

# CENTRAL ELECTRICITY REGULATORY COMMISSION

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## PRESS RELEASE

### **CERC Announces Final Regulations for Terms and Conditions for Electricity Tariff for the Five - Year period beginning April 1, 2004.**

The Electricity Act, 2003 requires the Central Electricity Regulatory Commission (CERC) as the principal regulator in the Electricity Sector, to specify the Terms and Conditions for determination of tariff for generation and inter-state transmission. The existing Regulations covering the period 1.4.2001 to 31.3.2004 are due to expire on March 31, 2004. Accordingly, it is essential that new Regulations should be put in place, effective from April 1, 2004.

2. The Commission on 12<sup>th</sup> June, 2003 floated a Consultation Paper prepared on Terms and Conditions of Tariff, for comments from stakeholders, experts, investors, State Commissions, financial institutions etc. This was followed by open hearings on 10<sup>th</sup>, 11<sup>th</sup> & 12<sup>th</sup> November, 2003 in which all the stakeholders and other experts participated. Based on the outcome of these hearings, the Commission issued its Draft Regulations and a detailed Order, in January, 2004. The Commission held another consultation with the stakeholders through a public hearing on 9<sup>th</sup> & 10<sup>th</sup> March, 2004.

3. Based on this elaborate exercise, CERC has today issued the Final Regulations containing Terms and Conditions of Tariff for generation and inter-state transmission. 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:

- i) **All future projects and new investment in generation, transmission and distribution both by public sector utilities as well as IPPs should be structured through a tariff-based transparent competitive bidding process**, so that the benefits of increased economic efficiency are passed on to the customers. This would also obviate the need for detailed regulation based on the existing “cost plus approach” which leads to inefficiencies and lack of initiative for better performance. Guidelines for competitive bidding should be announced by the Government as early as possible.
- ii) During the period of transition to a competitive bidding regime, **tariff regulation as far as practicable, should move away from the “cost plus actuals” approach, to a new regime of light-handed regulation based on normative parameters**. This would incentivise efficiency

and streamline tariffs. **This is the direction in which the Commission has moved. The change-over from intrusive regulation involving detailed scrutiny of actual costs to a lighter regime of normative parameters is the distinctive feature of the new regulation.**

- iii) Keeping in view the need for setting multi-year tariff norms **for regulatory certainty, the Commission has prescribed the Terms and Conditions for a five-year period from April 1, 2004 to March 31, 2009**, as against the existing regulations, which cover a three-year period.
  - iv) The Act envisages that the tariff parameters should **encourage competition, efficiency, economical use of resources**, good performance and optimal investment, **while safeguarding consumer interest**. All these parameters have been kept in view while framing the Regulations.
4. The terms and conditions finalised by the Commission now will apply to all inter-State Generating and Transmission utilities including NTPC, NHPC, POWERGRID, NEEPCO, Neyveli Lignite Corporation, Satluj Jal Vidyut Nigam and the relevant IPPs.
5. Projects which are taken up through a transparent tariff based bidding process as per the guidelines of the Central Government shall be examined in accordance with the guidelines, and tariff arrived at through the bidding process shall be adopted by the Commission. These Regulations shall not apply to such projects.
6. The **salient features** of the new Regulations are as follows:
- The **Capital Cost** of all projects shall be as admitted by the Commission.
  - The **normative Debt : Equity ratio** would be 70:30.
  - The **Return on Equity** shall be 14% post tax across the board, and this shall be uniformly applicable to the CPSUs and the IPPs.
  - **Depreciation** shall be allowed over the fair life of the assets at the rate notified by the Commission. In addition, advance against deprecation shall also be allowed to meet debt service obligations by considering the repayment period of loan as 10 years. While determining the advance against depreciation, cumulative depreciation recovered shall also be compared with the cumulative repayment made.
  - **Working capital** shall be allowed on normative basis, and rate of interest applicable shall be the Short Term Prime Lending Rate of State Bank of India.
  - **Income tax on the core activity** of the utility shall be reimbursable by the beneficiaries and shall be adjusted subsequently based on the income tax assessment by the IT Authority under the Income Tax Act, 1961.
  - **Development surcharge** has been discontinued.