

Ref No. : CERC/October-2020/002

4<sup>th</sup> October 2020

To

**Shri Sanoj Kumar Jha,**  
**Secretary, Central Electricity Regulatory Commission (CERC)**  
**3<sup>rd</sup> & 4<sup>th</sup> Floor, Chanderlok Building,**  
**36, Janpath,**  
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**Subject: Comments / Suggestions on Staff Paper on Mechanism for Compensation for Competitively Bid Thermal Generating Stations for Change in Law on account of Compliance of the Revised Emission Standards of the Ministry of Environment, Forest and Climate Change, Government of India (MoEF&CC)**

**Ref: CERC Public Notice no. EN-(01)/8/2020 - CERC dated 5<sup>th</sup> September 2020**

Dear Sir,

This is with reference to the above referred public notice vide which CERC had invited comments / suggestions from all the stakeholders in reference to the subject Staff Paper.

In this matter, please find enclosed (Annexure I) with relevant comments / suggestions from my end.

It is requested to consider the detailed points while finalizing the subject cited regulation.

Thanking You,

Yours Sincerely,



04 Oct 2020

**(Janmejaya Mahapatra)**  
**Chief Executive Officer**

**Enclosure:**

1. Comments / Suggestions on Staff Paper on Mechanism for Compensation for Competitively Bid Thermal Generating Stations for Change in Law on account of Compliance of the Revised Emission Standards of the Ministry of Environment, Forest and Climate Change, Government of India (MoEF&CC)

**Jhabua Power Limited**

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## **Annexure - I**

**Comments / Suggestions on Staff Paper on Mechanism for Compensation for Competitively Bid Thermal Generating Stations for Change in Law on account of Compliance of the Revised Emission Standards of the Ministry of Environment, Forest and Climate Change, Government of India (MoEF&CC)**

### **1.0 Difference in treatment of Addition Capital Employed towards Emission Control System between the corresponding provisions of Tariff Regulation 2019-24 and that proposed in the staff paper.**

Tariff Regulation 2019-24 - First Amendment, 2020 provides for separate treatment for Return on Equity (RoE) and Interest on Working Capital as components of Annual Fixed Cost .

Clause 12.2 of the Amendment mentions as below with regard to ROE:

*“(3) The return on equity in respect of additional capitalization on account of emission control system shall be computed at the base rate of one-year marginal cost of lending rate (MCLR) of the State Bank of India as on 1st April of the year in which the date of operation (ODe) occurs plus 350 basis point, subject to ceiling of 14%.”*

Similarly, Clause 13.0 of the amendment mentions as below with regard to Interest on Working Capital

*“(5a) The rate of interest on loan for installation of emission control system shall be the weighted average rate of interest of actual loan portfolio of the emission control system or in the absence of actual loan portfolio, the weighted average rate of interest of the generating company as a whole shall be considered.”*

In Contrast, para 4.10 of the staff paper attempts to obliterate the distinction between equity and loan capital by employing a Net Fixed Asset (NFA) approach.

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It states as follows:

*“b) Cost of Capital Employed (ACEcoc)*

*4.10. The cost of capital employed also known as the cost of fund infused represents the weighted average cost of debt fund and equity fund deployed in the project. Considering the fact that any compensation mechanism needs to be based on the principle of restitution, there can be no expectation of profit in any component of tariff.”*

**Suggestion:**

It is proposed that the provisions for competitively bid Thermal Generating Stations be made similar to Tariff Regulations 2019-24.

## **2.0 Calculation of Supplementary Annual Charges (SACC)**

Presently, Para 4.15 mentions as follows:

*“4.15. The four components, namely, ACEDep, ACECOC, ACEO&M and ACEIWC shall be calculated in Rs. lakh on annual basis for the useful life of ECS i.e. 25 years starting from ODe of the ECS. The sum of these is termed as Supplementary Annual Capacity Charges (SACC). The recovery of Supplementary Annual Capacity Charges by way of monthly billing shall be in line with the recovery and payment of quoted capacity charges for generating stations in accordance with the PPA. ....”*

So, it provides that

$$\text{SACC} = \text{ACE coc} + \text{ACE iwc} + \text{ACE dep} + \text{ACE o\&m}$$

Keeping in view our suggestion to maintain the distinction between ROE & Interest on Loan Capital, it is suggested that two components viz. ACE roe & ACE iwc i.e. Additional Capital Expenditure - Return on Equity & Additional Capital Expenditure – Interest on Loan Capital shall replace the single component – ACE coc i.e. Additional Capital Expenditure – Cost of Capital.

So, SACC shall be equal to

$$\text{SACC} = \text{ACE roe} + \text{ACE ilc} + \text{ACE iwc} + \text{ACE dep} + \text{ACE o\&m}$$

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