

**POWERGRID Comments on “Draft Central Electricity Regulatory Commission
(Terms and Conditions of Tariff) (First Amendment) Regulations, 2020 “**

Sl.	Clause as per existing regulation	Changes proposed in draft Amendment	Comments
1.	<p>30. Return on Equity: (1) Return on equity shall be computed in rupee terms, on the equity base determined in accordance with Regulation 18 of these regulations.</p> <p>(2) Return on equity shall be computed at the base rate of 15.50% for thermal generating station, transmission system including communication system and run-of river hydro generating station, and at the base rate of 16.50% for the storage type hydro generating stations including pumped storage hydro generating stations and run-of river generating station with pondage:</p> <p>Provided that return on equity in respect of additional capitalization after cut-off date beyond the original scope excluding additional capitalization due to Change in Law, shall be computed at the weighted average rate of interest on actual loan portfolio of the generating station or the transmission system;</p> <p>.....</p>	<p>12.1. In the first proviso under Clause (2) of Regulation 30 of the Principal Regulations, the words “excluding additional capitalization due to Change in Law,” shall be deleted and at the end of the said proviso, the words and expressions “or in the absence of actual loan portfolio of the generating station or the transmission system, the weighted average rate of interest of the generating company or the transmission licensee, as the case may be, as a whole, shall be considered;” shall be added.</p> <p style="text-align: center;">Revised Provision</p> <p>.....</p> <p><i>Provided that return on equity in respect of additional capitalization after cut-off date beyond the original scope excluding additional capitalization due to Change in Law, shall be computed at the weighted average rate of interest on actual loan portfolio of the generating station or the transmission system or in the absence of actual loan portfolio of the generating station or the transmission system, the weighted average rate of interest of the generating company or the transmission licensee, as the case may be, as a whole, shall be considered;</i></p> <p>.....</p>	<p>The additional capitalization beyond cut-off date is generally incurred to meet the liabilities of award of arbitration, change in law, force majeure or replacement of assets deployed under original scope of work.</p> <p>As it can be noticed, the additional capitalization is carried out either to meet certain obligations / force majeure etc. or for successful and efficient operation of the system. In any condition, this expenditure is an investment towards asset creation and such investments should be allowed to earn a fair rate of return.</p> <p>Specifically for additional capitalization due to Change in Law, it is to be mentioned that all Laws of the land are dynamic in nature and with time it undergoes modifications and amendments. It is not possible to ascertain these future “change in law” events and subsequent financial impacts. At times these may lead to large investment requirements. Transmission licensee at that stage will have no option but to do the investment in accordance with the law. In case if adequate return on this investment is not provided, it will adversely impact the return of overall project. Further, in cases these required investments are very high, it may make the project financially unviable without adequate return.</p>

**POWERGRID Comments on “Draft Central Electricity Regulatory Commission
(Terms and Conditions of Tariff) (First Amendment) Regulations, 2020 “**

			<p>Therefore, the equity investment on account of additional capitalization due to Change in Law cannot be treated any differently from equity investment during construction of asset and should be allowed the same fair rate of return. Further, the return allowed on equity investment cannot be compared with that of debt, which is a fixed income instrument.</p> <p>Generally the lenders do not fund the entire cost and insist for deployment of equity for a portion. Since the risk borne by the equity holders and lenders is different, it is not appropriate to compensate equity component at the cost of debt.</p> <p>In case of projects under execution, subsequent to the Change of Law, the expenditure incurred to ensure compliance would form part of the project cost and ROE will be allowed at normal rates for the equity portion. Thus, the equity deployed for the same items would be eligible for different ROE depending upon the time of incurring the expenditure. This does not seem to be fair and logical.</p> <p>Thus, it is suggested that the return on the entire equity invested at any stage of the project should be allowed same rate of return i.e., 15.5%. Thus, the words “excluding additional capitalization due to Change in Law,” may need to be retained as in the Principal Regulations.</p>
--	--	--	--