



Investor's suggestions  
on

“Draft Central Electricity Regulatory Commission  
(Terms and Conditions of Tariff)(First Amendment)  
Regulations 2020”

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# Suggestion 1 - Clause 12.2

## Draft provisions

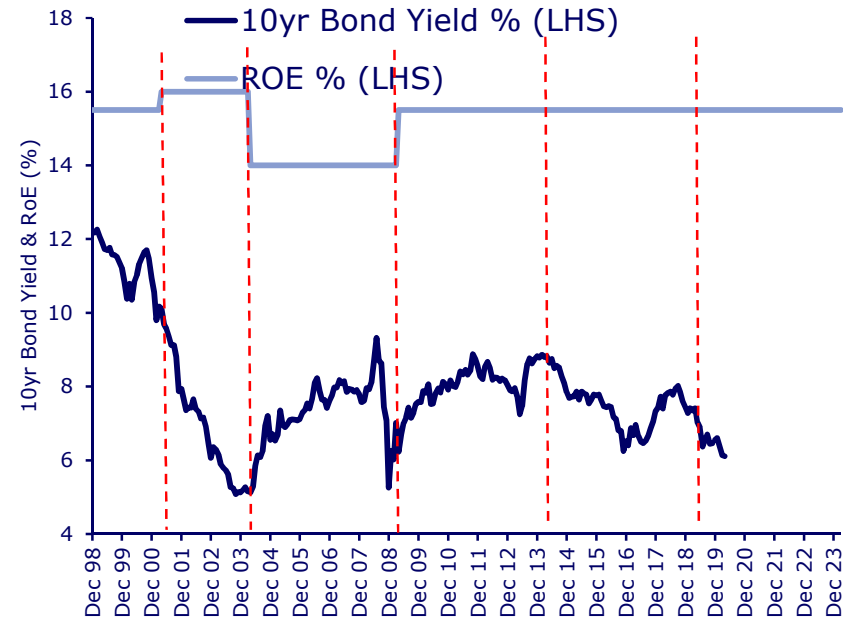
The return on equity in respect of additional capitalization due to emission control system shall be computed at the weighted average rate of interest on actual loan portfolio of the generating station or in the absence of actual loan portfolio of the generating station, the weighted average rate of interest of the generating company as a whole shall be considered.

## Suggestions:

CERC is torch bearer of regulatory stability globally with one of the most stable RoE for last 20-years (see chart)

Any amendments to principle FY19 - 24 regulations should upheld above values and hence, **basic tenets of the principal regulations such as**

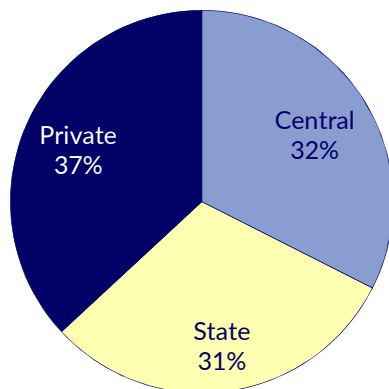
- **Rate of return,**
  - **Debt equity mix,**
- shouldn't be tweaked** while remaining agile to changes in sector such as climate change



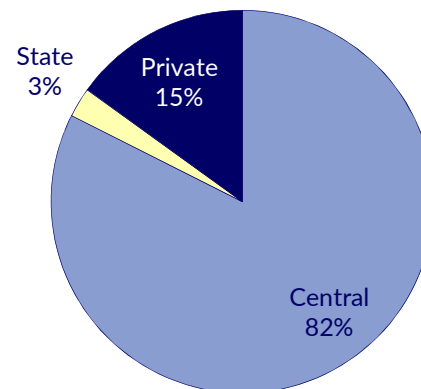
# CLSA Suggestions for RoE

- Emission capex is already underway with **61% of central plants already awarded** depending on principal regulation FY19 - 24, clause 29, which classified emission capex as 'add cap' on which RoE was equal to base RoE.
- **Any alteration in RoE during mid-period shall send wrong signal to equity investors**
- Without equity support, emission capex is very difficult to complete especially for Central and private IPPs - 69% of total capacity planned for retrofit, where minority shareholders are present.
- No project funding happens on 100% debt funding. Hence we **recommend maintain RoE and D/E mix** as in main regulations FY19-24 vs RoE equivalent to weighted average of interest on loans proposed in the draft.

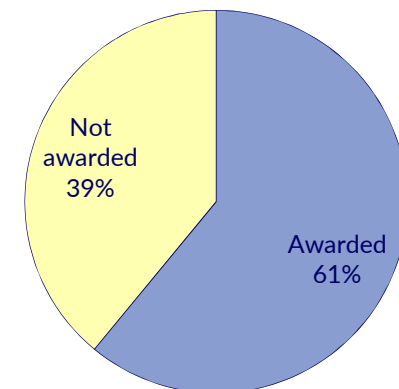
Capacity planned for retrofit



Bids awarded



Central sector - status





## Changes in merit order for Emission compliant plant as 'First run' after 'Must run'

Globally regulators are taking lead in cleaning up of environment. CERC can take lead and give signal to markets by:

1. Make emission compliant plants as 'first run' after must run schedule in bucket filling is complete in the following order
  - Ultra super-critical thermal plants
  - Super-critical thermal plants
  - Sub-critical thermal plants
2. In order to incentivise the timely completion, commission may propose 10bps higher RoE for every month of early completion of emission project's normative CoD
3. This shall not only incentivise acceleration of emission capex but also help reduce non-carbon emissions / risk of acid rains, which is the central goal of MOEF&CC order.
4. **All of above shall establish India's thermal sector and its regulations as a global leader in environmental consciousness!**