

**PUNJAB STATE ELECTRICITY REGULATORY COMMISSION**  
**SITE NO. 3, BLOCK-B, MADHYA MARG, SECTOR 18-A, CHANDIGARH-160018.**

**ORDER**

**DATE: 17.09.2024**

**In the matter:**

**Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and retail supply tariff) (4<sup>th</sup> amendment) Regulation, 2024.**

**1. Introduction**

The Commission issued the draft notification regarding PSERC (Terms and Conditions for Determination of Generation, Transmission, Wheeling and retail supply tariff) (4<sup>th</sup> Amendment) Regulation, 2024 along with explanatory memorandum through a public notice issued in the newspapers dated 28.06.2024 and also published on the website of the commission, inviting suggestions/objections of the public and stakeholders on the proposed amendments by 26.07.24. The public hearing was fixed for 07.08.2024. In response to the above, 2 nos. of objections were received from the following objectors:-

1. PSTCL (Objector No 1.)
2. PSPCL (Objector No 2.)

The Public hearing in this respect was held by the Commission on 07.08.2024.

The comments/objections received on draft amendments, the analysis and decision of the Commission on these comments/objections/suggestions along with reasons for the same are, as under:

**2. Amendment in Regulation 3 of the Principal Regulations- Definitions & Interpretations:**

- (a) In the Definition of **“Auxiliary Energy Consumption”** or **“AUX”** in Regulation 3.6 the word “generating plant” shall be replaced with “generating plant (including for Emission Control System)”.
- (b) Regulation 3.27 (a) shall be added **as follows:**

“3.27(a) **Emission Control System**” or “**ECS**” means a set of equipment or devices required to be installed in coal or lignite based thermal generating station or unit thereof to meet the revised emission standards;”

**Objections/suggestions received: 1**

**Name of the Objector: PSPCL (Objector no. 2)**

**Details of objection received are as discussed below:-**

Auxiliary consumption of Emission Control System may be considered separately over and above the auxiliary consumption of the existing generating station.

An alternative to adding ‘Emission Control System’ in parenthesis, could be to define ‘Generating Plant’ or amend the definition of ‘Project’ to include ‘Emission Control System’ (instead of existing ‘pollution control system’) along with all other systems.

**Commission’s Analysis and Decision:**

The draft amendment is in line with the CERC Regulations, however as the FGDs required to comply with new environment norms are not expected to be installed in this MYT control period, the provision for same shall be considered for incorporation in the draft of MYT Regulations for the next control period.

### **3. Amendment in Regulation 18 of the Principal Regulations- Additional Capitalization**

**Clause 18.2 (c) is amended as under:-**

“(c) On account of change of law (**including for the Emission Control System**);”

**Objections/suggestions received: 1**

**Name of the Objector: PSPCL (Objector no. 2)**

**Details of objection received are as discussed below:-**

Change in Law has been already defined under the MYT regulations and under various PPAs.

Therefore, addition and emphasising ‘Emission Control System’ under Change of law clause here is not required, as the same may be recognised by affected parties and the respective Commissions under the terms of respective PPAs.

**Commission’s Analysis and Decision:**

The draft amendment is in line with the CERC Regulations, however as the FGDs required to comply with new environment norms are not expected to be installed in this MYT control period, the provision for same shall be considered for incorporation in the draft of MYT Regulations for the next control period.

#### **4. Amendment in Regulation 20 of the Principal Regulations-Return on equity**

Following New Proviso shall be added as under:-

“Provided further that the return on equity in respect of additional capitalization on account of any change in law shall be as per Regulation 23.1, subject to ceiling of 14%.”

**No comments/Objections/suggestions received.**

#### **5. Amendment in Regulation 21 of the Principal Regulations- Depreciation:**

Following New Proviso 21.7 and 21.8 shall be added as under:

“21.7 Depreciation of the emission control system of an existing generating station that is yet to complete its useful life or a new generating station or unit thereof where the date of operation of the emission control system is subsequent to the date of commercial operation of the generating station or unit thereof, shall be computed annually from the date of operation of such emission control system based on the straight line method at the rate of depreciation specified by the Central Electricity Regulatory Commission from time to time.

Provided that the remaining depreciable value as on 31<sup>st</sup> March of the year closing after a period of 12 years from the date of operation of such emission control system shall be spread over the balance period of thirteen years or balance operational life of generating station, whichever is lower;

Provided also that in case the date of operation of the emission control system is after the 20<sup>th</sup> year of commercial operation of the generating station or unit thereof, but before the completion of the useful life of the generating station, the depreciation on emission control system (ECS) shall be computed annually from the date of operation of such ECS based on the straight line method, with a salvage value of 10% and the depreciable value shall be recovered till the operational life of the generating station.

21.8 In case the date of operation of the emission control system is subsequent to the date of completion of the useful life of generating station commercial operation of the generating station or unit thereof, depreciation of ECS shall be computed annually from the date of operation of such emission control system based on the straight line method, with a salvage value of 10% and



recovered over ten years or a period mutually agreed by the generating company and the beneficiaries, whichever is higher.”

**Objections/suggestions received: 1**

**Name of the Objector: PSPCL (Objector no. 2)**

**Details of objection received are as discussed below:-**

The addition of asset i.e., Emission Control System is already proposed to be included in Regulation 18 'Additional Capitalisation'. Further, Regulation 21.3 of existing MYT Regulation states that '*The Cost of the asset shall include additional capitalization*'. Hence, Regulation 21.5 & 21.6, providing depreciation over useful life of assets as per straight line method are already applicable on additional capitalization including said addition of emission control system.

PSPCL submitted that if the proposed new clause is specifically meant for addition of asset subsequent to the date of commercial operation of the generating station or unit thereof, then the words '*emission control system*' may be replaced with '*additional capitalisation*' which is more prudent, at the same time covers all items defined in Regulation 18 and could cater to any future statutory requirements also.

Further the second proviso to 21.7 defines that if addition is made after 20<sup>th</sup> year of the commercial operation of generating station or unit but before completion of useful life, the asset shall be depreciated on straight line basis with salvage value of 10% at depreciable value shall be recovered till operational life of generating station. However, if the addition is made between 12<sup>th</sup> and 20<sup>th</sup> year then as per proposed regulation, depreciation will be charged at normal rate for 12 years. In this case, value of additional asset would not depreciate up to 90%, till the completion of useful life of asset. Hence, it is requested that the word '*20<sup>th</sup> year*' may, be replaced by '*12<sup>th</sup> year*', so that 90% of cost of additional capitalisation may be depreciated over useful life of asset.

As remarked for regulation 21.7 above, here also, the words '*emission control system*' & '*ECS*' may be replaced with '*additional capitalisation*' which is more prudent, at the same time covers all items defined in Regulation 18 and could cater to any future statutory requirements also.

It is pertinent to mention that the above comments have been provided considering useful life of plant as 25 years, as per Regulation 3(87) 'Useful Life' of CERC Tariff Regulations 2024 as referred by the PSERC MYT Regulations in

Regulation 21 'Depreciation'. PSPCL submitted that this Commission has decided the petition 29 of 2023 vide its order dated 02-07-2024 (refer point no 8.2.1 Page no 43) considering the useful life of generating plant as 40 years in line with the Companies Act 2013. Hence, it is requested to the Commission to kindly clarify the life of assets to be considered for this regulation.

**Commission's Analysis and Decision:**

The draft amendment is in line with the CERC Regulations, however as the FGDs required to comply with new environment norms are not expected to be installed in this MYT control period, the provision for same shall be considered for incorporation in the draft of MYT Regulations for the next control period.

**6. Amendment in Regulation 23 of the Principal Regulations- Interest on loan capital:**

**(a) Clause 23.1 shall be amended as under:-**

“23.1 Interest and finance charges on the loan capital (existing and future for new investments) shall be computed on the loans, based on one (1) year State Bank of India (SBI) MCLR / any replacement thereof as notified by RBI as may be applicable as on 1<sup>st</sup>April of the relevant year, plus 150 basis points or the weighted average rate of interest paid/payable by the Generating Company, Licensee or SLDC, whichever is less.”

(b) Clause 23.2 shall be deleted.

(c) Clause 23.3 shall be read as 23.2.

(d) Clause 23.4 shall be read as 23.3

(e) Clause 23.5 shall be read as 23.4

**Objections/suggestions received: 2**

**Name of the Objector: PSTCL (Objector no. 1)**

**Details of objection received are as discussed below:-**

As per Regulation no 8.2 of PSERC MYT Regulations, 2022, the rate of interest on Long term Loans, is an uncontrollable item in the ARR. The variation on account of uncontrollable items shall be treated as a pass through subject to validation and approval by the commission. Accordingly, as per Regulation no 23 of the MYT Regulations, dealing with Interest on Loan capital, the rate of interest shall be actual rate of interest paid/payable (other than working capital loans) on loans by the Licensee being an uncontrollable item.

The fourth amendment to MYT Regulation has proposed for approval for interest and finance charges on the loan capital (existing and future for new investments) based on one year State Bank of India (SBI) MCLR/any replacement thereof as notified by RBI as may be applicable as on 1<sup>st</sup> April of the relevant year plus 150 basis points or the weighted Average rate of interest paid/payable whichever is less **which is contrary to the principal of segregating the item" Rate of Interest on Loan Capital" as uncontrollable item.**

The life of transmission assets are 25/35 years. So the tenure of the loans should be matched with the life of the asset. However, the commercial banks i.e. SBI are generally reluctant in providing financial support for the projects with door-to-door tenure of 25 years or more. Hence, for availing funding for such period, the licensee has no other options but go with FIs i.e. REC and PFC, which provide funds for longer tenure. In such case, the interest shall be paid at the applicable card rate of the FIs irrespective of the SBI MCLR+150 bps.

The rate of interest on the loans availed for Capex programme is subject to revision from time to time as per the interest rate policy of the respective FI. Once the financial closure is achieved with financial institution for the transmission project, the licensee does not get any option to manage the rate of interest according to the SBI benchmark rate during the pendency of the loan. Since, the applicable card rates of the FIs are independent of the Benchmark rate of SBI, the interest at the applicable card rate of respective FI will have to be paid irrespective of the increasing or decreasing trend of the SBI rate.

**Keeping in view the above, it is submitted that this commission should continue allowing the interest on capital loans on actual basis as per Regulation no 23.01 of the MYT Regulations 2022.**

**Name of the Objector: PSPCL (Objector no. 2)**

**Details of objection received are as discussed below:-**

PSPCL submitted that the as per Regulation 8.2, the Rate of Interest on Long Term Loans has been categorised as an 'Uncontrollable' item. Therefore, the proposed amendment of Regulation 23.1 seems to be in divergence with the same.

Moreover, the proposed amendment is unfair to a utility as the actual interest cost could vary due to various reasons which may not be under utility's control. Further,



the majority of the long term funding of utilities is done by Financial Institutions, the rates of which are independent of SBI rates.

Further, the CERC Tariff Regulations 2024 also specify that the rate of interest on loan capital '*shall be the weighted average rate of interest calculated on the basis of the actual loan portfolio or allocated loan portfolio*'.

Therefore, the existing regulation of considering actual rate of interest and the schedule of repayment as per the terms & conditions of relevant agreements for existing loans and SBI MCLR plus a margin determined on the basis of actual rate of interest of the capex loan for future loans is a balanced regulation and reflects the true cost of debt of a utility.

Note: CERC has considered a reference rate of SBI MCLR +325 basis points. In case Hon'ble Commission does not consider the above contention of PSPCL, then interest rate @ SBI MCLR + 325 basis points may be considered against the proposed rate of SBI MCLR + 150 basis points.

**Commission's Analysis and Decision:**

Some generators have replaced their loans to get a lower weighted average rate of interest of around 8-9% .However in case of other generators the rate of interest for existing schemes being allowed as per Regulation 23.1 proves to be much higher in comparison. Since the interest is a pass through expense they do not have any incentive or urgency to restructure their loans. Secondly for a new loan also, adding an uncertain margin based on loanees credit rating is also leading to a higher rate of interest which is passed through to the consumer. Interest rates are higher due to lower credit score/credit worthiness of the borrower and an inefficient or impaired track record of servicing /repayment of loans. Such inefficiency or bad credit rating should not become a higher load for the consumer. Thus a normative cost /pass through of interest cost as in case of Working capital is a more reasonable and logical way of servicing the borrowing and levels the field for all generators/borrowers in tariff determination.

**7. Amendment in Regulation 25 of the Principal Regulations- Operations & Maintenance (O&M) Expenses:**

(a) The definition under clause 25.1 of "GFA" shall be amended as under:

"'GFA' is the average value of the gross fixed assets of the n<sup>th</sup> year.

Provided that the land shall not be taken as an asset for computing R&M expenses:

Provided further that the R&M expenditure on land if any will be allowed on actuals or normative whichever is less subject to prudence check.”

**-new note shall be added:**

**Note 11:** The expenses on account of emission control in coal or lignite based thermal generating station shall be a maximum of 2% or actual whichever is lower of the admitted capital expenditure (excluding IDC and IEDC) as on its date of operation, which shall be escalated annually @3.5% during the tariff period ending on 31<sup>st</sup> March 2024:

Provided that income generated from sale of gypsum or other by products shall be reduced from the operation and maintenance expenses.

**Objections/suggestions received: 1**

**Name of the Objector: PSPCL (Objector no 2)**

**Details of objection received are as discussed below:-**

PSPCL submitted that the proposed amendment is not clear as to how the normative R&M expenditure on land will be calculated.

Further, any R&M expenditure on land has to be allowed on actual basis as the same will be only due to an extraordinary situation.

The new Note 11 proposed to be added, seems to complicate O&M expense calculations. The same should be allowed to be included within the overall O&M expense calculation for the whole utility.

However, the proviso “*Provided that income generated from sale of gypsum or other by products shall be reduced from the operation and maintenance expenses.*” is fair and acceptable.

**Commission’s Analysis and Decision:**

The Commission will consider the amendment in Regulation-25 in the next MYT.

**8. Amendment in Regulation 30 of the Principal Regulations- Billing and payment of charges and late payment surcharge:**

In Clause 30.2, the words “60 days” shall be replaced with “30 days”.

**Objections/suggestions received: 1**



**Name of the Objector: PSPCL (Objector no 2)**

**Details of objection received are as discussed below:-**

Most of the existing PPAs have payment period of 60 days. PSPCL further submitted that the proposed amendment in payment period is in contradiction to the proposed amendments in working capital requirements for generation and transmission business where receivables of 45 days have been proposed.

Therefore, the payment duration as per MYT regulations should remain as 60 days.

**Commission's Analysis and Decision:**

PSPCL seems to have confused this matter as this Regulation relates to receipt of payments from its consumers rather than payment to be made to the generators.

Billing for majority of the DS consumers whose load is above 10 kW is monthly and for the rest the billing is bi-monthly. Government of Punjab currently provides Subsidy for DS consumers having consumption of less than 300 units per month and 600 units in case of bi-monthly billing cycle, therefore revenue (in the form of Subsidy) is mandated by rules to be received in advance which is around 64% of the entire DS revenue. For the other categories of consumers billing cycle is monthly therefore revenue is expected to be received in 30 days.

**9. Amendment in Regulation 32 of the Principal Regulations- Components of Working Capital:**

- a) In Clause 32.1 (a) (iv) the words "two (2) months" shall be replaced with "45 days".
- b) In Clause 32.1 (b) (v) the words "2 months" shall be replaced with "45 days".
- c) In Clause 32.1 (c) (iii) the words "2 months" shall be replaced with "45 days".

**Objections/suggestions received: 1**

**Name of the Objector: PSPCL (Objector no. 2)**

**Details of objection received are as discussed below:-**

For generating stations, receivables equivalent to 60 days of fixed and variable charges for sale of electricity calculated on the normative annual plant availability factor should be the norm as prevailing.

**Commission's Analysis and Decision:**

Generators on an average supply power for 15 days before they raise the bill for which the due date of payment is 30 days. Therefore payment is received by the generator after 45 days. The interest being passed on to the consumer for two months was on the higher side. Besides receivables are payable within one month by the consumers. Interest on receivables for two months for determining working capital was also on the higher side. Therefore, the proposed amendment in receivables equivalent to 45 days is in order.

**10. Amendment in Regulation 34 of the Principal Regulations- Norms for performance parameters:**

The words "specific oil consumption" shall be replaced with "specific oil/water/reagent consumption.

**Objections/suggestions received: 1**

**Name of the Objector: PSPCL (Objector no 2)**

**Details of objection received are as discussed below:-**

PSPCL submitted that PSERC may consider the following amendment separately mentioning different factors:

*"The norms for performance parameters for a Generating Company i.e. availability, load factor, station heat rate, **specific oil consumption, water consumption, reagent consumption, auxiliary consumption etc. shall be as per the CERC norms or as determined by the Commission.**"*

PSPCL also submits its case for adoption of relaxed norms for performance parameters for the generating stations of PSPCL.

**Commission's Analysis and Decision:**

Suggestion/objection of PSPCL has been noted and Regulation- 34 is amended as under:

The words "specific oil consumption" shall be replaced with "**specific oil consumption, water consumption, reagent consumption, auxiliary consumption etc**".

**11. Amendment in Regulation 42 of the Principal Regulations- Interest on working capital:**

(a) In Clause 42.1 (c) the words "two (2) month" shall be replaced with "45 days".

(b) In Clause 42.2 (c) the words “2 months” shall be replaced with “45 days”.

(c) In Clause 42.2 (c) the words “one month of power procurement cost including associated cost” shall be deleted.

**Objections/suggestions received: 1**

**Name of the Objector: PSPCL (Objector no. 2)**

**Details of objection received are as discussed below:-**

PSPCL submitted that the receivables for distribution business has to be equivalent to 60 days of the expected revenue from tariff as in the state of Punjab majority of consumers are billed on bi-monthly basis.

Moreover, the regulation in the state of Haryana also has similar provision of considering receivables of 60 days for distribution business.

It is submitted that while determining the working capital requirement for a particular year, Hon'ble PSERC is reducing the average consumer security deposit as on 31<sup>st</sup> March of the year, which reduces the working capital requirement considerably. Therefore, it is proposed that the net security deposit added during a year may be considered as the same will be used as working capital for a particular year.

Further, removal of the provision for deducting 1 month of power procurement cost is a welcome step by PSERC and is acceptable to PSPCL.

**Commission's Analysis and Decision:**

Refer the Commission decision in Para 8:

The expected revenue from tariff is received within 45 days since billing cycle is generally monthly in Punjab.

**12. Amendment in Regulation 50 of the Principal Regulations- Interest on working capital:**

In Clause 50.1 (c) the words “two (2) months” shall be replaced with “45 days”.

**Objections/suggestions received: 1**

**Name of the Objector: PSPCL (Objector no. 2)**

**Details of objection received are as discussed below:-**

Relates to Trans Co.

**Commission's Analysis and Decision:**

Not applicable.



The Commission has gone through the objections/suggestions/comments of the objectors and after detailed deliberations, the Commission approves the Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and Retail Supply (4<sup>th</sup>Amendment) Regulations, 2024 with modifications as discussed above.

**Sd/-**  
**(Paramjeet Singh)**  
**Member**

**Sd/-**  
**(Viswajeet Khanna)**  
**Chairperson**

**Chandigarh**  
**Dated:17.09.2024**

