# CERC proposes cut in ROE for renewable energy units to 14%

**Anupam Chatterjee**
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THE Central Electricity Regulatory Commission (CERC) has proposed the return on equity for renewable energy projects for the FY18-FY20 period at 14% (post-tax), down from 16% at present. The move will impact the regulator's tariff structure for renewable energy projects, mostly smaller ones, that don't find buyers — and tariffs — via the competitive bidding route.

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The CERC's proposal comes in the wake of a steep fall in solar and wind tariffs under recent reverse auctions and new technologies that have helped cut costs. Once the tariffs for renewables are cut, it could lead to a similar correction in the case of conventional utilities as well, a possibility that worries the industry.

The value base for the equity is proposed to be 30% of the capital cost. The proposed rate was calculated taking into account a market premium of 700 basis points over the prevailing six-month average government security rates. According to sources, the CERC is likely to come out with a final decision on the tariff structure by the end of this month, in time for its roll-out from April 1.

In the current tariff regulations framed in 2012, where post-tax return on equity for renewable projects is capped at 16%, the commission has factored in the tax holiday that was available to developers. (Projects that had commenced prior the cut-off date were exempted from income tax on all earnings generated from the project for 10 consecutive assessment years during the first 15 years of the project life).

The tariff norms would be applicable to smaller projects, which do not find the competitive bidding route feasible, owing to their lower generation volumes. These projects mainly belong to the bio-mass and the small hydro-power categories, industry sources said. As on December 31 2016, installed capacity of renewable energy power stations was 50 GW. Of this, small hydro-power projects comprised 4.3 GW and bio-mass power plants made up 8 GW.

However, the proposal to lower return on equity has triggered speculations in the conventional power industry as well. Many say that it might become a precursor to a potential fall of regulated returns for conventional utilities as well. The new tariff structure for such projects are due in March 2019. It is being assumed that the permitted rate of return on equity on such entities may fall to 14% from the current rate of 15.5%.

However, analysts said a tariff directive for renewables does not necessarily mean that the same would apply for conventional utilities. Nevertheless, this might have a bearing on the latter, which incur much larger infrastructural investments. "Though the tariff regulations of renewable and conventional power are not comparable apple to apple, one cannot rule out tightening of regulation or altogether different way of regulating returns," said Mohit Kumar, research analyst at IDFC Securities.

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