

July 13, 2018

The Secretary

Central Electricity Regulatory Commission,
3rd and 4th Floor, Chanderlok Building,
36, Janpath, New Delhi

Handwritten notes in blue ink: "15/7/18" and "K. K. Singh".

Sub: Comments on Consultation paper on Terms and Conditions for determination of Tariff for 2019-24

Sir,

This has reference to the consultation paper issued via Public Notice dated May 24, 2018 on "Terms and Conditions of Tariff for the tariff period commencing from 1st April 2019" inviting comments/observations.

At the outset, we would like to suggest the Honorable Commission to retain the present tariff determination philosophy for the existing PPAs and the new Regulations should be applicable on the upcoming capacities. Under the present scenario when sector is reeling under tremendous pressure, consistency in the regulatory provisions is extremely important. As such, the consultation paper seeks to make substantive changes in the tariff computation philosophy which would have profound impact on the existing investments. The Honorable Commission may adopt the modified provisions for the upcoming capacities as the investor so that the investor would reckon them while making investment decisions.

Generation: We disapprove of the three part tariff structure which proposes to divide the returns as risk free return and incremental return. In our view, the concept of risk-free return doesn't hold any relevance in such a "high risk" investment sector. Point wise comments are as follows:

- **Debt: Equity:** Given the high risk prevailing in the sector, it is not plausible to achieve project financing at 70:30. Further, in case of higher leverage the benefit shall be passed through to consumers.
- **Optimum Utilization of Capacity:** Revision in Annual Contracted Capacity (ACC) for the existing PPAs every year is against the terms and conditions of PPA contract, whose righteousness has been upheld by the Supreme Court at several occasions. Hence including such clause in the Regulations would invite legal courses, which in our view should be avoided.



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- **Cost of Debt:** The cost of domestic borrowing is high and is associated with credit rating of the project as well as of the developers which may or may not be same. We suggest, the normative cost of debt on the basis of present debt market condition is not a viable option.

- **O&M Expenses:** The WPI & CPI indexes do not capture the variations on account of the wage revision, increase in water and other charges etc. Hence, it is submitted that the Labor Index may also be included to derive an effective escalation factor. Also, such indices may be reviewed and published annually like other indices for bidding are notified.
- **Merit Order Despatch Principle:** It is submitted that complying with MOEFCC's notification with regard to emission control has implications on the tariff which further impacts the position in the Merit Order. Decreased ranking in the merit has placed the environment friendly plants at a disadvantaged position. In order to address the above issue, suitable provision may be incorporated in the Regulations to consider Fuel Charges without the impact of new norms in the Merit Order Dispatch till 2022-23.

Transmission: It is submitted to the Honorable Commission that the present transmission tariff determination mechanism replaced the regional tariff determination regime after extensive consideration. In our view the current structure is serving the purpose well. We suggest that the tariff determination philosophy should not be amended abruptly without any compelling reason for the same. In order to address the issue arising on account of under-utilization of the existing system due to intermittent sources, it is suggested to adopt a separate tariff determination mechanism for such projects such as 50% of the applicable transmission charges on capacity basis or adopt Short-Term Open Access (STOA) like tariff structure based on per unit of electricity.

We request the Hon'ble Commission to consider our submission while finalizing the Regulations for 2019-24.

Thanking you,

Yours faithfully



Haziq Beg
Chief Executive