



POWER AND ENERGY CONSULTANTS INDIA LIMITED

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PECIL/CERC/2019

Dated 25th January, 2019

To,

The Secretary

Central Electricity Regulatory Commission

3rd & 4th Floor, Chanderlok Building,

36, Janpath, New Delhi- 110001

E-mail: secy@cercind.gov.in, info@cercind.gov.in

Kind Attn: **Shri Sanoj Kumar Jha**

Sub: CERC Tariff Regulation 2019-24- Comments

Draft Notification No.L-1/236/2018/CERC Dated 14th, December, 2018

Dear Sir,

Ongoing through the draft tariff Regulations for the period 2013-24, we have the following observation to make:-

1) **ROE: Return on Equity:-**

Return on equity is considered as 15.5% on the equity employed which is on the higher side which is against the principle of Return on equity is directly proportional to the risk involved- As in the case of wind & solar power project where risk involved is much more and return is considered @14.0% only. We propose that ROE be considered @14%. Number of SERC's have specified RoE @14% even for Renewables

2) **Depreciation:**

Salvage value considered is now reduced from 10% to 5% which may theoretically be o.k.in other type of cases but in power sector lot expenditure is on civil works and use of metal such as steel, iron, copper, Aluminum etc whose cost in fact escalate. Before implementing, same real cases should be looked upon. For example a Power Plant (Coalbase) was constructed in 1988 at the cost of 0.50 crores per MW and cost of the same plant after 25 years is around Rs 6.0 crores/MW i.e an increase of about 12 times. Similar is the case of Transmission system whose life is more than 25 years.

In view of the above, it is proposed that before considering salvage value @ 5% some practical experience should be made the base till then 10% be continued.

3) **Gross Fixed Assets approach versus modified FA approach.**

In this regard, provision for reducing the equity from excess cumulated depreciation available at the end of useful life of the Asset is proposed. But no advantage is passed on during the years excess depreciation is charged even though this is paid by the beneficiaries. To further illustrate this the following example is submitted.

Assumption:

Cost of the completed project Rs 1000 crores

Loan 700 cr

Equity 300 Cr

On 1st 13 years loan is fully paid from depreciation amount. From 14th years to 25th year i.e 12 years period an amount of Rs. 200 crores is collected towards depreciation. This amount works out to be Rs 400 crores @ 12% return which is extra available to the generator. This amount is 40% of the original cost of the project. The most unreasonable thing is that during period 14th years to 25th years if any additional capital is required that is allowed additionally even though depreciation amount is available.

In view of the above, it is requested that atleast requirement of Additional capital be met from this fund.

We will also like to have oral submission on the date of public hearing.

Thanking you,

Yours faithfully,
for Power And Energy Consultants India Limited


CM Jain
President

