Infrastructure and Energy Digest
Overview of Legal and Regulatory Developments
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TRANSPORTATION
Clarification on charter hire payments

The Government of India is actively supporting the Indian shipping industry on the international platform with respect to International Competitive Bidding (ICB) tenders. Recently, the Government enabled the provision for receipt by Indian ship-owners or bidders of charter hire payments in quoted currency, even if they have exercised the Right of First Refusal.

Earlier, under the guidelines [dated November 8, 2002 (as amended) (Guidelines)] for grant of licence to foreign flag vessels issued by the Directorate General of Shipping Indian vessel-owners were vested with a right of first refusal in the tender process involved in international competitive bidding.

Further, paragraph 4.5 of the Guidelines stipulated that “the party, which offers the Indian flag vessel should meet the commercial requirement by matching the lowest composite effective price1 and there shall be no price preference in favour of the Indian flag vessels. If any expenditure incurred by the Indian vessel-owner is being borne by the charterer for the foreign-flag vessel that shall be suitably added to the price while comparing the costs. On such calculation if the Indian vessel is offered at the same price as the foreign vessel, the license under Section 4062 and/or 4073 will not be granted for the said foreign-flag vessel.”

With a view to addressing the ambiguity on applicability of currency conversion charges out of paragraph 4.5 of the Guidelines (supra), the Directorate General of Shipping issued a circular on April 18, 2018 (Former SD Circular) adding paragraph 4.6 which clarified inter alia that charter hire / freight / demurrage and all reimbursements / amounts, as payable to Indian owners, will be paid in Indian rupees based on the mean of the TT buying & selling exchange rate of INR vis-à-vis USD.

Certain charterers misinterpreted the Former SD Circular to imply that charter hire payments to Indian ship-owners shall necessarily be made in Indian rupees only.

Accordingly, the Ministry of Shipping, on February 27, 2019, issued a Circular No. 01 of 2019 (Extant SD Circular) clarifying that

- Paragraph 4.6 of the Guidelines conveyed the provision on exchange rate, in case the payment is made in Indian rupees
- Paragraph 4.6 of the Guidelines did not mandate the making of payment in Indian rupees
- Charter hire payments could be quoted and received by Indian ship-owners/bidders in foreign currency, even if they have exercised Right of First Refusal

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1 Composite effective price has been defined under the Guidelines to mean the figure derived from the various price inputs submitted by a bidder/participant in a tender process, wherein all the costs/inputs are summarized.
2 Licensing of Indian ships and chartered ships comes within the purview of Section 406 of the Merchant Shipping Act, 1958
3 Licensing of ships for coasting trade in India comes within the purview of Section 407 of the Merchant Shipping Act, 1958
Central Electricity Regulatory Commission (terms and conditions of tariff) Regulations, 2019

GENERAL
With the intent to balancing the interests of the energy sector, consumers and discoms, the Central Electricity Regulatory Commission (CERC) issued the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2019 (Regulations). These regulations are applicable for power generating companies owned or controlled by the central government, generating companies supplying power to more than one state under a composite scheme and for inter-state transmission licensees.

These regulations came into force on April 4, 2019 and will remain in force for a period of five years up to March 31, 2024. They will impact the electricity tariff of power plants that sell power under the ‘cost-plus’ system. The highlights are given below:

Highlights
- Base Return on Equity has been maintained at 15.5% for computing tariff from such power plants
- Although the draft regulations proposed a three-part tariff structure which included the variable charges, CERC has continued to stick with its two part tariff structure which includes only fixed and energy charges
- New additions have been made to capital cost of a new/existing project such as capital expenditure on account of ash disposal and utilization including handling and transportation facility and capital expenditure incurred towards railway infrastructure and its augmentation for transportation of coal upto the receiving end of the generating station
- Non-clearance of bills within 45 days, which was 60 days previously, would attract a late payment surcharge of 1.5%
- The useful life of hydro power plants has been increased from 35 to 40 years, while 25 years for coal power plants remains unchanged
- The normative coal stock at non-pit head plants has also been brought down to 20 days from 30 days
- The working capital for hydro generating stations include receivables equivalent to 45 days, which was earlier 60 days, of annual fixed cost
- A special provision has been introduced for thermal generating station which have completed 25 years of operation whereby in addition to the energy charge, capacity charges can also be recovered based on scheduled generation

Our view: Overall, these changes are likely to give an impetus to the power generation and transmission companies. The CERC’s move to tighten the working capital norms by lowering the normative inventory and receivable period and allowing change in the rate of interest on working capital, will be beneficial to the generators. Also, the increase in operations and maintenance expenses will offset the negative effect of the tightened working capital norms, leading to no significant change in the AFC.
Government allows sale of 25% coal from captive mines in open market

Background

Previously, the allottees of coal mines for specified end use or own consumption were not permitted to sell coal in the open market. Any coal which was extracted in excess of the requirement of the bidder, was required to be supplied to Coal India Limited (CIL) at the CIL Notified Price, less 15 percent of such CIL Notified Price (to take care of CIL handling expenses with respect to such coal). Such a sale could not exceed 50% of the annual coal production from the mine.

Sale of coal in open markets

The Cabinet Committee on Economic Affairs (CCEA) has now approved the methodology for allowing the allottees of coal mines to sell 25% of actual production on run-of-mine (ROM) basis in the open market. An additional premium needs to be paid on this sale under the Coal Mines (Special Provisions) Act, 2015 and the Mines and Minerals (Development and Regulation) Act, 1957.

Premium on payments

In the case of:

- **Auctions**—the successful bidder is required to pay an additional premium of 15% of its final bid price on per tonne basis, for the actual quantity of coal sold in open market.
  Additional premium will be over and above the final bid price.

- **Allotments**—the successful allottee is required to pay an additional reserve price of 15% of the Reserve Price, for the actual quantity of coal sold in open market.
  Additional reserve price will be over and above the Reserve Price.

Our view: This move is a further step by the Government towards increasing availability of coal. It also gives flexibility to allottees in cases when there is a change in economic scenario, business cycle, end-use plant requirement, etc.

Additionally, it also addresses the issue of the lack of response from the bidders during the earlier tranches of auction/allotment under the Coal Mines (Special Provisions) Act, 2015. One also expects an increase the competitiveness of the auction process while making the on-going and future tranches of auction and allotment attractive and commercially viable.

Another positive is the potential creation of employment in the mining sector.
New guidelines for cross-border trade of electricity

Cross border electricity in South Asia is expected to be doubled to 5,000 MW in view of rising demand. India also is gradually trying to reinforce its position as an electricity exporting nation. Currently supplying power to Bangladesh, Nepal and Myanmar, the new guidelines for cross-border trade of electricity, come at an opportune time and aid India in strengthening its infrastructure and investment landscape for production and export of electricity.

On March 8, 2019, the Central Electricity Regulatory Commission (CERC) issued new regulations (vide Notification No. 13/2/7/2015-PM/CERC) for the cross-border trade of electricity. The new regulations which are called the CERC (Cross Border Trade of Electricity) Regulations, 2019 (the Regulations) shall come into effect from the date of their publication in the Official Gazette.

Under the Regulations, sale and purchase of power between India and the neighbouring countries is permissible in any of the following modes:

- Mutual agreements between Indian entities and entities of the neighbouring countries
- Bilateral agreements between two countries
- Bidding

In case of a tripartite agreement, cross border trade of electricity shall be permissible under the overall framework of bilateral agreements signed between India and the neighboring countries of the participating entities.

Set out below are some of the salient features of the Regulations laying down the institutional and regulatory framework for cross-border trade of electricity.

Institutional framework

- **Designated Authority** – to be appointed by the Ministry of Power, which shall be facilitating the process of approval and laying down the procedure for import and export of electricity
- **Settlement Nodal Agency** - shall be responsible for settling all charges pertaining to grid operations
- **National Load Dispatch Centre** - shall act as the system operator for cross border trade of electricity between India and the neighbouring countries
- **Central Transmission Utility** - shall be responsible for granting long-term access and medium-term open access with respect to cross border trade of electricity between India and the neighbouring countries
- **Transmission Planning Agency** - shall be responsible for planning of transmission system for the purpose of facilitating cross border trade of electricity

Regulatory framework

- **Trading through power exchanges**
  Any electricity trading licensee of India can trade in the Indian Power Exchanges on behalf of any Participating Entity of a neighbouring country, after obtaining approval from the Designated Authority, for the specified quantum as provided in the approval.

- **Tariff determination**
  - Tariff for import or export of electricity across the border will be determined through competitive bidding or through mutual agreements signed between the participating entities under the overall framework of agreements signed between India and the neighbouring countries
  - Tariff in case of import of electricity from hydro generation projects located in any of the neighbouring countries shall be determined by the CERC as per the parameters specified in the tariff regulations, only if the hydro generator approaches the CERC through the Government of the neighbouring country
  - Tariff for the Cross Border Transmission Link (CBTL) from the pooling station within India to be determined by competitive bidding or through negotiations between the governments or by the CERC

- **Connectivity and access**
  - A participating entity located in a neighbouring country shall be required to seek connectivity or long-term access or medium-term open access or short term open access, as the case may be, through separate applications
  - Applications for grant of connectivity or long-term access or medium-term open access shall be made to the Central Transmission Utility.

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4 (Source: Quoting US Ambassador to India, Kenneth Juster)
5 As on date (March 27, 2019), the guidelines have not been published in the Official Gazette
6 Entities approved by the Designated Authority for cross border trade of electricity
India’s power sector has been plagued with several issues over the past year, including, high capacity addition without tied-up power purchase agreements (PPAs) with distribution companies (DISCOM), coal supply issues, inability of DISCOMs to pay to generators, regulatory challenges, inability of promoters to infuse equity and tardy implementation of projects.

In an attempt to alleviate the stress in the sector, the Government of India constituted a High Level Empowered Committee (HLEC) in July 2018 to consider issues related to stressed thermal power projects. The HLEC, led by its Chairman Mr. P.K. Sinha, submitted its report on November 12, 2018.

Consequently, the Cabinet Committee on Economic Affairs (CCEA) has now approved a number of recommendations vide the office memorandum dated March 8, 2019 (Memorandum).

Some key recommendations approved vide the Memorandum are given below.

- The CCEA has allowed the grant of coal linkages for short-term power purchase agreements (PPAs). The existing coal linkage is to be allowed to be used in case of termination of PPAs due to payment default by power distribution companies (DISCOMs).

- The Ministry of Coal (MoC) may earmark more coal for the power sector under the special forward e-auction by reducing the equivalent quantity from the spot e-auction. The Coal India Ltd. may earmark at least 50% (fifty percent) of the total coal meant for the e-auction (including spot auction and special forward e-auction) for power. Such an increase in supply of coal for forward e-auction will be over and above the regular requirement of linkage coal for the power sector as well as the requirements of other sectors.

- Late payment surcharge is to be made mandatory for DISCOMs. Compliance is to be ensured by the appropriate regulatory authorities. The move aims to put a check on erring DISCOMs that seek relief via waiver of late payment surcharge levied by power generation companies.

- DISCOMS, Coal India Limited (CIL), Power Grid Corporation of India Limited (PGCIL), Ministry of Environment and Forests (MoEF), and appropriate Governments may be advised not to cancel PPAs, Fuel Supply Agreements (FSAs), transmission connectivity, environmental clearances, and all other approvals, even if the project is referred to National Company Law Tribunal (NCLT) or is acquired by another entity subject to the provisions of the contracted PPA and/or applicable rules. All clearances may be linked to the plant and not to the promoter.

- In case of any delay in the commissioning of a project for reasons not attributable to the generator, the DISCOMs may be advised not to cancel those PPAs. The PPA may be kept on hold for a certain time period, in order to enable removal of impediments in the execution of the project.

- Annual Contracted Quantity per mega watt entitlements for all thermal power plants, irrespective of their age or technical parameters, are to be calculated based on Normative Station Heat Rate with an upper ceiling of 2600 kcal/kwh (two thousand six hundred kilo calorie per kilo watt hour).

Our view: These new cross-border regulations which encourage neighbouring countries to buy more power directly from the Indian power exchanges will no doubt help enhance India’s share of renewable power in the overseas markets.

Union Cabinet approves recommendations of a group of ministers (GoM) relating to stressed power projects
Our view: The recommendations are surely a step in the right direction. Stranded assets continue to face issues such as working capital and coal availability while short-term PPAs did not have coal linkages. With the recommendations mentioned above, many of these issues can be alleviated and more liquidity can be provided to the value chain. Further, it would provide a fillip to investor confidence in this sector and will also have a positive impact on the valuations of the stressed assets.

The key issue, however, would be the effective implementation of these recommendations. It would have been expedient had the HLEC had laid down timelines for implementation of these recommendations. While various issues have already been referred to the respective ministries for framing of appropriate schemes, the downside is that no timeline has been laid down for implementation of these schemes/initiatives.

Further, the HLEC hasn’t specifically focused on creating a level playing field between private and state generators. More often than not, state owned generators are accorded preferential treatment in terms of linkage, allocation of PPAs and supply of coal. This severely impacts private generators. It should also be noted that the Reserve Bank of India (RBI) declined to join the deliberations of the HLEC. Given that the proposals of the HLEC impact areas concerning the RBI, it would be important to see if the it concurs with the recommendations of the HLEC. As stated earlier, it has been recommended that the RBI recover dues from Discoms and make payments to public financial institutions.

In conclusion, these recommendations, if well executed will have a positive impact on the power sector. Effective implementation will be the key.
Ministry of New and Renewable Energy (MNRE) vide its office memorandum dated March 9, 2019, proposed modifications to the guidelines issued for its scheme on development of solar parks and ultra mega solar park project. The objective of the scheme is to provide huge impetus to solar energy generation by acting as a flagship demonstration facility to encourage project developers and investors, promoting additional projects of the similar nature etc.

To enhance the scheme and address critical elements such as land and evacuation infrastructure for solar parks, MNRE proposed the following by introducing a new mode (Mode 7) for development of Renewable Energy Parks through Solar Energy Corporation of India Ltd. (SECI):

- Private and government land to be made available to the successful bidder for setting up the project. A facilitation charge of INR 0.02/unit of power generated to be paid to the state government providing such facilitation. Procurement of land to be done from funds other than the Central Financial Assistance (CFA) fund.
- SECI would be the Solar Power Park Developer, who will take care of the external infrastructure while the internal infrastructure is required to be done by the developers at its own cost, which would be factored in the tariff. No CFA would be provided for development of internal infrastructure, however, the essential components of internal infrastructure may be indicated separately and they would be eligible for availing line of credit if the financial institution has a separate product to fund the parks.
- In status quo, 16,650 MW capacity is unallocated under the scheme. So, the Central Financial Assistance (CFA) available for this spare unallocated capacity will be entirely utilized for Mode-7 except for special cases. Under Mode-7, the entire CFA would be used for setting up external power evacuation infrastructure.

- It lays down the manner in which the funds available for spare capacity is to be utilized. Instead of the 60:40 between the development of internal infrastructure and external transmission system, it is to be 0:100 ratio. It has also proposed the following additional mechanism:
  - The total cost of any transmission network for any parcel of land would be divided by the total capacity of Renewable Energy (RE) projects planned to be set up on that land parcel utilizing the said transmission capacity to get the per MW cost.
  - 40% of the cost of the transmission system, subject to a minimum of INR 10 Lakhs/MW and a maximum of INR 30 Lakhs/MW would be borne by the RE project developers. The successful RE project developers selected through the bidding process would be charged upfront charges, which will be collected by SECI and be made available to the External Transmission Development Agency or developing the external transmission system.
  - The balance CFA for remaining capacity under the solar park program would be made available at the rate of INR 20 Lakhs/MW or 30% of the total cost for development of external power evacuation system, whichever is less (provided that the total of the above two do not exceed the total cost for development of external power evacuation system) to the External Transmission Development Agency (ETDA) for developing external transmission infrastructure.
  - Remaining cost, if any, is to be socialized as is done currently for RE projects.

- Payment Security Mechanism will be setup by SECI for continuous payment to the power developers and mitigate any default in payment by DISCOM’s.
- It has proposed a change in the method of disbursement of fund from CFA to SECI. In lieu of the usual practice of releasing the CFA to SECI on the achievement of five different milestones and three different milestones in the case of State or Central Transmission Utilities STU/CTU’s now, a lump sum estimated amount of CFA would be released in two installments for all solar power projects.
At the beginning of the financial year, the first installment of 50% of the lower of the anticipated expenditure or allocated budget would be released. The second installment would be released only after SECI disbursed at least 75% of the fund released in the first installment and upon submission of provisional Statement of Expenditure and Utilization Certificates for the previous year.

Our view: The proposed changes definitely seeks a way forward in materializing the scheme. But it may not be the wisest to charge additional fees to facilitate land and payment security since the developers are already burdened with multiple costs.
On January 30, 2019, the Solar Energy Corporation of India (SECI) had issued a Request for Selection Document (RFS), inviting proposals for selection of solar power developers for setting up of a solar manufacturing plant for an aggregate capacity of 1.5GW per annum in India on “Build Own Operate” basis. The deadline for submission of the bids has presently been extended until April 4, 2019.

Further to previous amendments issued by SECI to the RFS in February 2019 which pertained inter alia to the provisions relating to timelines applicable for ISTS (Interstate transmission system) waiver, delayed commissioning of the project, attainment of specified efficiency levels by the developed manufacturing plant and the linking of performance bank guarantee towards the demonstration of specified efficiency levels, SECI has recently

**Former definition of “Change in Law”**
The original Power Purchase Agreement (PPA) to be entered into by SECI with the successful bidders defined “change in law” *inter alia* vide Clause 12.1 (v) to mean any change in the rates of any taxes including any duties and cess or introduction of any new tax (excluding however the extension of the existing tax at the same rate on the expiry of the current period) made applicable for setting up the solar power project and supply of power from the Solar Power project by the SPD7 which have a direct effect on the Project.

**Amendment to the former definition of “Change in Law”**
Vide the recent amendment¹, SECI has clarified that change in law will include any change in the rates of any Taxes including any duties and cess or introduction of any new tax made applicable for setting up the solar power project and supply of power from the Solar Power project by the SPD which have a direct effect on the Project. The aforesaid Exclusions from the Former Definition of “Change in Law” remain unchanged.

Noticeably, although the former definition of “Change in Law” excluded the extension of the existing tax at the same rate on the expiry of the current period, the amendment introduced by SECI no longer provides for such exclusion from the purview of “new tax” coming under the revised definition of “Change in Law”.

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**Our view:** The amendment introduced by SECI comes as a follow up to the order dated October 9, 2018 of the Central Electricity Regulatory Commission stating that the enactment of GST laws is covered as Change in Law under Article 12 of the PPAs. By amending the PPA, SECI has left little room for ambiguity on what would constitute “change in law” for solar power developers. This should reduce disputes arising on the interpretation of “change in law” provisions.

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7 Solar Power Developer
The Central Electricity Regulatory Commission (CERC) vide its order dated February 5, 2019 (Order) has provided major respite to various solar power developers by declaring the introduction of Goods and Services Tax (GST) as a change of law under their respective Power Purchase Agreements (PPAs).

Petitions had been filed by Renew Wind Energy (TN2) Private Limited, Phelan Energy India RJ Private Limited, ACME Jodhpur Solar Energy Private Limited and ACME Rewa Solar Energy Private Limited (collectively Petitioners) before the CERC. Since the issues in all the petitions were similar, the CERC clubbed the petitions and gave a common order.

Addressing the first issue in the affirmative the CERC affirmed that that any tax or application of new tax on “supply of power” covers the taxes on inputs required for such generation and supply of power to the distribution licensee. Since the introduction of GST Laws had resulted in the change in cost of the inputs required for generation, the same would be considered as ‘Change in Law’ under the PPAs.

While dealing with the second issue, the CERC directed the Petitioners to provide the relevant documents exhibiting clear and one to one correlation between the projects and the supply of goods or services, duly supported by relevant invoices and the auditor’s certificate. Consequently, the respondents were directed to reconcile the claims and pay the relevant amount as per the prescribed methodology within 60 days of the Order or submission of claims by the Petitioners, whichever was later, failing which late payment surcharge would be levied. However, claims of the Petitioners on account of additional tax burden on operation and maintenance expenses were rejected.

Resolving the final issue the CERC held that if there was a provision in the PPA for restoration of the Petitioners to the same economic position as if no ‘Change in Law’ event has occurred, the Petitioners would be eligible for ‘Carrying Cost’. Since the PPAs in the current petitions did not contain such clauses, the claim regarding separate carrying cost was rejected.

Our view: The Order has provided much needed clarity on the issue and has provided a major relief to solar developers who are in a similar position as that of the Petitioners.
National Green Tribunal order for disposal of antimony coated solar modules

On February 27, 2019, The National Green Tribunal, passed an order while hearing the plea filed by an advocate who sought a ban on the manufacture, use and import of solar panels which have antimony.

Antimony is a heavy metal element which is used in the manufacturing of solar panels and cannot be re-used. Once the life of a solar panel ends, it is dismantled and disposed off, however, not in a manner that is eco-friendly. This adds further stress to an already depleting natural environment.

A bench consisting of Justice Raghuvendra S Rathore and Dr. Satyawan Singh Garbyal, gave the Ministry of New and Renewable Energy (MNRE) and Ministry of Environment Forest (MoEF) and Climate Change six weeks’ time to frame a policy for the effective disposal of the solar panels. MNRE was directed to submit a blueprint of the policy within three weeks (March 20, 2019) and eventually, MoEF is required to finish declaring the policy within three weeks from the receipt of the blueprint of the policy.

The issue being one that has grave potential of causing severe harm, the bench directed that the advocate or her representative be given an opportunity to be heard before finalizing the policy.

It is crucial, at this point on and forward, that a regulation/rule/policy be put in place to change the existing practice and protect the environment.

Our view: This is not the first time that the same issue has been adjudicated and the Ministry has been directed to frame a policy. In August, 2017, the petitioners had prayed to amend the E-Waste Rules, 2016 and bring antimony within the scope of Rules 16 pertaining to hazardous substances. This led to forming an expert committee to look into the issue.

Environmentalists and environment enthusiasts are hopeful of a policy that could better the situation for both the environment and the citizens of the country.
Declaration of hydro power projects as renewable energy source

The scope of India’s hydropower potential is immense. Yet, out of its potential of 1,45,320 MW, only about 45,400 MW has been utilized. If the capacity addition in the past decade is calculated, it adds up to only 10,000 MW, which is a number that calls for immediate attention.

Recognizing an urgent need to encourage this sector, the Cabinet on March 07, 2019, approved measures to promote hydro power projects. One of the notable measures that was approved is that large hydro power projects have been declared as a renewable energy source and part of the non-solar renewable purchase obligation.

The key features and measures are:

- **Tariff rationalization** – Now, provides flexibility to developers to determine tariff by backloading of tariff after,
  - increasing the project life to 40 years
  - increasing debt repayment period to 18 years
  - escalating tariff by 2%

- **Flood moderation** – Budgetary support to be provided on a case to case basis

- **Enabling infrastructure** – Budgetary support to be provided to fund the cost of building roads and bridges at:
  - INR 1.5 Crores/MW for projects up to 200 MW
  - INR 1 Crore/MW for projects above 200 MW

- **Employment generation** – Projected to create employment in the northern and north eastern region of the country as most of the projects are located in that region

- **A stable grid of 160 GW** is envisioned to be achieved by 2022 from infirm sources like solar and wind.

Our view: These measures will improve tariff competitiveness and lower cost of generation for a 100-MW hydel project. Forward in encouraging DISCOMS to sign Power Purchase Agreements (PPAs) in the hydro power sector. The flexibility provided to developers should positively reduce the reluctance that is engulfing the parties.

The importance of hydropower is increasing even more as the country has targeted to add 160 GW of intermittent solar and wind power by 2022 and 40% of the total capacity from non-fossil fuel sources by 2030 to honor its Nationally Determined Contribution for Climate Change.