

Comments of Sikkim Urja Limited on the Approach Paper for Tariff Regulations 2024-29

S.N.	Related to	Details	Comments of SUL
1.	Approach 1: Normative Tariff	<p>Under this Approach:</p> <p>(a) For existing projects, the components are clubbed under the head AFC and O&M expenses are provided separately for the Base Year (2024-25), whereafter, indexation rate is applied for balance period.</p> <p>(b) Upon expiry of tariff period, only indexation factor for O&M expenses shall be revised.</p> <p>(c) For additional capitalization, separate petition seeking approval of capital expenditure and once allowed the variation due to additional capitalisation can be serviced through computing the impact on AFC and adjusting the same through indexation mechanism.</p>	<p>It is humbly submitted that this approach is not suitable to hydro projects due to the following:</p> <p>(a) This approach introduces indexation factor based on AFC components approved by CERC. Such AFC is also eligible for revision due to additional capitalisation. Considering that AFC would be determined and subsequently revised due to additional capitalisation, indexation would become irrelevant and make computation cumbersome.</p> <p>(b) Filing separate petition for additional capitalisation and upon its approval, adjustment through indexation mechanism would result in revision of AFC, multiple times during the control period, depending upon the nature and urgency of additional capitalisation. It is therefore, suggested to continue with one-time interim revision during the control period and subsequently, actualize the same during true-up of next control period.</p>
2.	Approach 2: Performance Based Hybrid Approach	<p>This Approach seeks suggestions on whether this interest rate on loan can be fixed with linkage to the reference rate.</p>	<p>Hydro projects are generally awarded on SPV mode to companies based on their technical and financial capability. However, it is difficult to get competitive rates from lenders, and even such rates are reset every 3-4 yrs. based on</p>

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			governing policy of the financial institutions. Reference rate would result in normalization of rate across all hydro projects, which may be much lower than the actual rate of interest leviable to the hydro project. Accordingly, the existing mechanism of allowing actual rate of interest should continue, which may be allowed based on certification by the project lenders/ statutory auditors for reducing the task of computation of rate by CERC.
3.	Reference Cost for Approval of Capital Cost - Benchmark Cost V/s Investment Approval Cost	Under this head, comments are invited on other efficient reference costs other than Investment Approval costs for prudence checks	It is submitted that Investment Approval in case of hydro projects is majorly done by the Board of the Company/ Competent Authority based on the economic estimates provided by CEA prior to commencement of construction. Such estimates are used for funding purposes and power tie-ups. However, the tariff determination exercise is carried out around 6 months prior to COD. Considering that the gestation period of 5-7 yrs., having two reference cost would make the regulatory certainty unattainable. Further, each hydro project is designed based on various parameters such as geology, power potential, submergence area etc., benchmarking of Capital Cost is not feasible. Therefore, it is suggested to continue with the present approach of considering Investment Approval.
4.	Additional Capitalisation	A provision may be introduced to existing Regulation 26 to allow additional capitalisation if they are found to be	This is a welcome move. Hydro projects witness various site-specific conditions/ technological advancements, which may result in additional capitalisation beyond the original project

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		beneficial/essential for continued operations.	cost, especially to enhance the performance parameters of the hydro project.
5.	Rate of Return on Equity	<p>For computing the return on equity based on CAPM, following has been proposed:</p> <p>(a) Risk Free Rate: Average 10-year GOI securities rate over one-year horizon.</p> <p>(b) Equity Beta: Daily data on SENSEX and BSE Power Index for latest 5 years.</p> <p>(c) Market Risk Premium (MRP): Reflecting historical returns for 30-years or beyond instead of existing practice of considering 20 years.</p> <p>Another approach has been suggested to compute MRP using Survey Method.</p>	<p>With respect to Equity Beta, the period taken is 5 years only which would show higher volatility, however, for MRP, period proposed is 30 years. Power sector in India opened on a large scale much after implementation of Electricity Act, 2003 with new players competing for construction of projects. As such, MRP of 30 years would not give a correct picture. Further, Equity Beta for 5 years would also not give correct picture considering volatility of Indian as well as global stock markets. It is suggested to consider both these parameters for 20 years to normalize the volatility as well as show realistic MRP.</p> <p>With respect to computation of MRP using Survey Method, it is submitted that the group to be surveyed is difficult to assess, i.e., whether to consider institutional investors, individual investors, analysts, academics. Etc. Such survey will also be constrained by sample size, with varying results depending upon expected MRP and historical assessment. As such we should continue with existing practice of assessing historical returns of last 20 years for MRP.</p>
6.	Higher Rate of ROE for RGMO / FGMO	As per the existing Regulations, rate of return on equity is reduced by 1.00%, if the generating station or transmission system is found to be declared under	It is submitted that as per the existing Grid Code, large hydro projects having pondage of more than 3 hours support the Indian Grid with RGMO/FGMO at 50 Hz. Only. Presently, frequency of the Indian Grid beyond 50 Hz. stays for around

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		commercial operation without commissioning of any of RGMO/FGMO, data telemetry, communication system up to load dispatch centre or protection system.	2/3 of the day. This results in backing down of generation due to Primary Response and heavy levy of Deviation Charges. It is suggested that in case of hydro projects with pondage beyond 3 hours, an additional 1% ROE should be allowed over and above the existing rate for providing Primary Response to the Grid.