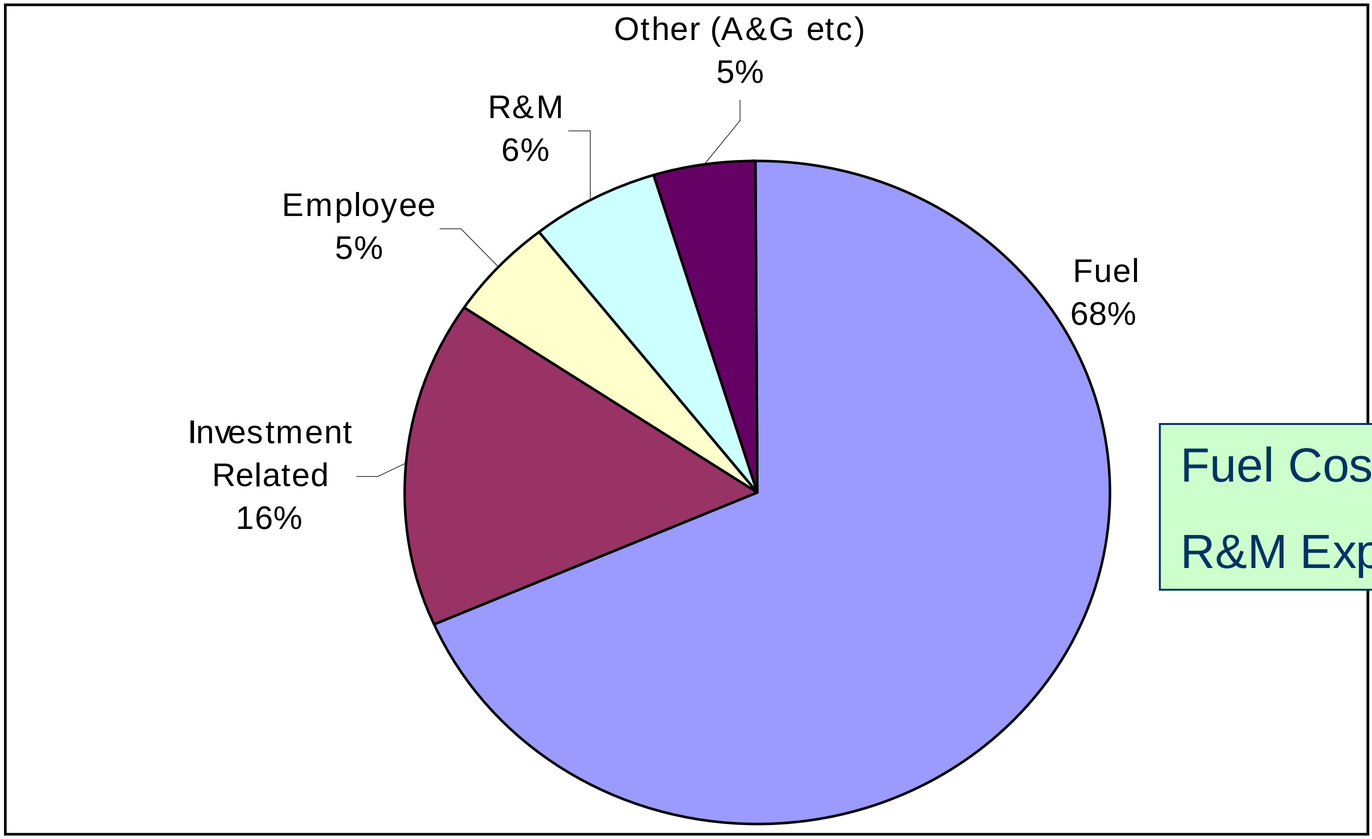
Multi Year Tariff Application by MSPGCL (MahaGenco) for FY 2008 to FY 2010

Prayas Energy Group

Public Hearing, Mumbai

28th February 2006

Major Costs of MSPGCL for FY08



Fuel Cost = 68%

R&M Expense = 6%

R&M Expenses

- R&M expenses
  - 490 Cr in FY 2007
  - 498 Cr in FY 2008
  - è Increase of about 50% over FY 2006 AUDITED figures
  - è No improvement in generation performance is projected by MSPGCL
- è Should be considered only for specific plants on a case-to-case basis
- è But should not form a norm / base for MYT control period
- è Need for a rational link between R&M expenses and generation performance

Generation Performance

- No improvement proposed in station heat rates during the control period
  - For example, Khaparkheda (newest plant of MSPGCL with all 210 MW units) is proposed to operate at 2644 kCal/kWh (deteriorated from 2597 kCal/kWh in FY 2006)
  - Need to project unit-wise performance
    - Large variations in unit vintages
- Need to stringently monitor forced outages
  - Duration as well as number of interruptions

Lease Rental Charges for Hydro Stations ...1

- Revised to 424 Cr in FY 2007 based on a GR issued by GoM
  - Average tariff increase of about 8 p/unit for all consumers in the state

- ATE order dated 26th May 2006 in Case 55 of 2005 (PSEB vs PSERC on allocation of cost of Ranjit Sagar Dam):

  "… the Commission is not helpless in dealing with the RSD cost and loans and interest thereon …

  … and such costs cannot as a matter of course be passed on to the consumers without considering the reasonableness of such costs and the interests of the consumers."

è GoM GR cannot form a basis to increase lease rentals and charge it to electricity consumers in the state

è MERC should determine the lease rental charges by applying prudent norms

Lease Rental Charges for Hydro Stations ...2

- Observations on CRISIL report
  - No validation of capital cost of Koyna st. IV (pg. 20)
  - No data about loan repayment (pg. 28)
  - No data about design energy as per DPR (pg. 29)

  (For more details, pls refer to Prayas's submission on MSPGCL ARR for FY 2007)

- Demonstration of the declared capacity required (as defined in MERC Tariff Regulations S.40)
  - Koyna never operated at full capacity of 2000 MW
  - To establish prudence of the capital investment being recovered from consumers

Tariff for Small Hydro Projects (SHP)

- MSPGCL has proposed a tariff of Rs 3/unit for SHPs
- MERC order on SHP is not applicable to MSPGCL's old stations
  - MERC order was to promote new SHPs in the State
  - It was based on certain assumptions of Capital Cost, CUF etc
  - MSPGCL SHPs are already depreciated and have earned revenue in earlier years
  - SHPs are expected to be built with the primary purpose of power generation è Full cost allocated to electricity consumers
- All MSPGCL's costs are presently covered due to cost-plus regulation

Other Issues ...1

- True-up for FY 2005-06
  - True-up with actual revenue earned and not with the approved ARR
  - Reconciliation of FAC recovered by MSPGCL with total revenue is required

- Hydro Tariff Framework
  - MSPGCL Hydro can be operated during off-peak period only in emergency / force-majeure event
  - In case, off-peak generation is more than anticipated, it may be trued-up in the next ARR subject to prudence and justifiability check by MERC

Other Issues ...2

- Cashflow of MSPGCL
  - Smooth cashflow should be ensured
  - MSEDCL should be directed to make timely payments to MSPGCL

  è MSPGCL should be directed to report every occurrence of non-payment / short payment of generation charges by MSEDCL for consecutively 2 months

Prayers ...1

1. R&M Expenses should be considered only for specific plants on a case-to-case basis and it should not form a norm / base
2. MERC should establish a rational link between R&M expenses and generation performance
3. MERC should project unit-wise performance due to large variations in unit vintages
4. There should be stringent monitoring of forced outages not only for duration but also for number of interruptions

Prayers ...2

5. MERC should not accept the lease rental charges proposed by MSPGCL
   - MERC should determine the lease rental charges by applying prudent norms

6. Proposal of tariff of Rs 3/unit for MSPGCL SHPs should not be accepted

7. FY 2005-06 ARR should be trued-up with actual revenue earned and not with the approved ARR

8. FAC recovery by MSPGCL should be reconciled with the total revenue earned

Prayers …3

9. MSPGCL should be directed to report every occurrence of non or short payment of generation charges by MSEDCL for consecutive 2 months

10. MERC Order should include detailed calculations and analysis as well as responses to comments by public.

11. Soft version (Spreadsheets) with formulae of calculations should be available on MERC's website