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Power

Tariff regulation FY24-FY29: A benign regime

CERC has finalised the tariff regulations for FY24-FY29. The regulator has largely maintained the RoE for existing thermal, hydro and transmission assets while incentivising new hydro assets with 17% RoE and reduced the RoE for new transmission assets to 15%. There are no material changes in the final order versus the draft order, except a few: 1) Thermal – incentive of INR 0.55/unit for off peak (vs. 50p/unit for off – peak earlier). 2) Transmission – minor changes in O&M expenses. 3) Hydro – relaxed normative availability norms for certain plants. The new regulations are beneficial for thermal gencos owing to higher renovation and maintenance cost, higher incentive for off-peak supply, and hydro gencos for higher RoE on new assets, but slightly negative for NLC TPS-II as normative PAF has been increased to 70% (vs. 50% in draft).

Tariff regulations for FY24-FY29 finalised

CERC has finalised the tariff regulations for FY24-FY29. These regulations are applicable to all cost plus generation and transmission assets. This is the sixth tariff regulations (prior regulations – 2001, 2004, 2009, 2014, 2019) and one of the most benign till date. All previous regulations had tried to tighten operational and financial norms, impacting the sector negatively.

No material changes in final order compared to draft order

From the draft regulations revealed in early-Jan'24, the regulator has now introduced the final order with only a few tweaks, mainly: 1) Thermal – incentive of INR 0.75/unit for peak supply and INR 0.55/unit for off-peak (vs. 50p/unit for off-peak earlier). 2) Transmission – minor changes in the O&M expenses for AC and HVDC lines. 3) Hydro – relaxed normative availability norms for a few plants and reduced O&M expense.

Key aspects of the regulations

Key aspects of the new regulations include: 1) Thermal RoE at 15.5% for existing and new thermal assets. 2) Hydro RoE at 16.5% and 17% for existing and new hydro assets, respectively. 3) Transmission RoE at 15.5% and 15% for existing and new transmission assets, respectively.

Positive development across the board

Tariff regulations have historically been an overhang on the sector in anticipation of incremental tightening of operational and performance norms. However, the new regulations have abstained from any significant tightening; it also incentivises new hydro assets with a higher RoE and reduces RoE on new transmission assets (large chunk of new transmission assets are being executed through bid-based mechanism).

View

The new regulations are beneficial for thermal generation companies owing to the higher R&M allowed for older plants, higher incentives for coal-based power plants and removal of seasonal availability norms. It is also a positive for hydro generation companies given higher RoE for new hydro assets. That said, regulations may have a slightly negative bearing on transmission companies owing to the lower RoE ascribed to new transmission assets and O&M costs. Separately, NLC TPS-II normative PAF has been hiked to 70% (vs. 50% in the draft).

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Exhibit 1: Tariff regulations for thermal assets

Particulars	Final regulations 2019	Draft Regulations 2024	Final regulations 2024
Capacity Charge	Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense)	Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense)	Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense)
Energy charges	Recovery of fuel cost (primary fuel cost and secondary fuel oil cost)	Recovery of fuel cost (primary fuel cost and secondary fuel oil cost)	Recovery of fuel cost (primary fuel cost and secondary fuel oil cost)
Return on equity	15.5% (with no additional return on early completion)	15.5% (with no additional return on early completion)	15.5% (with no additional return on early completion)
Tax on RoE	Income tax grossed up but recoverable on actuals	Income tax grossed up but recoverable on actuals	Income tax grossed up but recoverable on actuals
Interest on loan	Gross normative loan @ 70% with depreciation = repayment	Gross normative loan @ 70% with depreciation = repayment	Gross normative loan @ 70% with depreciation = repayment
Depreciation	Straight Line Method at specified rates; higher for 12 years and at lower rate thereafter	Straight Line Method at specified rates; higher for 12 years and at lower rate thereafter	Straight Line Method at specified rates; higher for 12 years and at lower rate thereafter
Interest on working capital	State Bank of India MCLR + 300 bps	State Bank of India MCLR + 325 bps	State Bank of India MCLR + 325 bps
Base O&M expense	Increased by 8-10% over FY19	Increased by 6-7% over FY23	Increased by 6-7% over FY23
Escalation in O&M expense	O&M expenses escalated at 3.5%	O&M expenses escalated at 5.86%	O&M expenses escalated at 5.86%
Normative PAF	85% on seasonal basis (two seasons)	85% on annual basis	85% on annual basis
Payment of capacity charge (CC)	Full recovery of CC as long as PAF>83%; Recovery of capacity charge on seasonal basis and Introduction of peak and off peak capacity charge	Full recovery of CC as long as PAF>83%; Recovery of capacity charge on seasonal basis and Introduction of peak and off peak capacity charge	Full recovery of CC as long as PAF>83%; Recovery of capacity charge on seasonal basis and Introduction of peak and off peak capacity charge
Incentive	Incentive linked to PLF> 85%; peak hours - 65 paise/Kwh & off peak hours - 50 paise/Kwh	Incentive linked to PLF> 85%; peak hours - 75 paise/Kwh & off peak hours - 50 paise/Kwh	Incentive linked to PLF> 85%; peak hours - 75 paise/Kwh & off peak hours - 55 paise/Kwh
Interest on working capital	Working capital receivable - 45 days, O&M - 1 month, cost of coal - 10 days for pithead, 20 days for non-pithead	Working capital receivable - 45 days, O&M - 1 month, cost of coal - 10 days for pithead, 20 days for non-pithead	Working capital receivable - 45 days, O&M - 1 month, cost of coal - 10 days for pithead, 20 days for non-pithead
Financial gains to be shared on account of controllable parameters (SHR, aux and secondary fuel oil cons)	50:50 between generator and consumer	50:50 between generator and consumer	50:50 between generator and consumer
Blending of coal	Prior permission if energy charge >30% of base charge or >20% of previous month, whichever is lower		
Reduction of equity for older power plants	No provision for reduction in equity		
Water charges	Additional recovery separately	Additional recovery separately	Additional recovery separately
Security expenses	Additional recovery separately	Additional recovery separately	Additional recovery separately
GSHR of existing station	200/210/250MW sets - 2430 Kcal/Kwh and 500MW sets - 2390Kcal/kwh	200/210/250MW sets - 2400 Kcal/Kwh and 500MW sets - 2375Kcal/kwh	200/210/250MW sets - 2415 Kcal/Kwh and 500MW sets - 2375Kcal/kwh
GSHR of new station	1.05* Design heat rate	1.05* Design heat rate	1.05* Design heat rate
SFO consumption	0.5 ml/Kwh	0.5 ml/Kwh	0.5 ml/Kwh
Aux energy cons for 300/330/500MW & above	8.00%	Steam driven boiler feed pumps - 5.25%; Electrically driven boiler feed pumps 8%	Steam driven boiler feed pumps - 5.25%; Electrically driven boiler feed pumps 8%
Sharing of gains related to restructuring of loans	50:50 with consumer	50:50 with consumer	50:50 with consumer
Late payment surcharge	1.50% per month (applicable from 45 days)	As per LPS Rules Mar-22	As per LPS Rules Mar-22

Source: CERC tariff regulations

Exhibit 2: Tariff regulation for transmission assets

Particulars	Final regulations 2019	Draft Regulations 2024	Final Regulations 2024
Capacity Charge	Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense, cost of secondary fuel)	Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense, cost of secondary fuel)	Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense, cost of secondary fuel)
AC System	Recovery of capacity charge at 98% availability	Recovery of capacity charge at 98% availability	Recovery of capacity charge at 98% availability
DC System	Recovery of capacity charge at 95% availability	Recovery of capacity charge at 95% availability	Recovery of capacity charge at 95% availability
Return on equity	15.5% pre-tax with grossing up (with additional return of 0.5% on timely completion)	15.5% pre-tax with grossing up (with additional return of 0.5% on timely completion); New projects at 15%	15.5% pre-tax with grossing up (with additional return of 0.5% on timely completion); New projects at 15%
O&M expenses	8-10% increase in base O&M expenses	8-10% increase in base O&M expenses	8-10% increase in base O&M expenses
Security expenses	Additional recovery separately	Additional recovery separately	Additional recovery separately
Interest on working capital	Working capital receivable - 2 months, O&M - 1 month and Maintenance Spared @15% of O&M		
Incentive			
HVDC	Over and above benchmark of 98.5%	Over and above benchmark of 98.5%	Over and above benchmark of 98.5%
HVAC	Over and above benchmark of 96%	Over and above benchmark of 96%	Over and above benchmark of 96%
Sharing of gains related to restructuring of loans	50:50 with consumer	50:50 with consumer	50:50 with consumer
Late payment surcharge	1.50% per month (applicable from 45 days)	As per LPS Rules Mar-22	As per LPS Rules Mar-22

Source: CERC tariff regulations

Exhibit 3: Tariff regulations for Hydro assets

Particulars	Final regulations 2019	Draft Regulations 2024	Final Regulations 2024
Annual fixed cost (AFC)	Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense, cost of secondary fuel)	Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense, cost of secondary fuel)	Recovery of annual fixed cost (RoE, interest, depreciation, interest on working capital, O&M expense, cost of secondary fuel)
Capacity Charge	50% AFC recoverable on normative availability	50% AFC recoverable on normative availability	50% AFC recoverable on normative availability
Energy Charge	50% AFC recoverable on generation of design energy	50% AFC recoverable on generation of design energy	50% AFC recoverable on generation of design energy
Return on equity	16.5% for hydro station with pondage otherwise 15.5%	16.5% for hydro station with pondage otherwise 15.5%; 17% for new projects	16.5% for hydro station with pondage otherwise 15.5%; 17% for new projects
Water expenses	Recovery separately	Recovery separately	Recovery separately
Security expenses	Additional recovery separately	Additional recovery separately	Additional recovery separately
Interest on working capital	Working capital receivable - 2 months, O&M - 1 month and Maintenance Spared @15% of O&M	Working capital receivable - 2 months, O&M - 1 month and Maintenance Spared @15% of O&M	Working capital receivable - 2 months, O&M - 1 month and Maintenance Spared @15% of O&M
Incentive			
Over recovery on PAF	Over and above benchmark plant wise	Over and above benchmark plant wise	Over and above benchmark plant wise
Higher than Design energy	Over and above design energy; energy charge @120ps/kwh > design energy	Over and above design energy; energy charge @120ps/kwh > design energy	Over and above design energy; energy charge @120ps/kwh > design energy
Sharing of gains related to aux	50:50 with consumer	50:50 with consumer	50:50 with consumer
Sharing of gains related to restructuring of loans	50:50 with consumer	50:50 with consumer	50:50 with consumer
Late payment surcharge	1.50% per month (applicable from 45 days)	1.50% per month (applicable from 45 days)	1.50% per month (applicable from 45 days)

Source: CERC tariff regulations

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