CERC Terms and Conditions for Tariff determination from Renewable Energy Sources (RES) Regulation, 2020

CERC issued draft for Terms and Conditions for Tariff determination from Renewable Energy Sources (RES) Regulation, 2020 for the control period 2020-21 to 2022-23. Highlights of the proposed regulations are given below:

❖ 'Floating solar project', 'Grid Code', 'Pumped storage hydro project', 'State Nodal Agency', and 'Storage' have now been defined. Further, the regulations also provides for the 'treatment for over generation'.

❖ Loan tenure is proposed to be increased from 13 years to 15 years.

❖ Depreciation rate from 5.28% for 13 years to be changed to 4.67% for 15 years. The concept of 10% salvage value is also proposed to be removed, and remaining depreciation, after 15 years, to be evenly spread year over the remaining useful life of the project.

❖ For the calculation of Interest on Working Capital (IoWC), receivables equivalent to 45 days to be considered instead of 60 days.

❖ To consider IoWC, interest rate equivalent to the normative interest rate of 350 basis points (previously 300 basis points) above the average SBI MCLR (one-year tenure) prevalent during the last available six months is to be adopted.

❖ Normative O&M expenses to be allowed during the first year of the control period at an escalation rate of 3.84% (previously 5.72%) per annum.

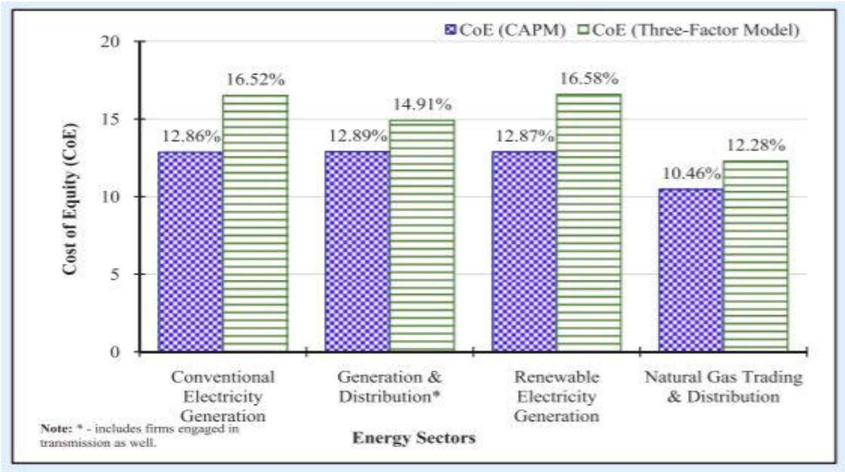
❖ For payment made within 5 days of presentation of bill, a rebate of 1.5% is proposed. Further, LPS of 1.50% (1.25% earlier) can be levied for bills due beyond 45 days.

The CERC Document can be accessed here.

CER Opinion:

❖ RoE: Pre-tax vs Post-tax (Section 19): - Clause 2 of Section 16 should be modified as –"The normative Return on Equity shall be 14%, to be grossed up st by prevailing rate of Minimum Alternate Tax (MAT), as on *1st April preceding the CoD,* for the entire Tariff Period". (underlined text to be included)

- The cost on equity estimated by the CAPM approach is a post-tax estimate. A recent study at CER, IITK using CAPM and multi-factor models using a comprehensive data for over 125 infrastructure companies between 1998-2018, estimates the cost on equity for RE sector to range between 12.87-16.58%, on a post-tax basis. The estimate referred to in the Statement of Reasons (SoR) is also a post-tax estimate. Against the estimated post-tax cost of equity of 12.87% (using CAPM), the proposed RoE works out to 16.96% (after grossing up with 15% MAT plus 12% surcharge, and 4% cess).



Cost of Equity – CAPM and Three-factor Model

So: *Kewal Singh, Anoop Singh and Puneet Prakash (2020) – Draft Paper*

❖ IoWC vs IoL: Difference between Interest on Working Capital (IoWC) and Interest on Loan (IoL) is 150 bp. Given the observed difference in yield of short-term and long-term government securities, the interest rate differential may be made dynamic and linked to the prevailing short-term and long-term yields.

❖ Rebate on Early/Advance Payment: Given the dynamics in the financial markets, rebate on early payment may also be linked to SBI MCLR. Additionally, provision for 'advance' payment may also be incorporated.

❖ Hybrid RE Projects: Clarification regarding scope of Hybrid RE projects vis-a-vis their definition in case of more than two technologies is needed. Further, mentioning if Co-generation with Hybrid RE technology would also fall within the scope.

❖ Storage in RE and Hybrid RE Projects Scope: It will be useful to clarify scope of storage based RE (Hybrid) projects vis-a vis minimum storage capacity with respect to the rated 'energy' capacity of the RE plants. Further, it should be clarified if co-generation with storage technology would also fall within the scope would be useful.