Summary of the comments and suggestions received on Approach Paper on Terms and Conditions of Tariff Regulations for the tariff period 1.4.2014 to 31.3.2019

(Ref No. 20/2013/CERC/Fin(Vol-I)/Tariff Reg/CERC Date: 25th June'2013)

3.8 Cost of Debt

a) ***Can we continue the existing method of working out cost of debt by considering weighted average rate of interest, calculated on the basis of actual loan, actual interest rate and scheduled loan repayment, or switchover to normative cost of debt calculated on the basis of present debt market condition? What should be the criteria for working out normative cost of debt?***

Sr.No.	Name of organization/ stakeholder	Comments/ Suggestions
A) Autonomous Bodies (JERCs/SERCs/Other Commissions)		
A.1	Uttar Pradesh Electricity Regulatory Commission	The existing method of working out cost of debt by considering weighted average rate of interest, calculated on the basis of actual loan, actual interest rate and scheduled loan repayment is best for computation of tariff. The switching over to the normative cost method, calculating interest on the basis of present debt market conditions, may not suit to the developers because its uncertainty and higher degree of risk.
A.2	Chhattisgarh State Electricity Regulatory Commission (CSERC)	The existing method should continue, which assure the generators to recover actual rate of interest (on weighted average basis) in every year. Further, switching over to the normative cost of debt calculated on the basis of prevailing market rates may result in unpredictable gain or loss for the generators and may discourage the investors.
B) Government Departments		
B.1	Govt of Odisha	The Commission may consider to switch over to normative cost of debt calculated on the basis of present debt market condition.
B.2	Govt. of Tripura, Dept. of Power	The existing provision should continue.
C) Central Sector (Generators/Transmission Cos./ NLDCs/RLDCs)		
C.1	Tehri Hydro Development Corporation Limited (THDC Ltd.)	The existing method should be continued during the next tariff period.
C.2	Narmada Hydroelectric Development Corporation Ltd. (NHDC Ltd.)	Please refer submissions at Sl. No. 3.6 above.
C.3	Damodar Valley	There is strong ground for continuation of the existing basis in the

	Corporation (DVC)	new Regulation effective from 01.04.2014. However, projects sourced fully from internal resources, having no loan portfolio do not have any actual weighted average rate of interest. In such cases a normative interest rate linked with SBI base rate plus appropriate basis point may be considered.
C.4	National Hydroelectric Power Corporation (NHPC)	Existing practice should continue
C.5	North Eastern Electric Power Corporation Ltd. (NEEPCO)	The existing method should continue, which assure the generators to recover actual rate of interest (on weighted average basis) in every year. Further, switching over to the normative cost of debt calculated on the basis of prevailing market rates may result in unpredictable gain or loss for the generators and may discourage the investors.
C.6	National Thermal Power Corporation (NTPC)	The existing method should continue
C.7	Neyveli Lignite Corporation	Existing method of working out cost of debt by considering weighted average rate of interest calculated on the basis of actual loan, actual interest rate and scheduled loan repayment
C.8	Power Grid	The Commission should continue the existing methodology of weighted average rate of interest calculated on the basis of the actual loan portfolio.
D) State Sector (Generators /Transmission Cos./Distribution Cos./SEBs/SLDCs)		
D.1	APTRANSCO/ APDISCOM	Return on Debt formula will take care of variations
D.2	Rajasthan Discoms Power Procurement Centre	i. Yes ii. No.
D.3	Uttar Pradesh Power Corporation Ltd. (UPPCL)	i. Yes ii. No.
D.4	GRIDCO	The Hon'ble Commission may consider to switch over to normative cost of debt calculated on the basis of present debt market condition
D.5	Tripura State Electricity Corporation Ltd.	Option of funding based on competitive bidding should be introduced with a cap/ceiling towards interest rate and tenure decided in the bid process. This will bring transparency and competitiveness among banks.
D.6	Gujarat Urja Vikas Nigam Limited	CERC may cap the Cost of Debt at Competitive level which shall reduce the burden of interest on Loan component on the beneficiaries. The Commission while determining the Rate of Return of Capital employed may consider the debt portion as 70% and provide the cost of debt at the most competitive rates available in the market. If ROE approach is adopted, then the Commission may adopt the

		debt portion as 70% and adopt the existing practice of considering the weighted average rate of interest, calculated on the basis of actual loan, actual interest rate and scheduled loan repayment.
D.7	Orissa Power Generation Corporation Ltd.	Benchmarking of cost of debt is not possible as projects face different risks and also is affected by the discom risk profile. Therefore, existing method should be continued.
D.8	Chhattisgarh State Power Distribution Co. Ltd.	Debt market is not stable. Rate of interest is varying depending on RBI policy and capital market performance. Hence switch over to normative cost of debt is not advisable and therefore present practice should continue.
D.9	MP Power Management Company Ltd.	As far as the case is concerned with the Central Government Undertaking /Utilities, the existing method of working out cost of debt shall be continued by considering weighted average rate of interest, calculated on the basis of actual loan, actual interest rate and scheduled loan repayment . However, in case of private developers, the rate of interest at which loan is being obtained by them should be capped based only on the prime lending rate of the State Bank of India. As the experience shows that they are obtaining loan at exorbitantly higher rates (a difference of about 5 to 6% in rate of interest on loan) in comparison to Government Companies. Further, the normative cost of the debt can be considered especially in case of private players. The Central Commission may conduct a cost benefit analysis keeping the interest of the consumers in view before implementing such initiatives.
D.10	Maharashtra State Power Generation Co. Ltd.	The existing method of working out cost of debt shall be continued.
D.11	MSEDCL	It is submitted major players under this regulations are NTPC, NHPC and PGCIL which are having strong balance sheets and a good credit ratings. So the chances of debt varying for these companies based on credit rating and financial condition is a rare chance. On the contrary projects from these companies can get a better deal from banks. Further, it is suggested that the option of funding based on competitive bidding be introduced with a cap/ceiling towards interest rate and tenure decided in the bid process. These companies can have banks/financial institutions enrolled/empanelled and then call for Interest rates and tenure as per quantum of financing. It is believed that such process would also bring in transparency and competitiveness amongst banks. Thereafter, the existing method of computation of cost of debt may be considered.
D.12	Kerala State Electricity Board (KSEB)	The cost of debt shall be calculated on the basis of the relevant market conditions and it shall be based on the guidelines issued by RBI from time to time. It shall be the weighted average rate of interest, calculated on the basis of actual loan, actual interest rate and scheduled loan repayment. The Commission shall ensure that the CPSUs may avail the loan from the financial institutions at the

		most competitive rates.
D.13	Assam Power Distribution Company Ltd.	Existing method may continue with ceiling rate compatible to Government Security or Corporate Bond.
E) Private Sector (Generators/Transcos./Distribution Cos)		
E.1	Jindal Power Ltd	The cost of funds for each class of investor varies. It would be difficult to link it to single reference rate available in the market. we suggest that the Commission should continue with existing practice of weighted average interest cost based on actual loan portfolio and actual interest cost of borrowing for each project separately.
E.2	Moser Baer Electric Power Ltd	Actual cost of debt should be considered for tariff computation.
E.3	Shree Suryanarayan Power Generation Ltd.	For External Commercial Borrowings (ECBs) there is another cost of Bank Guarantee to be added as foreign financiers always ask for it and this cost will be minimum 10 to 12%. So we should not depend on these borrowings or Govt. should give guarantees
E.4	Calcutta Electric Supply Corporation Limited (CESC Ltd.)	The present method may be continued. As the bond market has not matured enough, migrating to normative cost of debt regime will be detrimental to many investors, and will have negative impact on investor sentiment resulting in lower investment in the sector.
E.5	Athena Infraprojects Pvt. Ltd.	Existing provision may be continued.
E.6	GMR Kamalanga Energy LTD	If interest rate on debt is to be normalized then it should additionally be classified credit rating wise. Foreign exchange rate risk should be allowed at actual as the fluctuations in INR to US $ are so volatile that hedging it has become costly and uncertain. Actual interest cost, actual forex variation cost and hedging expenses should be allowed pass through as cost of overseas debt separately.
E.7	Jindal Steel & Power Ltd.	Continue with existing practice of weighted average interest cost based on actual loan portfolio and actual interest cost of borrowing for each project separately.
E.8	BSES Rajdhani Power Ltd.	The existing method of working out cost of debt by considering weighted average rate of interest, calculated on the basis of actual loan, actual interest rate and scheduled loan repayment should be continued in the next MYT period as Central Utilities are able to arrange debt at discounted rates because of certainty of returns. Further, the benefit of regulatory certainty provided by CERC should be passed on to the consumers.
E.9	BSES Yamuna Power Limited	The existing system of determining cost of debt based on weighted average rate of interest is appropriate. The Commission may however look at determining a ceiling limit of cost of debt. In current system where cost of debt is a pass through, there is no motivation for the utilities to follow prudent treasury and financial policies.
E.10	Association of Power	• Benchmarking of cost of debt is a step in right direction as it

	Producers (APP)	will promote higher discipline & efficiency in debt management but this should be implemented gradually and is not desirable at this stage. Cost of debt by considering weighted average rate of interest, calculated on basis of actual loan, actual interest rate and scheduled loan repayment should be continued at present. In case of any refinancing at lower interest rate in the future, the benefit shall be shared with the consumers. • It is not possible to determine the normative cost of debt based on the prevailing market conditions. Certain projects have to bear higher interest rate cost due to project related risks (including the utility risk rating) therefore the normative cost of debt could lead to severe under recovery of interest cost. Further, in case of foreign loans, the fully hedged cost of loan should be considered.
E.11	Rudraksh Energy	The existing method may be continued, with ceiling for cost of debt. Reduction of cost of debt should be encouraged through swapping, hedging and financial efficiency
E.12	Bhavnagar Energy Company Ltd.	Weighted average rate of interest on actual loan and actual rate of interest should be considered instead of normative cost of debt.
E.13	IL & FS Energy	The current practice of Cost Of Debt should be continued. Normative cost of debt on the basis of debt market condition is not a viable option.
E.14	Torrent Power	The existing method of computation of weighted average rate of interest (WROI) based on actual loan, interest rate of actual loan portfolio, loan repayment schedule and this process should continue. The reset of ROI with Banks/financial institutions should given effect on and from the actual date of reset of ROI instead of current structure of 1st April of each year. Because of different date of reset of ROI, it is strongly advocated to allow such reset of ROI for computation of WROI on and from the reset date.
F)	**Other Organizations/Institutions/Banks/Investors**	
F.1	National Institute of Public Finance & Policy	Cost of debt should continue to be a pass through. Debt financing is done by the lenders on the basis of a range of considerations. Even among similar projects, we observe differences in cost of debt. Using some benchmark yield may lead to over or under-estimation of cost of debt. The Commission should continue to consider the actual cost of debt for each project and use that in the Weighted Average Cost of Capital.
F.2	Federation of Indian Chambers of Commerce and Industry (FICCI)	Existing provision may be continued.
F.3	Electric Power	The cost of debt should be calculated on an actual basis. The

	Transmission Association (EPTA)	current norms are appropriate in considering the actual cost of debt on weighted average basis. The tax shield offered by interest needs to be netted off while calculating the average cost of debt.
G) Individual /Public Group/Any others		
G.1	Shri R.B.Sharma	There is hardly any need to look a fresh on the cost of debt as the existing method of working out cost of debt and the criteria for working out normative cost of debt is considered fair, equitable and transparent.
G.2	Dr. Ashok Kundapur	Actual cost of Interest should be taken for all calculations. There could be different rate of Interest when funds are borrowed from different banks. In such cases, instead of taking average of Interest rates, it is better if individual rates are given due considerations. This would apply to loan repayment as well.
G.4	Shri Arun Kumar Dutta	For govt. owned companies there shall be uniform cost of debt. For private entities cost of debt shall be on normative basis. It may be appreciated that developer has to get return on the cost of debt but it must be for efficient operation, completion of project within scheduled time and under no circumstances any delay should be allowed. Effective true up can be allowed annually. The company shall furnish true up return in standard Performa clearly stating the interest incurred during project period. All claims of interest beyond original completion time shall be disallowed and companies must not furnish any inflated claim. Penalty shall be imposed for inflated claim to maintain transparency.

b) How can we address the variation of cost of debt among different rating Companies? Can allowable cost of debt be linked to a benchmark yield on comparable bonds or Government securities? Can ceiling be specified linking with benchmark yield? Any other alternatives.

Sr.No.	Name of organization/ stakeholder	Comments/ Suggestions
A) Autonomous Bodies (JERCs/SERCs/Other Commissions)		
A.1	Rajasthan Electric Regulatory Commission	No comments
A.2	Uttar Pradesh Electricity Regulatory Commission	Such bench mark as discussed in this point may not suit to the developers because of many complications inherited therein.
A.3	Chhattisgarh State Electricity Regulatory	The existing method should continue as it takes care of the actual interest rates applicable for that project. Further, the beneficiaries

	Commission (CSERC)	may also be given the right to explore the probability of loan swapping and if they come out with a practicable alternative, then it should be mandatory for the transmission licensee/generator to adopt the same. In case the transmission licensee/generator fail to act on such proposal without a valid reason, the interest rate shall be limited to such lower rates as might have been applicable, had the loan swapping actually taken place.
B) Government Departments		
B.1	Govt of Odisha	The ceiling for cost of debt may also require to be examined as it varies based on financial condition of project developer as well as its credit rating.
B.2	Government of Punjab, Dept. of Power	Ceiling limit of cost of debt needs to be linked to long term government Securities.
C) Central Sector (Generators/Transmission Cos./ NLDCs/RLDCs)		
C.1	Tehri Hydro Development Corporation Limited (THDC Ltd.)	The present method should be continued in the interest of justice, fairness and equity of all stakeholders.
C.2	Narmada Hydroelectric Development Corporation Ltd. (NHDC Ltd.)	Please refer submissions at Sl. No. 3.6 above.
C.3	National Hydroelectric Power Corporation (NHPC)	The cost of debt can be linked with the rating of company.
C.4	North Eastern Electric Power Corporation Ltd. (NEEPCO)	The cost of debt should be based on actual weighted average rate of interest as applicable for a generator. Consideration of same rate for servicing cost of debt of companies with different ratings will fail to address this particular "Cost Part" of the tariff parameters and thus will deviate from its very purpose. Further considering the fluctuating debt market, linking of yield rate for cost of debt to govt. bond/securities is not justified and advisable in the interest of attaining desired growth of the sector. Accordingly, it is suggested that the existing method of working out cost of debt by considering weighted average rate of interest, calculated on the basis of actual loan, actual interest rate and scheduled loan repayment should continue
C.5	National Thermal Power Corporation (NTPC)	The existing method of working out cost of debt should continue by considering weighted average rate of interest, calculated on the basis of actual loan, actual interest rate and scheduled loan repayment;.
C.6	Neyveli Lignite Corporation	Not required. Current practice of adopting wt. avg of actual interest rate may be followed.
C.7	Power Grid	The Commission should continue the existing methodology of weighted average rate of interest calculated on the basis of the actual loan portfolio.

D) State Sector (Generators /Transmission Cos./Distribution Cos./SEBs/SLDCs)		
D.1	Madhya Pradesh Power Generation Co Ltd	Normative cost of debt can be preferred over existing method of working, Cost of debt on actual basis. The criteria for the normative cost can be interest on government securities plus certain percentage as risk premium
D.2	APTRANSCO/ APDISCOM	Cost of debt based on suggested formula
D.3	Rajasthan Discoms Power Procurement Centre	Ceiling limit of cost of debt needs to be linked to long term Government Securities.
D.4	Uttar Pradesh Power Corporation Ltd. (UPPCL)	Ceiling limit of cost of debt needs to be linked to long term Government Securities
D.5	GRIDCO	The ceiling for cost of debt may also require to be examined as it varies based on financial condition of project developer as well as its credit rating
D.6	Orissa Power Generation Corporation Ltd.	Cost of debt as per actual should be allowed to be passed through.
D.7	Chhattisgarh State Power Distribution Co. Ltd.	Present practice of pass through debt at actual should continue. Further, whenever possible a generator should always endeavour to restructure the debt in the benefit of the beneficiaries.
D.8	MP Power Management Company Ltd.	Capping of cost of debt needs to be linked to long term Government Securities.
D.9	Kerala State Electricity Board (KSEB)	The cost of debt shall be calculated on the basis of the relevant market conditions and it shall be based on the guidelines issued by RBI from time to time. It shall be the weighted average rate of interest, calculated on the basis of actual loan, actual interest rate and scheduled loan repayment. The Commission shall ensure that the CPSUs may avail the loan from the financial institutions at the most competitive rates.
D.10	Tamil Nadu Generation and Distribution corporation limited (TANGEDCO)	The existing method of working out cost of debt by considering the weighted average rate of interest, calculated on the basis of actual loan/actual interest rate and scheduled loan repayments should be continued as this is a pass through. It is not advisable to link bench mark yield on comparable bonds or Govt. securities as cost of debt among different rating of companies cannot be covered. Also, specifying a ceiling will not serve the purpose and result in differentiating the AAA rated companies with other rated companies.
E) Private Sector (Generators/Transcos./Distribution Cos)		
E.1	Athena Infraprojects Private Ltd.	Benchmarking of the cost of debt or opting for normative cost of debt would restrict the flow of investment in the power sector to only large public /private sector players who have access to debt financing at or lower than the benchmark /normative cost of debt to the exclusion of other smaller players, having lower credit rating/financial strength. It is also submitted that in case any developer ties up debt financing at high rate of interest, its determined tariff would be high and the current CERC Tariff

		Regulations don't bind discoms of various States to buy power at the tariff determined by Central Commission. Hence it is suggested that existing provisions may be continued.
E.2	Jaiprakash Power Ventures Ltd.	The cost of debt must not vary among different rating companies as this would restrict the private participation in power sector.
E.3	BSES Yamuna Power Limited	Ceiling limit of cost of debt needs to be linked to long term government securities.
E.4	Association of Power Producers (APP)	• Benchmarking of debt will be difficult since the debt market in India is still in developing stage. Further, variation of cost of debt amongst various projects and companies having different ratings cannot be accounted by fixing any benchmark yield. This will pose significant financial risk on the Companies who have availed debt at much higher rate of interest as compared to the benchmark yields. In other words, this approach would pose an entry barrier on the new players since the cost of borrowings are generally higher for new utilities with lower rating in terms of financial stature. Hence it is advisable to continue with existing norm until the debt market is matured in India.
E.5	Torrent Power	Benchmarking of cost of debt will be difficult since the debt market in India is still to be fully developed. Further, benchmarking of the cost of debt is not currently possible due to following reasons: (a) Interest rate is dependent on (i) Project specific, risk profile and/or (ii) credit rating of entities (b) Presently, the interest rate is on an increasing trend. Assuming the requirement of the debt with long tenure, such debt would involve the clause for reset of ROI for a couple of times during the tenure of the debt, which makes the benchmarking of cost of debt inappropriate and impossible.
F) Other Organizations/Institutions/Banks/Investors		
F.1	National Institute of Public Finance and Policy (NIPFP)	Companies rated differently will have to pay different cost of debt, and should be able to recover the same. This need not be a cause of worry for the Commission. A pass through policy will work, with only one note of caution: loans from related parties should be scrutinized to ensure that the interest rate paid on them is not significantly higher than the debt raised from other sources.
F.2	Federation of Indian Chambers of Commerce and Industry (FICCI)	Existing provision may be continued. It is not appropriate now to differentiate the cost of debt based on rating of companies. Huge instability in rating of generating companies in view of sectoral issues such as Fuel availability, Long term PPA, evacuation and Discoms Financial health etc.
Individual /Public Group/Any others		
G.1	Shri Ashok Kundapur	Actual cost of Interest should be taken for all calculations. There could be different rate of Interest when funds are borrowed from

		different banks. In such cases, instead of taking average of Interest rates, it is better if individual rates are given due considerations. This would apply to loan repayment as well.