BONAFIDE HIMACHALI'S HYDRO POWER DEVELOPER ASSOCIATION
Society Registered in accordance with H.P. Societies Registration Act, 2006
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E-mail : bonafidehimachali@gmail.com

Ref. No. BHHPDA/20 26-18 ..

Date : 20-07-2026

**To,**

The Secretary,
Central Electricity Regulatory Commission,
6th to 8th Floor, Tower B,
World Trade Centre, Nauroji Nagar
New Delhi – 110 029

secy@cercind.gov.in

advisor-re@cercind.gov.in

**Subject ;-** Comments/ suggestions of 'Bonafide Himachalies Hydro Power Developers Association' (BHHPDA) on the Staff Paper for determination/ fixation of levellised generic tariff for various Renewable Energy Technologies / Projects for FY 2026-27

Respected Sir,

Please refer to the Public Notice No. RA-14026(11)/4/2023-CERC Dated: 03.07.2026 issued by the Hon'ble Commission on the subject above.

**Bonafide Himachalies Hydro Power Developers of Association** (**BHHPDA**) is an Association of Developers of Small Hydro Power Plants (SHPs). The members of the Associations are recognized as a separate category under the HP Hydro Power Policy notified by Govt. of Himachal Pradesh. As the Hon'ble State Regulator follows the CERC Regulations and determination of the Year wise Generic Tariff for Small Hydro Plants (SHPs) with state specific deviations, we are an affected Party. Vide the Public Notice referred to above, Hon'ble CERC has invited comments/suggestions on the staff paper titled "**Determination of levellised generic tariff for third year of Control Period (for FY 26-27) under Regulation 8 of the CERC (Terms and Conditions for Tariff determination from Renewable Energy Sources) Regulations, 2024".** Accordingly, we submit our comments/ suggestions with reference to parameters taken for SHPs of Hilly States (including Himachal Pradesh) as under:-

**(A) CAPITAL COST**

1. The Staff Paper proposes in Para 13 to 16 to continue with the Project cost of Rs 1200 Lakh/MW as fixed in the RE Tariff Regulations 2024 in the year 2026-27 also for projects commissioned up to 31st August 2027. In this regard, we submit that the staff paper for RE tariff Regulations 2024 was

issued on 17.2.2024 and the Capital Cost of Rs 1200 Lakh/MW proposed in Staff Paper was accepted without any change and notified in the Regulations issued on 12.6.2024. It was also provided in the Regulations that the same Capital cost would be applicable for all the years of Control Period.

2. Fixing the same Capital cost for the control period of about 3.5 years deprives the developer to the recovery of additional costs imposed due to inflation and other input costs etc. This reduces Return on Equity in the hands of the Developer. Coupled with other risk factors to be borne by the Developer like reduced monsoon rainfall, reduced snowfall on hill tops of catchment area, problems created by local residents compulsorily employed at the plant, cloud bursts etc, which are beyond the control of the Project Developer, sometimes push the developer to meagre return and sometimes even to losses resulting in default on bank loan instalment. These factors need to be considered while fixing the normative parameters of RE projects.

3. The Statement of reasons issued along with RE Generic Tariff Regulations Dated 17.9.2024 gives Analysis & Decision in Para 21.10, regarding Capital Cost for the 1st year of control Period of 2024-25. It reveals that the capital cost has been arrived at after considering Wholesale Price Index, Manufacturing Index and Infrastructure Industry Index for the period FY 2020-2023. Hon'ble Commission has also acknowledged the inadequacy of data regarding Capital cost and state specific variations, Thus a simplified approach in determination of capital cost would incentivize the Developers to set up the SHP projects which are need of the hour as these help in maintaining ecological balance, does not cause rehabilitation of displaced persons, cause no geological stress, ensure energy security of the state, inject power at tail end of the grid etc.

4. It is therefore requested that the capital cost be determined for each year of the control period so that developers are duly compensated for Force Majeure delays, IDC compensation for the accepted delays etc.

5. The Capital Cost comprises of cost of civil, mechanical and electrical equipment, rent of construction / erection machinery, civil building material, mechanical and electrical equipment / machinery and man power like officers / staff for construction activities, supervision, administrative and accounting jobs etc. The manufactured items also have manpower cost component during manufacturing. The cost escalation can be attributed to equipment cost and manpower cost. It is generally observed that overall 70% is cost of input material and 30% is cost of manpower. The input material escalation being of mixed nature is linked to WPI and manpower is linked to CPI.

6. We have worked out the escalation in cost during 2023 to 2025 over the base cost of Rs 1200 Lakh/MW as below. The wages of workers/supervisors have

been taken as notified by Govt of Himachal Pradesh and WPI as per the Yearly average for the respective years being published by the Office of Economic Advisor, Govt of India.

| (A) Man Power Cost | | | | |
|---|---|---|---|---|
| **Year** | **USW** | **SSW** | **SW** | **HSW** |
| 2023 | 375 | 398 | 435 | 518 |
| 2024 | 400 | 425 | 465 | 553 |
| 2025 | 425 | 452 | 493 | 588 |
| Rise | 1.133 | 1.136 | 1.133 | 1.135 |
| Say Average Rise | | | | 1.134 |
| Man Power cost component in Capital Cost | | | | 30% |
| Base Capital cost/MW for SHP in 2024 | | | | 1200 |
| Man Power Cost | | | | 360 |
| Escalated Man Power Cost in 2026 | | | | 408.24 |
| **(B) Plant Machinery Material Cost** | | | | |
| PMM Costs | | | | 70% |
| PMM cost in Capital Cost | | | | 840 |
| Avg Yearly WPI in 2023-24 | | | | 99.3 |
| Avg Yearly WPI in 2025-26 | | | | 101.4 |
| Average Rise | | | | 1.0211 |
| Escalated PMM cost | | | | 857.76 |
| | | | | |
| **( C) Revised Capital Cost** | | | | 1266 |

Therefore, we request the Hon'ble Commission to increase the Capital Cost for Small Hydro Projects for the Year 2026-27 as Rs 1266 Lakh/MW. This will motivate the Hydro Developers to bring in Capital for investment in the Sector.

**(B) Operation and Maintenance Expenses**

1. The operation and maintenance charges include the expenses on yearly insurance premium of the project. The Implementation Agreement, Power

Purchase Agreement and Transmission Service Agreement etc require every developer to take and maintain appropriate insurance cover of the project and maintain healthiness of every component of the project during the agreement period of 40 years.

2. It is a fact that due to rise in average temperature and environmental degradation etc, there is abnormal change in the weather and cloud bursts in hilly areas have increased considerably. Since SHPs are run of the river projects and situated on the bank of the river/rivulets with tail race water falling in the river itself nearby, such cloud bursts bring huge quantum of rainwater in the river severely damaging the head race and project installations near tail race outfall. Though this may happen with one or two plants in a year, but it is forcing the insurance companies to impress upon the project developers to erect / provide additional protection structures to minimize the losses and compensation payable. This has increased the Capital Cost of the project as well as annual premium payable to the insurance companies. While the increase in Capital cost is already covered in para above, the insurance premium is impacting the Operation & Maintenance expenses due to abnormal rise in the premiums for hilly states.

3. Due to heavy pay out for claims to compensate the power plant developers suffering damage caused by cloud bursts, flash floods and silt accumulation etc, the insurance companies have increased the premium of insurance cover abnormally. Two circulars dated 16.06.2025 and 08.08.2025 of M/s New India Assurance Company are enclosed for ready reference. Similar internal circulars loading additional premiums and restricting other claims for add-ons etc. have also been issued by other insurance companies as well. Also enclosed is the white-paper issued by Federation of Indian Smallhydro (FISH) on Insurance aspects.

4. The following are the challenges faced by SHPs regarding insurance costs.

- Astronomical jumps in Premiums.
- Act of God (AOG) Loss Limit Clause.
- Minimum excess clause for Loss of Profit (LOP) due to Machinery Breakdown (MBD) claims.
- Increase in Deductibles.
- Lack of competition in Insurers.

5. Typical Insurance policy premium was 0.1% of the capital cost in 2023-24, which has increased by +4 times to about 0.4 to 0.5% if the same policies are to be continued in the year 2026-27. Thus, there is net increase of 0.35% of Capital cost i.e. addition of (1200*0.35%=) 4.2 Lakh/MW

6. The staff paper proposes Op & Mtc Charges SHP projects in HP and other hilly states as Rs 54.55 Lakh/MW for projects of capacity up to 5 MW and Rs

40.91/MW for projects of 5 to 25 MW. It is therefore requested that the same may be increased by 4.2 Lakh/MW to Rs 59.75 Lakh/MW and Rs 45.11 Lakh/MW respectively.

It is requested that the above comments/suggestions may please be considered favorably while finalizing the Generic Levelized Tariff for SHPs for the year 2026-27.

Thanking you,

Yours sincerely.



President
Bonafide Himachalies Hydro Power Developers Association

दि न्यू इन्डिया एश्योरन्स कंपनी लिमिटेड
(भारत सरकार का उपक्रम)
THE NEW INDIA ASSURANCE COMPANY LTD.
(Govt. of India Undertaking)
पंजीकृत एवं प्रधान कार्यालय : न्यु इन्डिया एश्योरन्स बिल्डिंग, 87, महात्मा गांधी मार्ग, फोर्ट, मुंबई - 400 001.
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**Ref: HO: FIRE & ENGG: 2025: 02**

**16TH June, 2025**

**ALL REGIONAL/CBO INCHARGES**

**Revised underwriting guidelines under Fire and Engineering LOB-**

**A) Revision in rating under operational Hydro Power Plant having SI upto 250 Cr under FIRE LOB.**

With respect to operational hydro Power Plant located in Himalayan and North-East Region consisting of states- Arunachal Pradesh, Sikkim, Uttarakhand, Himachal Pradesh, Meghalaya, Manipur, Mizoram, Assam, Nagaland, Tripura & Union territories of Jammu & Kashmir and Ladakh.

Minimum Flexa rate to be charged will be Rs 1.75%o (per mille); Applicable EQ and revised STFI rates will be charged extra as per H.O. circular.

Minimum MBD rate- Rs 1.00%o (per mille)

Minimum MLOP rate- Rs 2.00%o (per mille)

**Excess (each and every loss)-**

**For risk location having total Sum Insured {TSI (PD+BI)} Rs. 0 - 100 Cr** – 10% of claim amount subject to minimum of 15 lacs.

**For risk location having TSI (PD+BI) Rs. 100 Cr - 250 Cr** – 10% of claim amount subject to minimum of 25 lacs.

**For risk location having TSI (PD+BI) > 250 Cr** – Proposal to be referred to H.O.

**Fire Loss Of Profit (FLOP)-** 14 days of Gross Profit

**Machinery Loss of Profit (MLOP)-** 21 days of Gross Profit

**Loss Limit-**

- Maximum AOG Loss limit will be as given below:

| FIRE | | | |
|---|---|---|---|
| TSI(Top Location) in INR Crore | | AOG Loss Limits | |
| FROM | TO | Any one occurrence(AOO) Limit on TSI Top location(decimals to be rounded off to the nearest whole number) | Aggregate(decimals to be rounded off to the nerarest whole number) |
| 1 | 100 | 75% | Same as any one occurrence(AOO) |
| 101 | 250 | 40% or 75 Crores whichever is higher | 130% of any one occurrence(AOO) |

***AOG Loss Limits corresponding to TSI (Top location) will be the Fixed AOG Loss Limit as per the TSI declared at the inception of policy. Any Increase in TSI in due course of running of the policy should not allow for increase in AOG Loss Limit of the successive higher bands.***

- Lower Loss Limit may be imposed depending upon the Nature of Risk, Risk location and experience of risk.

***NOTE: - For all Hydro Power Project Policies under Engineering LOB in the above mentioned states are centered at H.O. irrespective of Sum Insured.***

**B) Revision in excess for Road Project Policies in plain areas and hilly areas under Himalayan region and North-East Region consisting of states- Arunachal Pradesh, Sikkim, Uttarakhand, Himachal Pradesh, Meghalaya, Manipur, Mizoram, Assam, Nagaland, Tripura & Union territories of Jammu & Kashmir and Ladakh.**

This is further to our circular Ref: HO:FIRE&ENGG:2022:11 dt 11.08.2022 on "Underwriting Precautions - Selected Risk Occupancies - Engineering" and subsequent mail dated November 6, 2024, please note that the **minimum excess for roads in plain areas as well as in hilly areas** in the above mentioned states is revised as given below:

**Minimum Excess should be as given below:**
10% of claim amount subject to minimum of Rs. 5,00,000/- EEL for Normal claims
10% of claim amount subject to minimum of Rs. 25,00,000 /-EEL for AOG/Major Perils/Collapse

**C) Revision in guidelines for acceptance of Fire & Engineering risks located in the state of Uttarakhand:**

This is further to our circular Ref: HO: FIRE & ENGG: 2023: 02 dt. 31.10.2023 on Underwriting guidelines for Fire & Engineering risks located in the state of Uttarakhand:

- **All districts in state of Uttarakhand:** Fire proposals of BSUS(Flexi and Standard) are decentralized to Operating Office-in-charges.
- **Districts other than Chamoli district (including Joshimath):** Fire proposals of BLUS (Flexi and Standard) and Engineering Operational Policies (both fresh and renewals) are decentralized to Operating Office-in-charges upto their acceptance authority.

*Engineering Projects needs to be refereed to HO for prior approval if ICR is more than 70% in case of extensions as well as new proposals.*

(Rema Devi V)

General Manager

---------- Forwarded message ---------
From: **SUJATA SHAKYAWAR** <sujata.shakyawar@newindia.co.in>
Date: Wed, Aug 6, 2025 at 10:25 AM
Subject: Fwd: Underwriting precautions in view of ongoing floods and landslides in Himachal Pradesh and Uttarakhand
To: <roic@newindia.co.in>
Cc: SANJEEV TYAGI <sanjeev.tyagi@newindia.co.in>, SANJAY SURESH PAIGANKAR <sanjay.paigankar@newindia.co.in>, FIRE and ENGG TECH HO <fireandengg@newindia.co.in>

All Regional In-charges,

**INTERNAL CIRCULAR**

**Subject: Underwriting Precautions in View of Ongoing Floods and Landslides in Himachal Pradesh and Uttarakhand**

This is to inform that both Himachal Pradesh and Uttarakhand are currently experiencing continuous torrential rainfall, leading to widespread flooding, landslides, and severe damage to infrastructure, roads, and habitations. Several districts across these states have been placed on alert by authorities, and adverse weather conditions are expected to persist.

In view of the heightened risk exposure, the following underwriting precautions are to be strictly implemented with immediate effect for proposals and risks situated in the affected regions:

1. Fresh requests for short-period insurance covers, particularly for stock, stock/coal stored in the open, should be firmly discouraged.
2. For project policies that are discontinued due to non-payment of premium installments, no revival shall be allowed immediately. Such revivals may only be considered after a minimum waiting period of 21 days. Likewise, project extension requests where the policy period has ended and there is a gap in cover shall not be accepted at this stage.
3. No new risks shall be accepted in the affected districts of Himachal Pradesh and Uttarakhand until the situation normalizes and further review is carried out.
4. Any midterm inclusion of STFI (Storm, Tempest, Flood, Inundation) perils is to be discouraged wherever possible. Where unavoidable, such coverage may be provided only with a waiting period of 15 days, and strictly subject to premium being collected in cash or by Demand Draft. The additional premium shall not be adjusted against cash deposits or debited to Bank Guarantees.

All underwriting teams are directed to ensure strict compliance with the above instructions and to sensitize all concerned staff without delay.

Thanks & Regards,

अग्नि एवं अभियांत्रिकी विभाग/ Fire & Engg Dept
दि न्यू इंडिया अश्योरेंस कंपनी लि, प्र का/THE NEW INDIA ASSURANCE COMPANY LTD., HO
दूरभाष 022-22708532/Phone 022-22708532

FEDERATION OF INDIAN SMALL HYDROPOWER & HYDROGEN
Regd. Off.: Lower GF, 1, Pocket-52, Chitranjan Park, New Delhi-110019
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# White Paper on: why Small Hydro Power (SHP) projects require tailormade insurance solution

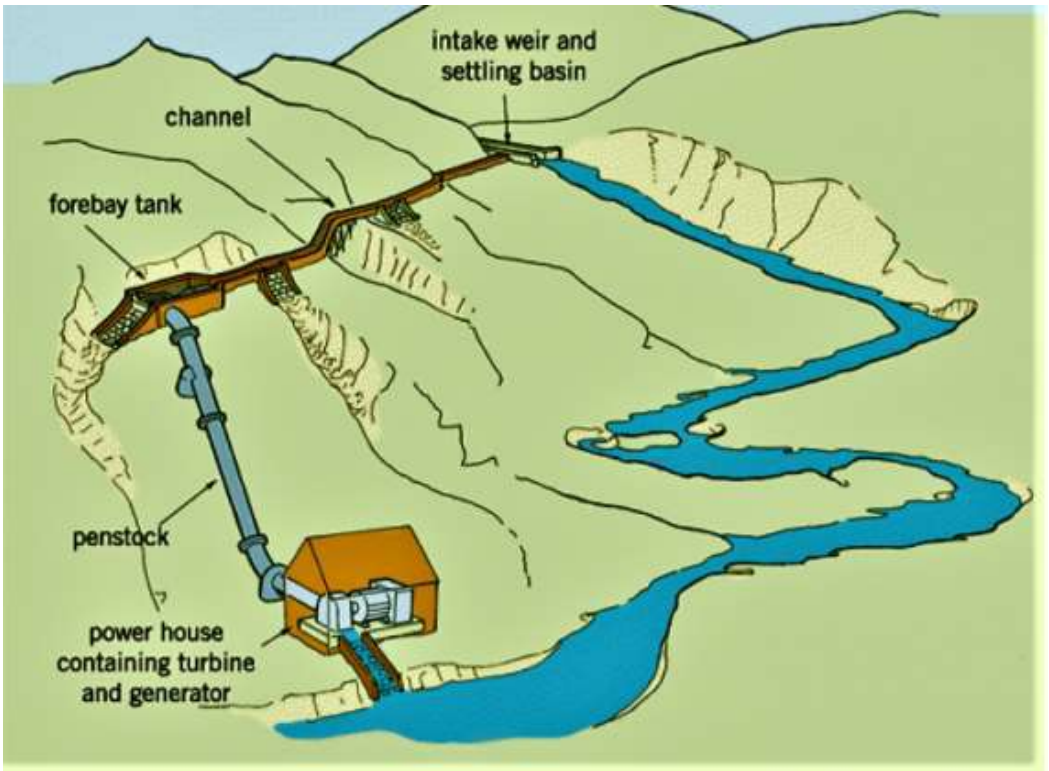
## 1. Introduction

This paper analyses the technical and socio-economic considerations related to SHPs, the benefits they provide and the insurance related challenges they face, in order to re-calibrate the risk profile of this sector as distinct from the broader hydropower portfolio, which includes much larger projects.

## 2. Project Capacity

In India, hydropower projects with an aggregate capacity of up to 25 MW fall within the SHP range; many are far smaller. By contrast, larger hydropower installations may be 10 to 100 times greater in capacity.

SHPs are predominantly run-of-river (ROR) schemes: they draw water from small streams and rivulets, have no storage capacity, and return the water to the same channel downstream with minimal alteration of natural flow.The figure below represents a ROR project scheme.




As there are no large impounding structures, the inherent risks are substantially lower than those of dam-based projects.

### 3. Components of SHPs

Although SHPs use the same basic hydropower technology, their civil works and mechanical installations are markedly smaller and simpler. Structures are compact, sited on minor waterways, and can be repaired or rebuilt locally with minimal intervention. Electro-mechanical and hydro-mechanical equipment arrive fully assembled and factory-tested, reducing on-site assembly and attendant risks. The pictures below will give an idea about the limited construction and equipment requirements of SHPs and consequently the limited/ confined risks involved with these:















## 4. Construction Methodology

SHP construction involves only modest earthworks, limited heavy machinery, and minimal rock blasting—making it far less intrusive and hazardous than large-dam projects, which incur greater accident, delay, and cost-overrun risks that drive up insurance premiums.

5. **Environmental friendliness**

   SHPs generate clean energy under the Ministry of New and Renewable Energy (MNRE), whereas larger projects fall under the Ministry of Power. Run-of-river schemes avoid reservoir creation—eliminating forest submergence, large-scale resettlement, and significant ecological disruption. Their minimal civil footprint confers a clear pro-environmental advantage.

6. **Gap between Potential and Development**

   India has a potential of 25 GW of SHP capacity, out of which only about 5 GW has been developed.

7. **Technical Importance of SHPs**

   Located at the grid's periphery, SHPs bolster local voltage stability and can avert blackouts during wider system failures. With the growing share of variable renewables (solar and wind), hydropower—especially SHPs with faster development cycles—plays a vital role in grid balancing, provided supportive policies exist.

8. **Support to industrial and national self-reliance**

   SHP equipment is wholly manufactured in India, embodying the "Make in India" initiative. Harnessing indigenous water resources enhances national energy security.

9. **Support to rural economy**

   Most SHPs being located in far-flung mountainous region, support rural and social development by improving local infrastructure and improve socio- economic condition of the adjoining areas. Investments made for the projects percolate into the local economy to a remarkable extent. Further, SHPs lead to creation of permanent jobs for Operation and Maintenance for at least 35 to 40 years of their operational life.

   SHPs can meet the power requirements of remote areas, helping in developing local small-scale industries such as handicrafts, food processing, textiles, etc. Thus, SHPs support India's "Aatma Nirbhar Bharat Abhiyan" in right earnest.

10. **Entrepreneurship Development**

    SHPs are often championed by local and first-generation entrepreneurs, aligning with government objectives to foster a startup culture and grassroots enterprise.

11. **SHP Operations**

    With lower output and revenue at stake, operational disruptions (equipment failure, natural events, regulatory issues) incur comparatively modest losses, reducing insurance exposure.

12. **Political and Regulatory considerations**

    SHPs benefit from a more liberal regulatory regime—fewer multi-state approvals and political hurdles—making unexpected policy changes less likely than for large hydropower, and thus presenting lower political risk.

**13. Challenges faced by SHP sector with respect to insurance of assets**

**a) Tariff situation for SHPs**

It is important to note that most of the SHP projects sell their power to State Utility where fixed levelized tariff for 35 – 40 years is given by State Regulator keeping the cost of variables on notional basis for a control period of 3 – 4 years. The incremental cost for the Insurance and O & M expenses have been allowed between 4% to 5% and the project cannot absorb any higher cost during the tenure of the Power Purchase Agreement. Looking to the fixed revenues and controlled tariff mechanism suitable policy have to be designed accordingly.

**b) Astronomical jump in Premiums**

Over the past 1 year, there has been a multi fold increase in premium cost. This may be due to significant losses in the larger Hydro Power projects. It is necessary to address this disproportionate increase and create a separate cost structure / risk assessment for Run of the River (RoR) based Hydro Power plants with no water storage, which is the category where SHPs are deployed. It is observed that claims in SHP Sector are mostly below 20% of the sum insured. Thus, payment of the small claims is very important for the survival of the sector.

**c) AOG Loss Limit Clause**

Similar to our earlier point, Small Hydro should not be disproportionately penalized for losses in Large Hydro and therefore this loss limit clause should only be made applicable to Reservoir based Hydro Power Plants and not SHPs. The SHP Developers are small MSME companies and such conditions will hinder entrepreneurial spirit of the country especially in remote / rural areas where SHPs are located.

**d) Minimum excess clause for LOP due to MBD**

Most Insurance companies are wary to provide LOP cover for MBD Claims.

Minimum excess clause of 14 days or more for LOP due to MBD is too high and should be restricted to 7 days i.e. along with LOP for other risks such as in civil works etc.

**e) Increase in Deductibles**

In line with rise of premium, the deductible clause has also been increased many fold.

Previously, IAR Policy Deductibles were: Section-I—5% of claim amount subject to minimum of Rs. 5.00 lacs. However, now the deductibles vary from company to company most of them as per Section-I apply a minimum of Rs. 50 lakhs - Rs.100 lakhs. When average claim for SHPs are in the range of Rs.1.00 Crore to 4.00 Crores, the present policies are not supportive of the sector.

**f) Lack of Competition in Insurers**

Presently, 4 PSU Insurers are providing insurance cover to SHPs and there is a lack of participation from the Private Insurers. It is imperative that Private Insurers are also

mandated to cover the sector to increase competition and achieve the right pricing levels, as well as deductibles.

**g) Single entity- GIC**

There is only single Re-Insurer who underwrites all the policies of SHPs which could also lead to lack of competition.

**h) Opting out of Insurance**

Due to the above, many SHP Developers have opted not to take insurance covers, as they find the situation financial untenable.

## 14. Conclusion

Given SHPs' lower risk profile and substantial socio-economic benefits, and difficulties faced by the sector with regard to insurance, we propose a custom-made insurance policy—covering both construction and operational phases—tailored to the unique characteristics of small hydropower projects.

Presently, all SHPs are insured under the IIB Occupancy Code 2070 'Hydropower Stations' with many restrictions introduced in the recent past.

As SHPs are overshadowed by the losses of large hydro, we seek introduction of a separate Occupancy Code for SHPs for insurance purposes. FISH is ready to present its case to GI Council, GIC Re, IIB and other appropriate bodies.