Suggestions from SECI

1. Unplanned expenses related to the erection of a renewable energy plant, including those towards development of the area, rehabilitation, resettlement, livelihood compensation, upliftment of the local population, and R&R activities should be allowed.
These expenses, although not directly categorized as capital costs per **clause 12**, are essential for the establishment of the project and should be considered as part of the overall investment.

2. Provisions should be made in the Capital Cost clause to encompass such expenses, especially those incurred beyond the defined scope of direct capital costs or not included in the EPC contract.

3. **Clause 15:** As the life of Battery Energy Storage System (BESS) is much lesser than that of the Solar/Wind or any other Renewable Energy Power plant, it may not be feasible to charge depreciation on BESS/Storage at the rate of 4.67% for 15 years. E.g. The life of Storage deployed in a project is 11 or 12 years and at the end of 11 or 12 years, same may or may not be replaced. If the BESS is not replaced, depreciation may not be charged on that part (i.e. Storage) which ceases to exist. If the BESS/Storage is replaced, depreciation would be charged on the replaced cost of BESS for the remaining life of the BESS.

Therefore, it is suggested that the depreciation on Storage may be charged on SLN basis based on the life of the Storage/BESS considering 10% as the salvage value. Similar principle may be followed for replacement cost of Storage/BESS.

4. **Clause 16:** In case of Renewable Energy Projects with Large Storage Capacity, the replacement cost of Storage/BESS is very huge, which may need to be financed through equity at the time of replacement. Therefore, Return on Equity (RoE) may also be allowed on the equity deployed on replacement of Storage/BESS for the remaining years of the useful life of the power plant. Hon’ble Commission may kindly incorporate these provisions in the Regulations to have clarity for submission of petition for determination of tariff.

5. **Clause 16:** After introduction of section 115BAA in the Income Tax Act, many companies have opted for this section according to which effective income tax rate applicable on companies is 25.178% (22% income tax rate+10% surcharge+4% Cess). Further, in accordance with the provisions of section 115BAA of the Income Tax Act, the companies who are covered under this section are not required to pay MAT. Moreover, if any well-established Profitable Entity is setting-up the project, it will not get covered through MAT as the entity may have other business profits which may get set-off from the early year losses of the Project (under Income Tax Act). Therefore, the Company still continues to pay Corporate Tax on the project.

Here, it is pertinent to mention that the above situation arises because Hon’ble Commission also considers the benefit to be accrued on account of accelerated depreciation while computing the tariff of the project. When the difference between the depreciation rate allowed by Hon’ble Commission (i.e. 4.67%) and the Depreciation Rate under Income Tax Act (i.e. 40%) is considered as a benefit to the project and deducted from the Project tariff (on levelized basis), companies will have double-sided hit as Company need to pay Corporate Tax while commission has allowed only MAT on the RoE for first 20 years, while the benefit on account of difference in depreciation rate is also adjusted in tariff.

The parameter of grossing-up of RoE with MAT may still be relevant in case of companies which get covered through MAT and in case of SPV companies.

In view of above, Hon’ble Commission may kindly amend the draft regulations by allowing to gross-up the post-tax RoE of 14% with the Corporate Tax Rate from first year itself.