

To

The Commission Secretary
Telangana Electricity Regulatory Commission
Vidyut Niyamtran Bhavan, G.T.S Colony, Kalyan Nagar
Hyderabad – 500045

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Respected Sir/Madam,

I am submitting this representation in response to the public notice issued by the Hon'ble Telangana Electricity Regulatory Commission in **I.A. No. 4 in O.P. No. 24 of 2020**, inviting objections/comments/suggestions on the petition filed by TGSPDCL on behalf of TGDISCOMs seeking revision of the pre-fixed levelized tariff for PM-KUSUM Component-A Solar Power Generators from **₹3.13/kWh to ₹2.98/kWh** on account of reduction in applicable GST rates from 12% to 5%.

I respectfully object to the proposed tariff reduction. The existing tariff of **₹3.13/kWh** formed the basis on which developers entered into PPAs, identified and leased land, initiated project development, incurred statutory and commercial expenses, approached lenders, and made implementation decisions. Any post-facto reduction after developers have acted in reliance on the approved tariff would materially affect project viability and damage confidence in Government-backed renewable energy schemes.

1. Change in Law should not be applied selectively only for one favourable cost movement

The petition appears to invoke the Change in Law clause only to capture the benefit of GST reduction on certain solar components. However, project economics cannot be evaluated by isolating one cost reduction while ignoring several adverse cost movements that have occurred simultaneously.

Even if GST on certain items has reduced from 12% to 5%, many other major cost components either continue to attract higher taxes/duties or have increased materially. These include mounting structures, cables, transformers, switchgear, civil works, fencing, evacuation works, right-of-way expenses, transportation, erection, labour, insurance, statutory expenses and other balance-of-system costs.

Further, many solar project inputs are directly or indirectly import-linked. The Indian Rupee has weakened materially, with USD/INR recently trading around the **₹94–95/USD** range, which increases the landed cost of solar cells, modules, inverters, electronic components, and electrical equipment.

Therefore, if Change in Law is to be considered, it must be considered on a **net project-cost basis**, taking into account both cost reductions and cost increases. A selective downward revision based only on GST reduction would be commercially inequitable.

2. Component-A developers do not receive the capital subsidy support available under Component-C

PM-KUSUM Component-A developers are expected to make projects viable primarily through tariff revenue. They do not receive the same capital subsidy support that is available under PM-KUSUM Component-C feeder-level solarisation.

For agriculture feeder solarisation under Component-C, Central Financial Assistance of **₹1.05 crore/MW** is available. Despite this support, recent Component-C tariff approvals in other states have remained around or above the Telangana Component-A tariff. For example, APERC approved Component-C feeder-level solarisation tariffs of **₹3.16/kWh, ₹3.18/kWh and ₹3.19/kWh**, with a state-wide average of **₹3.17/kWh**.

In this context, reducing Telangana Component-A tariff to **₹2.98/kWh**, despite the absence of equivalent capital subsidy support to the developer, would make small decentralized projects commercially difficult to sustain.

3. The effective cost to DISCOM is already lower because of Procurement Based Incentive

Under PM-KUSUM Component-A, DISCOMs are eligible for Procurement Based Incentive at **₹0.40/kWh or ₹6.60 lakh/MW/year, whichever is lower, for five years**.

Therefore, even at the existing tariff of **₹3.13/kWh**, the effective procurement cost to the DISCOM is materially lower after considering the PBI benefit. Depending on CUF and the applicable PBI cap, the effective cost is approximately in the range of **₹2.73–₹2.77/kWh**.

This is substantially lower than the retail tariff/realisation from industrial and commercial consumers in Telangana. The existing tariff already provides significant value to the DISCOM, even before considering the additional system-level savings of decentralized generation.

4. Decentralized generation creates transmission and distribution benefits

PM-KUSUM Component-A projects are decentralized plants connected near rural substations and load centres. This is materially different from centralized solar parks where power is generated in one location and transmitted over long distances.

Decentralized plants provide system-level benefits such as:

1. Reduced transmission and sub-transmission losses.
2. Lower network congestion.
3. Reduced requirement for long-distance transmission infrastructure.
4. Better rural feeder support.
5. Deferred transmission and distribution investment.
6. Improved reliability near agricultural load centres.

The economic value of these benefits should be considered before reducing the tariff. The tariff should not be viewed merely as a procurement cost, but as the cost of distributed renewable energy delivered near the point of consumption.

5. Small 2 MW projects have higher per-MW costs than large solar parks

PM-KUSUM Component-A projects are typically small decentralized projects, often around 2 MW. These plants do not enjoy the economies of scale available to 50 MW, 100 MW or larger utility-scale projects.

Several fixed costs remain substantial irrespective of project size, including:

- Land identification and registration.

- Land development and fencing.
- Evacuation line and interconnection works.
- Transformer, metering, protection and switchgear.
- Engineering and project management.
- Statutory documentation.
- Security.
- Regular cleaning and maintenance.
- Technical supervision and troubleshooting.

Even a small plant still requires manpower for operation, maintenance, module cleaning, security coordination and technical monitoring. These costs cannot be reduced proportionately merely because the project capacity is smaller.

Therefore, reducing the tariff further would make small decentralized plants commercially unviable.

6. GST reduction is a one-time capex benefit, but tariff reduction is a 25-year recurring loss

This is the most important commercial point.

The alleged GST benefit is a one-time reduction on a limited part of capital cost. However, the proposed tariff reduction of **₹0.15/kWh** applies every year for the full PPA term.

For a 2 MW project at 21% CUF, the impact is as follows:

Particulars	2 MW Project	4 MW Aggregate
Annual generation at 21% CUF	36.79 lakh units	73.58 lakh units
Existing tariff	₹3.13/kWh	₹3.13/kWh
Proposed tariff	₹2.98/kWh	₹2.98/kWh
Tariff reduction	₹0.15/kWh	₹0.15/kWh
Annual revenue loss	₹5.52 lakh/year	₹11.04 lakh/year
25-year nominal revenue loss	₹1.38 crore	₹2.76 crore

Thus, a seemingly small tariff reduction causes a very large recurring loss over the PPA period. More importantly, this revenue reduction comes directly out of the residual cash flow available after debt repayment, O&M, land lease, insurance, repairs and statutory expenses.

For small projects, post-debt cash surplus is already limited. A **₹0.15/kWh** reduction can materially reduce free cash flow and extend the equity payback period by several years.

7. The proposed reduction will affect project bankability

Lenders assess renewable projects based on long-term contracted cash flows. If the tariff is reduced after PPAs are signed and after developers have already incurred expenditure, it weakens the bankability of the scheme.

The proposed revision would affect:

- Debt service coverage.
- Promoter equity recovery.
- Lender confidence.
- Project implementation timelines.
- Future participation by private developers.

Even if the tariff reduction appears modest at the revenue level, the impact on cash available after debt servicing is disproportionately high.

8. Input costs have increased after tariff determination

Since the original tariff determination and subsequent project planning, the cost environment has changed materially.

The following cost heads have either increased or remain exposed to inflationary pressure:

- Solar cells and modules.
- Steel and aluminium structures.
- Cables and conductors.
- Transformers.
- Switchgear.
- Transportation.
- Labour.
- Civil works.
- Insurance.
- Financing costs.
- Exchange-rate-sensitive imports.

Therefore, the reduction in GST cannot be treated as a simple net saving to developers. In many cases, any GST benefit has already been offset or exceeded by increased input costs.

If the Commission considers the Change in Law clause, it should require a comprehensive net-cost assessment rather than adopting a mechanical reduction in tariff.

9. The scheme supports farmer income and rural employment

PM-KUSUM is not merely a power procurement scheme. It is also a rural development and farmer-income scheme.

Component-A projects support:

1. Long-term lease income for farmers and landowners.
2. Rural employment during construction.
3. Local employment for cleaning, security and maintenance.
4. Investment in rural electrical infrastructure.
5. Distributed renewable energy across villages and mandals.
6. Local economic activity in rural Telangana.

A reduction in tariff to commercially unviable levels would discourage developers from executing such projects and would directly weaken the rural-development objectives of the scheme.

10. Retrospective tariff reduction will damage public trust and regulatory credibility

Developers participated in the scheme based on the tariff notified by the Hon'ble Commission and the PPAs executed with the DISCOM. Based on this, developers have already proceeded with land arrangements, documentation, technical planning, statutory processes, financing discussions and project expenditure.

Changing the tariff after such reliance would create uncertainty and reduce confidence in future Government-backed schemes. Regulatory certainty and sanctity of executed PPAs are essential for attracting private investment into renewable energy infrastructure.

If developers believe that approved tariffs can be reduced after they have committed capital, future participation in similar schemes will be adversely affected.

11. Relief requested

In view of the above, I respectfully request the Hon'ble Commission to:

1. **Reject the proposed reduction** of PM-KUSUM Component-A tariff from **₹3.13/kWh to ₹2.98/kWh**.
2. **Retain the existing tariff of ₹3.13/kWh** for all PPAs already executed and for projects where developers have acted in reliance on the approved tariff.
3. In the alternative, if any tariff revision is considered, apply it only prospectively to future projects and not to already executed PPAs.
4. Direct that any Change in Law analysis must consider the **net impact of all cost movements**, including GST reduction, currency depreciation, module/cell prices, steel, aluminium, cables, transformers, civil works, labour, logistics, financing costs and other balance-of-system costs.
5. Consider the Procurement Based Incentive available to DISCOMs, the effective reduction in DISCOM procurement cost, decentralized transmission-loss savings, rural

employment, farmer income and long-term policy credibility before approving any tariff reduction.

6. Permit me to be heard during the public hearing scheduled in this matter.

I respectfully submit that the existing tariff of **₹3.13/kWh** is already competitive and beneficial to the DISCOM. A further reduction to **₹2.98/kWh** would disproportionately harm small decentralized project developers, weaken the PM-KUSUM Component-A scheme, and reduce investor confidence in future renewable energy programmes.

I therefore request the Hon'ble Commission to kindly take this objection on record and reject the proposed tariff reduction.

Yours faithfully,

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Director

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