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)

3.5 Debt/Equity Ratio

a) Whether there is a need to revisit the existing approach for debt: equity ratio or to continue with the existing composition?"

Sr. No.	Name of organization or 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	i) The present model of Debt/Equity Ratio is 70:30 should remain unchanged. ii) The repayment of debt is considered up to the deprecation accumulated to the extent of 70% of the Capital Cost the Plant. However, beyond 70% of the depreciation is allowed to continue till it is accumulated to the extent of 90% of the cost of the Plant and no interest is allowed on Debt when the cumulative depreciation is reached to 70%. However, no reduction in the equity portion is considered which is allowed to be 30% even when the Depreciation is charged beyond 70% of the Capital Cost. iii) Thus in cases when the cumulative depreciation reaches beyond 70% of capital cost, Return on Equity is extra incentive to the Generator and so it needs further elucidation whether the amount of Equity should be reduced after the cumulative deprecation has reached beyond 70% or not.
A.3	Chhattisgarh State Electricity Regulatory Commission (CSERC)	With the strengthening of debt market, debt-equity ratio of 80:20 may be considered in place of 70:30. To assure the lenders, AAD may be allowed to meet the difference in repayment & depreciation.
B) Government Departments		
B.1	Govt of Odisha	The Debt Equity Ratio may be **revised to 80:20** for the reason that the beneficiaries will be required to pay a comparative lesser ROE. For **existing projects**, the debt equity ratio may be considered to be 70:30.
B.2	Government of Punjab, Dept. of Power	Existing approach of debt: equity ratio of 70:30 should be modified to 80:20.
B.3	Govt. of Tripura, Dept. of Power	The existing approach of debt: equity ratio should be continued.

C) Central Sector (Generators/Transmission Cos./ NLDCs/RLDCs)		
C.1	Tehri Hydro Development Corporation Limited (THDC Ltd.)	There is no need to revise the existing approach of Debt: Equity Ratio.
C.2	Narmada Hydroelectric Development Corporation Ltd. (NHDC Ltd.)	The existing approach for debt: equity ratio being followed be continued as it has attracted investments in the power sector by providing opportunity to the developers to infuse debt capital at competitive interest rates.
C.3	Damodar Valley Corporation (DVC)	The existing norms for Debt: Equity ratio applicable to DVC may be allowed to be continued for the tariff period 2014-19 to minimize the risk factor.
C.4	National Hydroelectric Power Corporation (NHPC)	Existing debt-equity ratio should continue
C.5	North Eastern Electric Power Corporation Ltd. (NEEPCO)	Considering the present volatile debt market for project financing, it is proposed that the existing composition of debt: equity ratio should be revisited/reviewed. In this regard, the following suggestions are proposed: ➢ For Projects commissioned prior to 01.04.2014, normative Debt Equity ratio should continue as per the previous/existing Regulations, as applicable. ➢ For Addition Capital Expenditures incurred for the projects commissioned prior to 01.04.2014 as well as new projects commissioned on & after 01.04.2014, the normative Debt Equity Ratio is proposed as 70:30.
C.6	National Thermal Power Corporation (NTPC)	In order to provide regulatory certainty, the existing approach should continue with the same Debt: Equity ratio of 70:30 for new investments and existing Debt Equity ratio of 50:50 for existing projects (i.e. projects where investment approval was made before 1992).
C.7	Power Grid	Irrespective of the approach towards Returns, it may be prudent to continue with the D/E ratio of 70: 30 on account of its wide acceptance both by the investors and the financial institutions.
C.8	Neyveli Lignite Corporation	The existing method may be followed for funding pattern. As project fund raising is done during project implementation, the funding also is done in normative Debt: Equity ratio. However, in respect of additional capital expenditure as normally debt is not raised, funding at actuals may be allowed.
D) State Sector (Generators /Transmission Cos./Distribution Cos./SEBs/SLDCs)		
D.1	Madhya Pradesh Power Generation Co. Ltd.	For the power sector loan to the extent of 80% is available to the Corporate. In view of this normative debt-equity ratio can be brought down to 80: 20, this will bring down

		the tariff and will be in public interest.
D.2	APTRANSCO	Depreciation is allowed up to 90%. Hence Debt Equity ratio be changed to 90:10
D.3	Rajasthan Discoms Power Procurement Centre	No. **Existing approach** be continued.
D.4	Uttar Pradesh Power Corporation Ltd. (UPPCL)	No. Continue with the existing composition of DER as **70:30.**
D.5	GRIDCO	The Debt Equity Ratio may be revised to 80:20 for the reason that the beneficiaries will be required to pay a comparative lesser ROE. For existing projects, the debt: equity ratio may be considered to be 70:30.
D.6	Power Company of Karnataka Ltd.	There is a need to revisit the existing approach for debt: equity ratio. In respect of the projects developed under Competitive Bid Routes the debt equity ratio is lower than the 70:30. Hence for all new projects the debt equity ratio of 75:25 may be proposed and even the lower value is acceptable. Further, repayment of debt may be extended to 15 years.
D.7	Gujarat Urja Vikas Nigam Limited	The uniform Debt: Equity Ratio of 70:30 may be adopted for all the existing as well as projects commissioned during the tariff period of the Regulation while determining the Rate of Return on Capital Employed. In case CERC decides to adopt ROE approach, the equity of 30% or actual, whichever is lower may be taken into consideration for all the existing as well as projects commissioned
D.8	Orissa Power Generation Corporation Ltd.	There is no need for revision
D.9	Chhattisgarh State Power Distribution Co. Ltd.	The debt: equity ratio can be considered to be changed to 75:25. This will also reduce the burden of ROE on the beneficiaries.
D.10	MP Power Management Company Ltd.	The bench mark norms of capital cost indicates a cost of about Rs 5.1 Crore per MW. This requires a staggering investment of about Rs 5100 Crore for a plant of 100 MW capacity and existing D:E norms will require an investor to invest Rs 1530 Crore which is a considerable amount and looking to this, Debt: Equity ratio can be considered to be changed to 75:25 or 80:20. This will also reduce the burden of ROE on the beneficiaries.
D.11	Maharashtra State Power Generation Co. Ltd.	Although the debt equity ratio followed by the Commission has been just and equitable yet the same can be structured further with 80:20 ratio.
D.12	Kerala State Electricity Board (KSEB)	Considering the maturity in the financial market and availability of debt with competitive interest rates, a

		normative debt: equity ratio of 80:20 may be most appropriate instead of 70:30. However, the developer may have the option to adopt a higher equity, but for computing the weighted average cost of capital (WACC), the normative debt: equity of 80:20 may be considered.
D.13	Tamil Nadu Generation and Distribution corporation limited (TANGEDCO)	TANGEDCO suggests a normative debt-equity of 80:20 in respect of new projects and to go for 100% borrowed finance in case of Add cap, R&M, etc. for the existing projects, thereby improving on the debt-equity ratio. It is preferable to go for higher debt-equity ratio as the interest rate on borrowed funds is always less than the ROE declared periodically by the Regulations. Further, it would result in higher capital cost, in view of higher IDC, but would result in lower tariff on completion of the project.
D.14	Assam Power Distribution Company Ltd.	Considering the debt component, the debt-equity ratio may be considered to reduce the burden on beneficiary and should be considered.
E) Private Sector (Generators/Transcos./Distribution Cos)		
E.1	Moser Baer Electric Power Ltd	**Actual debt equity ratio** for each project be taken into account for calculating ROE and interest liabilities
E.2	Jaiprakash Power Ventures Ltd.	The structuring of the Indian debt market is still in process, i.e., the debt market in India is yet to get stabilized. Therefore, the existing debt: equity approach may be continued.
E.3	BSES Yamuna Power Limited	Current normative debt equity norms of 70:30 are reasonable and should be continued.
E.4	IL & FS Energy	We propose the following for consideration in case of equity below normative level of 30%. a. The Commission may consider allowing a higher depreciation rate linked to the higher debt repayment over 12 year loan period. b. In such a scenario, the equity investor is taking additional risk due to higher leverage level. Hence, ROE may be increased upward to factor for additional risk.
E.5	Association of Power Producers (APP)	• Existing provisions may be continued. Taking into consideration the prevailing financial market in India, developers are finding it difficult to raise finance for thermal power projects. In case a developer is able to put incremental equity above normative level, additional incentive should be provided to the developer.
E.6	Rudraksh Energy	The existing ratio should be continued.
E.7	Torrent Power	The existing approach may be continued to avoid regulatory uncertainty for investment made or planned.
F) Other Organizations/Institutions/Banks/Investors		
F.1	National Institute of Public Finance and	Ideally, actual DER should be considered in such decisions. Each project is unique and the level of leverage

	Policy (NIPFP)	is carries should be determined by the markets. In the same sector, there are different levels of leverage that are optimal for different projects. A regulator determining a normative DER creates distortions in the market. But, in the present context, there are problems in using the actual DER. The actual DER can be gamed quite easily, and the market value of equity is not available for many unlisted firms. The Commission should publish a white paper on this issue. The existing approach may be continued in the upcoming cycle, but the Commission should be cognizant of the consequences of taking normative DER, and create a road map for a move towards using the actual DER.
F.2	Shree Suryanarayan Power Generation Ltd.	The equity may be kept minimum in accordance with the Indian Companies Act. 1956. This will result in more investment in the sector. Servicing to equity is costlier than servicing to debt. Hence, the minimum equity will reduce the cost of power generation. Servicing to debt is for limiting period while servicing to equity is permanent cost.
F.3	Federation of Indian Chambers of Commerce and Industry (FICCI)	Existing provisions may be continued. In case the developer is able to put incremental equity above normative level, additional incentive should be provided to the developer.
E.4	Electric Power Transmission Association (EPTA)	The debt: equity ratio should not be assumed on normative basis and should be considered on actual basis. The actual debt-equity ratio may be calculated at the project level or at the company level.
G) Individual /Public Group/Any others		
G.1	Shri R. B. Sharma	Although the debt equity issue followed by the Commission has been just and equitable yet the same can be structured further with 80:20 ratio as most generators and the transmission licensees under the cost plus regime are in public sector and the anticipated risk in lowering the equity is much lower. The debt equity issue in respect of old assets wherein the Commission had adopted the 50:50 ratios needed proper structuring as the debt-equity ratio in large number of power schemes was notionally presumed in the ratio of 50:50 by the Commission. In fact, the notional debt-equity ratio of 50:50 was adopted based on the various notification issued by the Ministry of Power irrespective of the actual debt-equity ratio. The utilities have benefited enough on the normative debt-equity ratio and the electricity consumer has equally suffered on account of this normative capital structure. The structure for these assets may also be modified with 80:20 ratio.

G.2	Shri Arun Kumar Dutta	May continue the existing composition of 70:30 debt ratio.