

Before the
MAHARASHTRA ELECTRICITY REGULATORY COMMISSION
World Trade Centre, Centre No.1, 13th Floor, Cuffe Parade, Mumbai 400005
Tel. 022 22163964/65/69 Fax 22163976
Email: mercindia@merc.gov.in
Website: www.mercindia.org.in / www.merc.gov.in

CASE Nos. 160 of 2016

Date: 16 March, 2017

**Coram: Shri. Azeez M. Khan, Member
Shri. Deepak Lad, Member**

Petition of Kolhapur Green Energy Pvt. Ltd. under Section 94 (f) of the Electricity Act 2003 and Regulation 85 (a) of the MERC (Conduct of Business) Regulations 2004, for review of Order dated 10 October, 2016 in Case No 87 of 2015 in the matter of Petition for determination of Tariff for supply of electricity from its 1.8 MW Municipal Solid Waste-based Power Project at Kolhapur to Distribution Licensees in Maharashtra.

Kolhapur Green Energy Pvt. Ltd. (KGEPL) Petitioner

1. Maharashtra State Electricity Distribution Co.Ltd. (MSEDCL)
2. The Tata Power Company Ltd. (Distribution) (TPC-D)
3. Reliance Infrastructure Ltd. (Distribution) (RInfra-D)
4. BEST Undertaking
5. Kolhapur Municipal Corporation(KMC) Respondents

Appearance

For KGEPL : Shri. Rohit Sharma (Rep.)
For MSEDCL : Shri.P.H.Jambhulkar (Rep.)
For TPC-D : Smt. Ambica Gupta (Rep.)
For RInfra-D : Shri. Ghansham Thakkar (Rep.)
For BEST Undertaking : Shri.N.P. Jagaldas (Rep.)
For KMC : None

For Authorized Consumer Representative : Dr. Ashok Pendse, TBIA

DAILY ORDER

Heard the Advocate/Representatives of the Petitioner and Impleaded Parties.

1. KGEPL stated that:

- (i) The Commission has determined, vide its Order dated 10 October, 2016 (in Case No 85 of 2015), the tariff for supply of electricity from KGPL's 1.8 MW Municipal Solid Waste (MSW)-based Power Project at Kolhapur to Distribution Licensees in

Maharashtra. While determining the tariff, the Commission has considered the escalation factor for computation of O&M expenses as 2.97% instead of 5.72% as requested by KGEPL in its Petition.

- (ii) The annual escalation factor of 2.97% considered by the Commission is inadequate to recover the yearly O&M expenses of the Project. Due to the lower annual O&M escalation factor, the final levelized tariff is reduced from Rs 7.44/kWh to Rs 5.49/kWh, which would make it unviable / unremunerative for KGEPL to operate its MSW-based power Plant.
- (iii) The Central Government has been promoting development of MSW to energy plants in the country. The revised Tariff Policy dated 26 January, 2016 has mandated 100% procurement of power generated from MSW Projects by the Distribution Licensees. The CERC (Terms and Conditions for Tariff Determination from Renewable Energy Sources) (Fourth Amendment) Regulations, 2015, have specified O&M expenses for mass incineration technology as 6% of capital cost with an annual escalation of 5.72% from the second year onwards, while specifying a tariff of R. 6.82/ kWh.
- (iv) The Commission's RE Tariff Regulations, 2015 provide for determination of Project-specific tariff for MSW Projects. Regulation 8.2 empowers the Commission to deviate from the normative /benchmark values of capital cost and O&M expenses in case of Project-specific tariff determination if the circumstances so demand. MSW Projects are at present at a nascent stage of development and are required to utilize heterogeneous waste which is corrosive and abrasive in nature. The Developer also has to take special precautions to keep the emissions from the Plant within the standards specified in the Solid Waste Management Rules, 2016.
- (v) CERC has determined the escalation rate based on the 5-year average of WPI and CPI from FY 2008-09 to FY 2012-13, with 60% and 40% weightage to CPI and WPI, respectively, and compared it with the actual increase in O&M expenses. However, instead of calculating the O&M escalation rate based on the 5-year average of WPI and CPI, the Commission applied the 3-year average variation in WPI and CPI. If the Commission adopts the CERC methodology of 5-year average variation from FY 2011-12 to 2015-16, the annual O&M expense escalation rate would be 5.84%, which is much higher than the rate of 2.97% determined by the Commission, and also slightly higher than 5.72% proposed in the Petition.
- (vi) Hence, the O&M escalation rate calculations should be computed by considering a longer CAGR period to smoothen the intermediate fluctuations, which would also be in line with the CERC Regulations which envisage such computation over a 5-year period.
- (vii) In its previous Project-specific Tariff Orders for MSW (Solapur Bio Energy and Rochem Green Energy Projects at Solapur and Pune), the Commission has allowed annual O&M escalation rate of 5.72%. The Commission has considered all the technical and financial parameters as proposed in the Petition while determining the tariff, for the O&M escalation rate of 5.72%.

2. MSEDCL stated that it is in power surplus situation and around 4000 MW low cost power contracted through long term PPAs is required to be backed down daily. MSEDCL is not required to purchase such costly power. If at all it purchases this costly power, it would be a pass through in its ARR, resulting in a burden on its consumers.
3. The Commission observed that MSEDCL has not commented on the O&M escalation rate.
4. The Commission also observed that, in its Order dated 10 October, 2016, the Commission had provided an O&M escalation rate of 2.97 % taking a 3-year average of inflation instead of 1-year in relaxation of the Regulations to smoothen the impact, and also applied it to all other Utilities. The Commission also observed that MSW projects are at a nascent stage of development and have a special significance, which has been recognized in the Tariff Policy also.

The Case is reserved for Order.

**Sd/-
(Deepak Lad)
Member**

**Sd/-
(Azeez M. Khan)
Member**