delay of payment to the generators:

Rate for computation of surcharge payable on late payment has been reduced from 0.04% to 0.02% per day of delay. Further for State owned power companies, it is proposed to allow surcharge on late payment based on the actual financial burden due to such late payment by the respective companies to improve the cash flow position of State owned Discom.

2.11 Bundling of RE power with conventional power:

There is no provision for bundling of RE power for conventional generating company in the existing regulation. New tariff policy 2016 of MoP allows bundling of RE power by conventional power generation. To facilitate determination of tariff of RE power, new provision is proposed for bundling of RE Power to conventional generator.

2.12 Treatment of expenditure incurred for hiring manpower on outsourcing basis for O&M by utilities:

Present regulation categorizes expenditure incurred for hiring manpower by outsourcing under A&G and R&M. In practice, some of the utilites are deploying hired manpower against the sanction post of the utilites. Thus, this expenditure is actually an expenditure towards man power deployment. Hence, it is proposed to consider this expenditure under Employee Cost.

2.13 Auxiliary Consumption:

Present regulation does not have provision for auxiliary consumption for dry cooling system operating at generating station. CERC has specified norms for auxiliary

consumption for dry cooling system. Hence, it is proposed to adopt this provision in the MYT regulation.

2.14 Transit and Handling losses:

The transit and handling loss rate @ 0.2% for DSPM has been proposed based on the average actual losses of previous five years for this station.

2.15 Treatment of G.C.V.:

CERC MYT Regulation 2019 provides for energy charge rate (ECR) calculation based on GCV as received basis. Hence in the draft regulation it proposed to consider GCV as received basis for computation of ECR.

2.16 Impact of backing down on station heat rate and auxiliary consumption:

Present regulation does not have provision to compensate for higher station heat rate and auxiliary consumption of power station during backing down. It is a technical fact that both station heat rate and auxiliary consumption increases during backing down. As backing down is a requirement of grid discipline and it is beyond the control of generating company. Both CERC has provision for compensating higher station heat rate and auxiliary consumption of power station during backing down. Hence, it is proposed for compensation for higher SHR and increased auxiliary consumption during backing down.

2.17 Computation of Transmission Loss:

Present regulation provides for computation of transmission system losses as difference between total energy injected into the system and sum of energy injected into the 33 KV system of distribution licensee. It is observed that the information submitted by STU regarding energy injected into 33 KV system of Discom is not matching with the energy input data of 33kv system submitted by CSPDCL. To remove this anomaly, it is proposed to express the transmission system loss as difference between total energy input (import) into the transmission system of licensee and total energy exported (output) by transmission licensee through various interface points of transmission system.

2.18 Allocation of Matrix for Wire / supply business:

Present regulation provides for submission of Matrix by the distribution licensee. Other State Commissions have specified allocation Matrix for wire / supply business. Commission has adopted the same with minor deviations for contribution to Pension and Gratuity Fund.

2.19 Wheeling loss below 33 KV:

Present regulation allows 6% wheeling loss for using 33 KV and below voltage lines of distribution system. Commission observed that the present wheeling loss of 6% is higher than actual loss, therefore, it is proposed to rationalized wheeling loss by proposing it at 3%.

2.20 Bad Debt:

It is proposed to allow bad debts equivalent to average of bad debt indicated in the balance sheet of previous three computed financial year for the entire control period, subject to the condition that Disco shall write off the bad debt in its books of accounts

2.21 FCA / VCA:

Deviation in all power purchase cost shall be eligible for variable cost adjustment (VCA) by distribution licensee.