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GERC Announces the draft GERC Multi-Year Tariff (MYT) Regulations for the Five -Year Control Period beginning April 1, 2021

The Gujarat Electricity Regulatory Commission has been vested with the functions of regulating the tariff of the generation, supply, transmission and wheeling of electricity, wholesale, bulk or retail, as the case may be, within the State under Section 86 (1) (a) of the Electricity Act, 2003. The existing MYT Regulations covering the period April 1, 2016 to March 31, 2021 are due to expire on March 31, 2021. Accordingly, it is essential that new MYT Regulations should be put in place, effective from April 1, 2021.

Accordingly, the Gujarat Electricity Regulatory Commission has prepared the draft GERC MYT Regulation, 2021 which is proposed to supersede the GERC MYT Regulations, 2016.

Based on this elaborate exercise, the Commission has issued the draft GERC MYT Regulations, 2021 and invites comments, suggestion and / or objections from all the stakeholders.

The Act envisages that the tariff parameters should encourage competition, efficiency, economical use of resources, good performance and optimal investment, while safeguarding consumer interest as well as protecting financial health of utilities. All these parameters have been kept in view while framing the Regulations. Keeping the spirit of the Electricity Act, 2003 which lays the foundation for new unbundled power sector functioning in a competitive environment, the Commission has emphasised the following salient features in the Draft MYT Regulations:

- Some of the **Definitions** have been modified or new definitions have been added for bringing clarity on various provisions/regulations/clauses proposed in the draft GERC MYT Regulations, 2021.

- **Base Rate** for calculation of carrying cost, interest on working capital, etc. is linked to one-year Marginal Cost of Funds-based Lending Rate ('MCLR') as declared by the State Bank of India from time to time.

- **Deviation in Tariff** is permitted to Generating Companies and Transmission licensee for charging lower tariff with the condition that the differential amount will not be allowed to be recovered in future.

- **Reconciliation** of Financial accounts (Prepared under IND AS) with ARR formats is a must for Generating Company, Transmission Licensee, SLDC and Distribution Licensee.

- **Mechanism of Sharing of gains / losses of controllable factors** has been modified wherein, higher gains on account of controllable factors are to be passed to consumers as rebate in tariff and in case of losses higher share of losses to be absorbed by the Utilities.

- **Capital expenditure** towards Perform, Achieve and Trade (PAT) scheme or sewage treatment plant or to achieve revised Environmental Norms/Statutory Norms of Government of India or due to force majeure is proposed to be considered by the Commission on case to case basis.

- **'In-principle' approval** mechanism has been proposed for various capital expenditure schemes involving major investments in order to provide regulatory certainty to the Generating Company or the Licensee on one side and provide advance notice of such capital expenditure to the beneficiaries or long-term customers on the other. Accordingly, the 'Guidelines for In-Principle Clearance of Proposed Investment Schemes' has been proposed. Further the capital expenditure projects having value below the assigned value as per guidelines shall fall under non-DPR schemes for which procedures has been specified in Regulations.

- The period for filing application for **Provisional Tariff** for New Generating Station has been revised from 180 days to 60 days prior to anticipated Commercial operation.

- The **normative Debt: Equity ratio** would be 70:30. However, it is proposed that during the determination of ARR or Truing up of ARR of any financial year of the control period, if the resultant total normative outstanding loan after repayment is negative, then the equity for that year shall be reduced to the same extent and thereafter the return on equity shall be calculated.

- The **Return on Equity** has been proposed to be allowed in two parts viz. Base Return on Equity, and Additional Return on Equity which is linked to actual performance. The base Return on Equity for the Generating Company, Transmission Licensee and SLDC has been kept at 13.00% and for Distribution Licensee at 13.50%. The Additional Return on Equity to be allowed only at the time of truing up subject to achievement of the performance targets.

- **Interest and finance charges** will be allowed on normative basis, and in case the Generating Company or the Transmission Licensee or SLDC or the Distribution Licensee as a whole does not have actual loan, then the rate of interest is proposed to be considered as SBI MCLR plus 150 bps.

- Relevant modification in the clauses related to **Re-financing of loan** in different scenario has also been proposed to bring more clarity.

- **Depreciation** shall be computed annually based on the straight line method at the rates specified in the draft Regulations and will be allowed up to a maximum of 90 per cent of the allowable capital cost of the asset. However, for IT equipment and software the salvage has been proposed to be considered as NIL and 100% value of the assets shall be considered depreciable. An option has been provided to Generating Company or

Licensee to claim lower rate of depreciation subject to the ceiling rate as specified in Regulations.

- **Working capital** shall be allowed on normative basis, and rate of interest has been proposed as SBI MCLR plus 150 bps as against the existing SBI MCLR plus 250 bps. However, the working capital for Generating Company shall be computed based on actual Fuel stock position at the time of Truing up.

- For allowing **Income Tax** to the Utilities, the grossing up of RoE approach has been proposed wherein, the rate of Return on Equity shall be grossed up with the effective Tax rate on the basis of actual tax paid on the Book profit.

- For **Operation and Maintenance Expenses** revised principles has been proposed for existing Utilities wherein, the escalation rate for O&M expenses has been linked to Wholesale Price Index (WPI) and Consumer Price Index – Industrial Workers (CPI_{IW}) indexation. In case of new Generating Stations, revised norms have been proposed.

- **No additional incentive** to utilities as RoE is now linked with incentives.

- For efficient utilisation of fuel and to optimize generation cost, it is proposed that Generating Company shall prepare and submit **Fuel Utilisation Plan** for the Commission's approval.

- The **supply of Infirm Power** has been proposed to be accounted as deviation / Unscheduled Interchange and shall be paid at Charges for Deviation for Infirm Power in accordance with the relevant Regulations notified by the Commission. Further, the revenue earned from supply of Infirm Power after accounting for the fuel cost shall be used for reduction in Capital Cost.

- The **operating norms** for Generating Company has been revised based on the actual performance over the past years and the norms for consumption of reagent has been introduced. Operational Norms for Reagent has been proposed.

- For **Energy Charge** computation, it is proposed to introduce Normative stacking losses of 85 kcal/kg for pithead stations and 120 kcal/kg for non-pithead stations to take care of losses in calorific value of coal on account storage at generating station. Also, to ensure more efficiency and the accounting of proper quality of coal, it is proposed to have a third party sampling of GCV. Also, Demurrage charges is proposed to be disallowed while calculating the energy charges.

- **Deviation Charges** under Deviation Settlement Mechanism whereby no UI charges including Additional UI Charges, related to any deviation in schedule will be allowed to as pass through for Generating Company and is proposed that only normal deviation charges paid or earned will be allowed as a pass through to Distribution Licensee.

- Enabling Provisions towards **Compensation in relation to operation on account of backing down** has been proposed wherein, if the Generating Station or Unit is instructed for backing down the impact of the same on any of the operational parameters such as Gross Station Heat Rate, Auxiliary consumption and Secondary Fuel Oil Consumption may be considered by the Commission on case to case basis.

- Enabling Provision for implementation of **Transmission Pricing Framework** in line with methodology adopted by CERC is included.

- RLDC Fees and WRPC Charges as well as ULDC and SCADA upgradation charges are included in **component of Tariff of SLDC**.

- Methodology for creation of **LDC Development fund** is proposed in the Draft MYT Regulations.

- **Investment against Contingency Reserves** is restricted to interest bearing securities only preferably government securities and shall not be a market linked products.

- **Sharing of Income from other business** under Section 51 of the Electricity Act 2003 is revised from one third to half of the revenue.

- **Additional Power Procurement** will be allowed by Distribution Licensee subject to fulfilment of certain conditions.

- **Fuel Price and Power Purchase Price Adjustment** has been proposed to be a part of MYT Regulations and hence the provisions are included.

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