



**Office of Chief Engineer/PP&R**

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Memo No. 456/ISB-3

Dated 23-03-2021

**Subject: Request for Reduction in tariff due to changed scenario in power sector.**

As you are aware, due to the restrictions imposed by Government on movement of persons and working of the commercial establishments to control the spread of the Covid-19 pandemic, the economic activities have been severely affected all over India. These restrictions have directly affected the overall business activities including but not limited to reduction in demand of the electricity and ability of consumers to pay their electricity dues. This has led to severe cash deficit for the PSPCL.

Your company is a valuable power supplier to PSPCL. Ever since installation of your plants, many structural changes have taken place in the power sector. The share of renewable power is increasing day by day due to cost effectiveness and favorable regulatory environment. Due to changed supply mix in power sector and comparatively higher cost of generation of your plants and further reduction in demand due to Covid-19, Punjab consumers have to pay higher tariffs. The solar energy tariff has significantly come down to about Rs. 2.56/- per KWh (in Kusum Scheme) as compared to the tariff being paid to your generating company. It is needless to mention that PSPCL has been regularly paying for the power generated from your plants for many years at original tariff decided as per PPA. Further it is expected that new solar power cost shall remain around Rs. 2.00 per unit.

It is therefore, requested to explore each and every possibility for reduction in per unit cost & consider the following points while deciding reduction in per unit tariff as there has been significant cost savings to you due to following cost areas:-

1. Reduction in banking interest rates in recent years.
2. Reduction in Corporate tax rates in recent years.
3. Reduction in cost of solar panel at the time of full commissioning of plant as compared to cost of solar panel at the time of agreement with PSPCL.

## 1. Reduction in banking interest rates in recent years:-

The energy rate payable as per the PPA signed with your company was based upon generic tariff determined by PSERC. While determining generic energy tariff, PSERC had considered 70% of the capital cost as term loans & Interest Rate on Loan capital/working capital as 13.00% to 13.50% and further two month debtors were considered as working capital interest cost, whereas these interest rates have reduced considerably over the period. It is pertinent to mention here that RBI on 27-03-2020 has come out with a slew of measures to ease financial woes of the commercial sector. RBI has inter-alia reduced the Repo rate which effectively brought down interest rates applicable to term loans taken by generating companies. The present rate of interest is about 7.30% per annum (SBI MCLR).

Rate of interest on debt: There is considerable reduction in ROI over the past years as under:-

Effective Date	Rate of Interest (%)
10.12.2020	7.30
01.04.2020	8.15
01.04.2019	9.05
01.04.2018	8.70
01.04.2017	9.10
01.04.2016	9.30
01.04.2015	10.00

From the above interest table, it is evident that Interest rates at the time of signing of PPA were higher due to higher BPLR and MCLR which have now decreased.

The working capital loan rates considered in tariff have not been revised/reduced according to present loan rates & the generators are enjoying higher tariff rate based on historical working capital loan rates. For example, if the rate of interest on loan at the time of determining tariff was 13.5% p.a. & at present it is 9% p.a., your firm is getting working capital interest cost equivalent to 3 months working capital cost for debtors instead of 2 months allowed as per regulation. As such, it is clear that your firm is not passing on this benefit of Lower Interest rates on Working capital Loans to this office. Similar is the case of Term Loans.

The benefit of reduction in rates must be fully passed on to the end consumer on immediate basis. At the time of agreement with the your company, Interest rate were higher than present rate and the same was considered to calculate the working capital cost of debtors for two month and included in tariff itself.

## 2. Reduction in Corporate tax rates in recent years.

Further corporate tax rates have been reduced from time to time as per details below:-

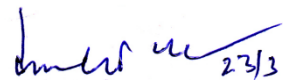
Financial Year	Corporate tax rate (%)
2014-15	33.99
2015-16	34.61
2016-17	34.61
2017-18	34.61
2018-19	34.61
2019-20	25.17
2020-21	25.17

From the above table, it is evident that corporate tax rates at the time of signing of PPA were higher which have now reduced. Due to above change in law the pre-tax return on equity has increased, however your firm has not shared the benefit with PSPCL for reduced tax rates.

## 3. Reduction in cost of solar panels at the time of full commissioning of plant as compared to cost of solar panels at the time of agreement with PSPCL.

It is well known that 12-18 months are allowed for commissioning of plant & cost of solar panel at the time of signing of PPA were considered, whereas the solar panel/solar-cells/modules and balance equipment cost was on decline and it is likely that actual cost of plants was lower than that considered in determination of tariff at the time of signing of PPA. However, your firm has not shared the benefit of reduced cost with PSPCL. As such, it is requested to revisit such costs again & reduce the tariff accordingly.

Keeping in view of the above possible savings and financial constraints & Challenges faced by PSPCL due to Covid-19, RE power rates need to be brought down to the level of average Pooled cost of Power @ 4.50 per unit worked out by PSERC for 2020-21. As such, it is requested to reduce the tariff rate by at least 15%. An early and favorable action in the matter is solicited please.



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