

**Torrent Power Limited-Comments on Draft First Amendment to CERC (Terms & Conditions of Tariff) Regulations, 2019**

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The Hon'ble Commission has published the Draft First Amendment to CERC (Terms and Conditions of Tariff) Regulations, 2019. The amendment addresses a major concern of the thermal power generators regarding tariff for capital / operational expenditure required to comply with emission norms. We request the Hon'ble Commission to kindly consider following suggestions while finalizing the norms.

Sr. No.	Proposed First Amendment	Comments/Suggestions
1.	<p><b>1<sup>st</sup> proviso under Clause (2) of Regulation 30</b>                      Provided that return on equity in respect of additional capitalization after cut-off date beyond the original scope, 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</p>	<ul style="list-style-type: none"> <li>• The draft amendment stipulates computation of RoE in respect of additional capitalization including Emission Control System (ECS) at weighted average rate of interest on loan.</li> <li>• Though amendment indirectly requires funding through debt instruments only, such arrangement is not practically possible for capital intensive project like ECS. Lenders would require upfront investment by the generator/ transmission licensee in form of equity before disbursing any loan in such cases.</li> <li>• Equity once invested perpetually remains with the business and not available with the generator / transmission licensee for investing in other avenues. Hence, it is imperative that RoE is allowed with the margin on account of such stranded investment which developer would have never anticipated.</li> <li>• For existing projects operational as on 07.12.2015, Notification revising environment norms is a change in law event. The CERC (Terms and Conditions of Tariff) Regulations, 2019 notified in 2019 after consideration of notification in respect of environment norms. Also, in case of new project where expenditure for environment norms is part of capital cost only, it would have earned RoE of 15.5%. However, with amendment, the Hon'ble Commission has effectively curtailed the RoE for capital</li> </ul>
2.	<p><b>Clause (3) of Regulation 30</b>                      The return on equity in respect of additional capitalization due to emission control system shall be computed at the weighted average rate of interest on actual loan portfolio of the generating station or in the absence of actual loan portfolio of the generating station, the weighted average rate of interest of the generating company as a whole shall be considered</p>	

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		<p>expenditure for ECS which is part of additional capital cost. Such a change is against the principle of Regulatory certainty.</p> <ul style="list-style-type: none"> <li>• The proposal also results in discrimination between new generating stations and existing generating stations since new generating station will earn full RoE unlike existing Generating Station.</li> <li>• Based on above, we request the Hon’ble Commission to kindly allow return on equity for change in law and emission norms as per the provisions of Clause (2) to Regulation 30.</li> <li>• Accordingly, We suggest that Clause (3) to Regulation 30 may be deleted and 1<sup>st</sup> proviso under Clause (2) to Regulation 30 can be redrafted as under:</li> </ul> <p><i>“Provided that return on equity in respect of additional capitalization after cut-off date beyond the original scope <b><u>excluding additional capitalization due to Change in Law and emission norms</u></b>, 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>
3.	<p><b>Sub Clause (bb) of Clause (E) of Regulation 49</b>                      Auxiliary Energy Consumption (AUXe) on account of emission control system of thermal generating stations:                      (1) For reduction of emission of sulphur dioxide:</p>	<ul style="list-style-type: none"> <li>• Since FGD is required to be installed in existing plants in majority of cases, its design in terms of availability of space, integration with system, availability of raw material/ consumables, disposal of residue etc. varies from plant to plant.</li> </ul>

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	<p>a) Wet Limestone based FGD system (without Gas to Gas heater ) @1.0%                      b) Lime Spray Dryer or Semi dry FGD System @1.0%                      c) Dry Sorbent Injection System (using Sodium bicarbonate) @NIL                      d) For CFBC Power plant (furnace injection) @NIL                      e) Sea Water based FGD system (without Gas to Gas heater ) @0.7%</p> <p><b>(2) For reduction of emission of oxide of nitrogen :</b>                      a) Selective Non-Catalytic Reduction system @NIL                      b) Selective Catalytic Reduction system @0.2%</p> <p>Provided that where the technology is installed with Gas to Gas heater, auxiliary energy consumption specified as above shall be increased by 0.3% of gross generation</p>	<ul style="list-style-type: none"> <li>• Similarly, Auxiliary Power Consumption changes based on quality of water, Process/ waste water treatment, handling requirement and water balancing philosophies.</li> <li>• Even for some plants, it is imperative to create additional facility for preparation/ sizing/ handling the reagent resulting into additional Auxiliary Power Consumption.</li> <li>• Presently, there are very few plants with FGD. Also, the technology will mature over the period of time. Under the circumstances, it is prudent to consider the Auxiliary Consumption on actual basis.</li> <li>• In view of above, AUXe of 1% is not sufficient and may be considered on actual basis.</li> </ul>
4.	<p><b>Sub Clause (a) (i) of Clause (1) of Regulation 34 For Coal-based/lignite-fired thermal generating stations:</b>                      (ii) Advance payment for 30 days towards cost of coal or lignite and limestone for generation corresponding to the normative annual plant availability factor;</p>	<ul style="list-style-type: none"> <li>• With the implementation of emission control system, for coal/lignite based thermal power stations, there will be requirement for limestone, reagent, etc.</li> <li>• Accordingly, advance payment made to the suppliers of limestone, reagent, etc. needs to be considered for computation of working capital requirement.</li> <li>• Based on above, the existing Regulation can be revised as under:</li> </ul> <p><i>“(ii) Advance payment for 30 days towards cost of coal or lignite and limestone for generation corresponding to the normative annual plant availability factor <b>including advance payment</b></i></p>

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		<p><u><i>towards cost of reagent, limestone etc. required for emission control system.</i></u>”;</p> <ul style="list-style-type: none"><li>• Alternatively it may be clarified that the above proviso also includes working capital in respect of limestone/ reagent etc. required for operations of FGD.</li></ul>