

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram

1. **Shri Ashok Basu, Chairperson**
2. **Shri Bhanu Bhushan, Member**
3. **Shri A.H. Jung, Member**

Petition No. 66/2005

In the matter of

Approval of tariff in respect of Damodar Valley Corporation for the period from 1.4.2004 to 31.3.2009.

And in the matter of

Damodar Valley Corporation

..... **Petitioner**

Vs

1. Department of Energy, Govt. of West Bengal, Kolkata.
2. Department of Energy, Govt. of Jharkhand, Ranchi.
3. West Bengal State Electricity Board, Kolkata
4. Jharkhand State Electricity Board, Ranchi.
5. Ministry of Power, New Delhi.

.....**Respondents**

The following were present

1. Shri Asim Burman, Chairman, DVC
2. Shri T.K.Gupta. DVC
3. Shri A. Biswas, DVC
4. Shri G. Mukherjee, DVC
5. Shri M. Dhar, DVC
6. Shri Rajiv Jain, DVC
7. Shri Pratap Chatterjee, Sr. Advocate, BSAL
8. Shri Sitesh Mukherjee, Advocate, State of Jharkhand
9. Shri Shyamal Sarkar, Advocate, Maithon Alloys
10. Ms. Ruchi Kohli, BFCL
11. Shri Devashish Bharucha, BFCL
12. Shri K.P. Ray, BSAL
13. Shri M. Prahladka, BSAL
14. Shri Gautam Shroff, BSAL
15. Ms. Asha Nayar Basu, BSAL
16. Shri Sudheer Pandey, BSAL

ORDER
(DATE OF HEARING: 14.7.2006)

The petition was filed by the petitioner for approval of revenue requirement based on actual cost along with recovery of return and interest of the order of Rs.250/kVA/month and a transition period of 4-5 years before switchover to the normative regime. The Commission had constituted a one-member Bench headed by Shri K.N. Sinha, Member for his recommendations on different tariff related aspects. Shri Sinha gave his recommendations by his order dated 5.5.2006. The major recommendations are as under:

- (a) GFA approach should be followed for determination of tariff
- (b) Capital cost of Rs.314601 lakh as on 31.3.2004, as per books of accounts of DVC and after excluding assets not in use and certain other assets, should be considered
- (c) The line lengths for transmission system (220 kV/132 kV) and distribution systems are in the ratio of 77:23 and therefore, their capital cost should be apportioned in the ratio of 87:13.
- (d) Equity contributed by the Central Government and two State Governments is about 31.2% of the total capital cost and, therefore, debt-equity ratio for the purpose of tariff should be 70:30, as per the Commission's regulations on terms and conditions of tariff.
- (e) O&M expenses for thermal generating stations should be as under:

	(Rs. in lakh/MW)
(i) Bokaro TPS	18.06
(ii) Chandrapur TPS	29.72
(iii) Durgapur TPS	26.59
(iv) Meija TPS	12.69

(f) Operational norms for thermal stations should be:

Operational Parameter	2004-05	2005-06	2006-07	2007-08	2008-09
Bokaro TPS "B" (3x 210 MW)					
Target Availability (%)	50	50	55	65	75
Target PLF (%)	50	50	55	65	75
SHR (kCal/kWh)	3300	3300	3100	2900	2700
AEC (%)	10.8	10.5	10.5	10.25	10.25
SFC (ml/kWh)	4	4	3.5	2.75	2.00
Chandrapur TPS (3x130 MW)					
Target Availability (%)	55	55	55	55	60
Target PLF (%)	55	55	55	55	60
SHR (kCal/kWh)	3100	3100	3100	3100	3100
AEC (%)	11.5	11.5	11.5	11.5	11.5
SFC (ml/kWh)	3	3	3	3	3
Durgapur TPS (1x140 MW)					
Target Availability (%)	60	60	65	70	72.5
Target PLF (%)	60	60	65	70	72.5
SHR (kCal/kWh)	3100	3100	3100	3000	3000
AEC (%)	11.5	11.5	11.5	11	11
SFC (ml/kWh)	3.5	3.5	3.5	3	3
Durgapur TPS (1x 210 MW)					
Target Availability (%)	55	55	57.5	65	75
Target PLF (%)	55	55	57.5	65	75
SHR (kCal/kWh)	3100	3100	3100	2900	2700
AEC (%)	11.5	11.5	11.0	10.50	11.0
SFC (ml/kWh)	6	6	3.5	2.75	2.00
Mejia TPS (3x 210 MW)					
Target Availability (%)	75	75	78	80	80
Target PLF (%)	75	75	78	80	80
SHR (kCal/kWh)	2650	2650	2600	2550	2500
AEC (%)	11	11	10.4	9.6	9.00
SFC (ml/kWh)	3.5	3.5	3.00	2.50	2.00

2. The order of the Bench was circulated amongst the parties and the objectors for their comments/suggestions. Comments/suggestions have been filed by Bihar Foundry and Casting Limited, Bhaskar Shrachi Alloys Limited, Government of West Bengal and Damodar Valley Corporation.

BIHAR FOUNDRY AND CASTING LIMITED (BFCL)

3. This objector has pointed out that the Bench has not considered the distribution tariff. It is stated that the objector receives supply direct from sub-stations through the lines constructed by it. It is stated that its position is similar to the State Electricity Boards receiving power from DVC. According to it, it should not be liable to pay distribution tariff since it does not involve any distribution cost as regards this objector.

BHASKAR SHRACHI ALLOYS LIMITED

4. Relying upon proviso to Regulation 1 of the 2004 regulations, the objector has stated that tariff should first be determined for the period 10.6.2003 to 31.3.2004. The capital cost should first be determined on 10.6.2003 and the Commission should thereafter arrive at capital cost as on 31.3.2004. It has stated that income earned by DVC from undertaking trading in electricity and also UI charges should be adjusted while approving its revenue requirement. The objector has stated that the actual equity employed is of the order of 15104 lakh based on certain figures extracted from the annual reports of the petitioner and therefore debt equity ratio should be of the order of 95.2:4.8 against the total capital cost of Rs.314601 lakh. O&M expenses recommended by the Bench are on the higher side and this should be in the range of 10-12 lakh/MW for 200 MW generating stations. The objector has stated that the operational norms for thermal stations are liberal as compared to the norms contained in the 2004 regulations.

GOVERNMENT OF WEST BENGAL

5. It has been stated that the capital cost should be apportioned between transmission and distribution activities in the same ratio as of line length, i.e., 77:23. It has been further stated that the cost of intra-State transmission system should also be excluded from the capital cost of the transmission system recommended by the Bench since the Commission is empowered to determine tariff of inter-State transmission system only.

THE PETITIONER

6. The petitioner has suggested that the existing tariff should be continued up to 2007-08 to ensure that the internal resources committed for 10th and 11th Plan projects are available. On the question of debt-equity ratio, the petitioner has sought to make out that debt-equity ratio of 15:85 need to be considered for the purposes of tariff, since, according to the petitioner, in addition to an amount of Rs.110540 lakh contributed by the participating Governments, reserves of Rs.175917 lakh should also be taken as part of equity. In addition, the petitioner has sought to create a Pension/Gratuity Fund for Rs.1709 crore for payment of pension, gratuity and leave encashment etc. to its retired/retiring employees. The petitioner has submitted that in terms of Section 38 of the DVC Act, the participating Governments are entitled to claim interest on the capital contributed by them. Therefore, it has prayed that in addition to ROE of 14%, the Commission may allow interest on capital contributed by the Governments concerned. The petitioner has submitted that the operational norms

recommended by the Bench should be implemented from the year 2007-08 after the augmentation and improvement of the existing thermal units, already initiated. The petitioner has also sought improvement under the head "O&M expenses" recommended by the Bench. The petitioner has prayed that capital assets of Central Office, Direction Office, subsidiary activities and Other Offices, disallowed by the Bench should be considered for the purpose of computation of tariff. The petitioner has submitted that under the DVC Act, it is to undertake the subsidiary activities of the soil conservation and afforestation, public health and sanitation, socio-economic development and development of tourism and navigation. It has been submitted that total expenditure of Rs.19.06 crore incurred by the petitioner on these subsidiary activities during the period 1998-99 to 2002-03 should be considered for the purpose of tariff.

7. As regards the creation of Pension/Gratuity Fund, the petitioner has submitted that it is a statutory requirement in keeping with the audit report of C&AG. The petitioner has obtained actuarial valuation of Pension/Gratuity Fund requirement considering liabilities of the existing employees and pensioners and leave encashment liabilities of the existing employees. The petitioner has placed on record a copy of the actuarial report to support its requirement of Rs.1709 crore for creation of Pension/Gratuity Fund.

8. There are certain other points raised by the petitioner which are not being referred to in detail in this order.

9. We have heard Shri Asim Burman, Chairman, DVC, Shri Sitiesh Mukherjee, Advocate for respondent no.4, Shri Pratap Chatterjee, Sr. Advocate for BSAL and Shri Shyamal Sarkar, Advocate appearing for Maithon Alloys.

10. For proper consideration of the points raised by the parties in response to the recommendations of the Bench and at the hearing, the petitioner is directed to submit the following information latest by 31.7.2006, with advance copy to the respondents and the objectors:

- (a) Date of commercial operation of Mejia TPS-4;
- (b) Additional capitalization, if any, separately for each generating station from 1.4.2004 to 31.3.2006;
- (c) Manpower deployment in 2006-07 separately for thermal generating stations, hydro generating stations, transmission system, distribution system and other activities (main as well as subsidiary) being undertaken by the petitioner, split into O&M and construction;
- (d) Actual O&M expenses for the years 2003-04, 2004-05, 2005-06 separately for each generating station;
- (e) Audits query on creation of pension/gratuity fund and the final report of C&AG in this regard;
- (f) Copies of rules and regulations framed under DVC Act;
- (g) Details of reserve funds as on 31.3.2004 and the source of their creation;

- (h) Actual operational parameters (namely, station heat rate, auxiliary energy consumption, secondary fuel oil consumption, PLF and machine availability) of thermal generating stations achieved during 2004-05;
- (i) Break-up of actuarial fund requirement separately for thermal (station-wise), Hydro (station-wise) and transmission system along with justification;
- (j) Sum presently included in O & M expenses for meeting pension, gratuity, leave encashment liabilities;
- (k) Reconciliation of O & M expenses proving double deduction of loss in stores;
- (l) Capital investment on soil conservation and afforestation activities and associated cumulative depreciation up to 31.3.2004;
- (m) Break up of following expenses for the period 1.4.1998 to 31.10.1998 separately for thermal (station-wise), hydro (station-wise) and transmission system:
 - (i) Arrears of pay allowances,
 - (ii) Ad hoc payment to staff/officers,
 - (iii) Ad hoc DA relief.
- (n) Man power details;
 - (i) Total number of employees employed in DVC,
 - (ii) Number of employees allocated to each generating station/transmission system, separately,

- (iii) Number of employees allocated to other main and subsidiary activities,
- (iv) Number of employees allocated to non-performing assets,
- (v) Amount of liability attributable to power business,
- (vi) Number of pensioners related to generating station/ transmission system/distribution system and other main and subsidiary activities,
- (vii) Amount related to old pensioners,
- (viii) Year-wise amount allocated to existing staff relating to generating station/transmission system/distribution system and other main and subsidiary activities.

11. The Commission will record its findings on different issues raised by the parties in its final order after scrutiny of the information called for.

12. List this petition for further hearing on 10.8.2006.

Sd/-
(A.H. JUNG)
MEMBER

Sd/-
(BHANU BHUSHAN)
MEMBER

Sd/-
(ASHOK BASU)
CHAIRPERSON

New Delhi dated the 21st July 2006