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To,

The Secretary,
Central Electricity Regulatory Commission
6th ,7th & 8th Floors, Tower-B, World Trade Centre,
Nauroji Nagar , New Delhi-110029

Sub: Comments on the Hon'ble CERC draft order dated 03.07.2024 in Suo-Motu Petition No. 4/SM/2024

Respected Sir,

We would like to introduce ourselves as Adhunik Power and Natural Resource Limited (APNRL), operating a thermal generating station with an installed capacity of 540 MW in Village-Padampur, District-Saraikela Kharsawan, Jharkhand. We have been supplying power for the past 11 years to multiple states including Jharkhand, West Bengal, Tamil Nadu, and Haryana under Section 62 and 63, through both long-term and medium-term PPA arrangements.

We are writing this letter to submit our comments on the Draft Order in Suo-Motu Petition No. 4/SM/2024 concerning the revised mechanism for compensation related to the installation of emission control systems in coal-based thermal power generating stations.

We appreciate the Hon'ble Commission's efforts to revisit and revise the existing compensation mechanism considering the challenges faced by generating companies. After a thorough review of the draft order, we have provided our detailed comments and suggestions in the attached document. Our comments primarily address the depreciation period, cost of capital, and operation and maintenance expenses for the emission control system.

We believe that our suggestions will ensure a fair and practical approach to recovering costs associated with the emission control system, thus enabling generating companies to maintain financial stability and compliance with environmental regulations. We kindly request the Hon'ble Commission to consider our submissions and make the necessary amendments to the draft order.

Thank you for the opportunity to provide our input. We look forward to the Hon'ble Commission's favorable consideration of our comments.

Yours sincerely,

Authorised Signatory

Encl: Annexure 1- Comments on the Hon'ble CERC order dated 03.07.2024 in Suo-Motu Petition No. 4/SM/2024

Annexure 1- Comments on the Hon'ble CERC order dated 03.07.2024 in Suo-Motu Petition No. 4/SM/2024

Sl No	Particulars	Excerpt from draft order dt. 03.07.2024	Comments
1	Depreciation	*12. In the light of the above discussion, the Commission proposes to modify Paras 31 and 32 of the order in petition 6/SM/2021 as under:-* *"31. The Commission has specified the* ***operational life of a thermal generating station as 35 years in the 2024 Tariff Regulations****. Further, the Commission, in light of the operational life of 35 years, has specified* ***the period of recovery of 70% of depreciation of the emission control system as 12 years*** *in the 2024 Tariff Regulations, which is commensurate with the standard loan tenor. There are very few thermal generating stations under competitively bid tariffs that have completed 15 years of life after their COD, and their loan tenors are in the range of 12-15 years. The Commission considers it appropriate to provide for the recovery of 70% of the depreciation of the emission control system over a period of*	APNRL would like to submit that the original useful life of a thermal generating station was set at 25 years. Consequently, the tenure of long-term PPAs was capped at 25 years, and most thermal generating stations have long-term PPAs of this duration. APNRL's station, having completed 10-11 years, has only 14-15 years of useful life remaining. The Ministry of Environment, Forest & Climate Change mandates the installation of the emission control system by 31.12.2026. By then, plants like APNRL will have completed 12 years of their PPA tenure, leaving only 13 years to recover 90% of the emission control system cost. Given the shift from thermal to renewable generation, it will be challenging to extend long-term PPAs or secure new contracts for an additional 10-15 years. APNRL recommends that depreciation schedule for emission control system should be in such a manner that it shall be spread over the entire useful life of plant (i.e. 25 years) not on the operational life or remaining PPA tenure whichever is lower. In addition to the above APNRL also Proposed that the amount against depreciation should be recovered from different PPAs in proportionate manner, the said amount should be proportionated according to remaining respective PPA life aligning the depreciation period with the remaining PPA tenure or allowing

Adhunik Power & Natural Resources Ltd.

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		12 years from the date of operation of the emission control system commensurate with the loan tenor in order to enable the generating companies of competitively bid projects to meet their debt service obligations ***and the balance depreciation shall be spread over the remaining operational life*** *of the generating stations*	the generation station to customize the schedule with the beneficiary. This approach ensures costs are spread appropriately, preventing excessive financial burden and enabling financial stability. If not considered, generating stations may face severe financial strain due to accelerated depreciation costs, leading to liquidity issues, inability to maintain or upgrade infrastructure, and potential operational inefficiencies. Therefore, APNRL requests the Hon'ble Commission to consider this submission.
2	Cost of Capital	*29. Accordingly, it is proposed to modify Para 37 of the order in petition 6/SM/2021 as under:-* *"37. The servicing of capital employed during each year of the contract period shall be worked out based on net fixed asset (derived by adjusting cumulative depreciation of emission control system) and normative rate of 1 year Marginal Cost of Lending Rate of State Bank of India (for one year tenor) plus 250 basis points."*	APNRL observes that the entire cost of the emission control system is being considered as debt. Many thermal generating stations in the country face financial crises and cash crunches, with some going to the NCLT. For these stations, securing a 100% loan for the emission control system is challenging, necessitating reliance on investors, who will expect a higher return due to the risk capital nature of the investment. Treating the cost of capital solely as debt may discourage equity investments, limiting financial flexibility and increasing financial risk. Recognizing both debt and equity in the cost of capital ensures fair compensation reflecting the true cost of funding, encouraging balanced investment strategies, including necessary equity investments. Therefore, APNRL requests the Hon'ble Commission to consider a blended rate that includes both debt and equity components, ensuring fair compensation for all capital employed.

Adhunik Power & Natural Resources Ltd.

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3	Operation and Maintenance Expenses	*16. The Commission, in its order dated August 13, 2021, provided for operation & maintenance expenses of the emission control system for competitively bid projects @ 2.5%, which was 0.5% higher than the norm specified in the 2019 Tariff Regulations on account of gypsum and water handling. However, while framing the 2024 Tariff Regulations, the Commission considered the O&M expenses @ 2% of the additional capital expenditure as adequate to meet the expenses.* ***Accordingly, the operation & maintenance expenses of an emission control system for the competitively bid projects are proposed @ 2% of the additional capital expenditure on account of the emission control system (excluding IDC & IEDC)*** *as on the date of commissioning….."*	Insufficient O&M funding could lead to inadequate maintenance of the emission control system, resulting in operational inefficiencies, increased downtime, and non-compliance with environmental regulations. This can increase long-term costs and reduce system lifespan. Emission control systems like Flue Gas Desulfurization (FGD) units, which reduce sulfur dioxide emissions, require sophisticated technology and have high maintenance needs. Proper handling, storage, and disposal or sale of gypsum, a by-product, adds to operational costs, necessitating specialized equipment and processes to prevent environmental contamination and comply with regulations. APNRL believes that the proposed 2% O&M expense rate for the emission control system is insufficient. APNRL requests the Hon'ble Commission to increase the O&M expense rate by considering the actual cost incurred by generating stations where the emission control system is already installed and operational, like NTPC, or increase it to at least 2.5% in alignment with previous norms.

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