

CENTRAL ELECTRICITY REGULATORY COMMISSION

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Press Release

CERC nod for 1015 MW Nagarjuna Power Project

Central Electricity Regulatory Commission (CERC) has accorded "in principle" approval to the capital cost of 1015 MW coal based thermal power project proposed to be set up by Nagarjuna Power Corporation Ltd. The project is estimated to cost US\$ 40.0 million + Euro 66.0 million + Rs.3745 crore including interest during construction and financing charges of Rs.350 crore. This totals to Rs.4299 crore at the exchange rate of Rs.43.72 for US dollar and Rs.57.33 for Euro. This is the first approval of its kind accorded by the Commission in order to promote investment in power sector.

Nagarjuna Power Project comprising two units of 507.5 MW each would be located in Udipi District of Karnataka and it is in the final stage of take off, with all necessary statutory clearances in place. The Central Electricity Authority accorded Techno-Economic Clearance to the project as early as April 1999. The generating company is in advance stage of finalising Power Purchase Agreements with Karnataka and Kerala, and the project is planned to be commissioned in the year 2008-09.

The generating company had approached the Commission for determination of provisional tariff in advance of anticipated date of completion of the project. The Commission observed that the application for approval of provisional tariff can not be taken up for consideration at this stage, since as per tariff regulations, in force, the provisional tariff is to be determined on the actual capital expenditure incurred up to the date of making application. However, the Commission decided to consider the application for grant of in principle acceptance of capital cost, for which there is provision in the tariff regulations. The Commission felt that in principle approval of the cost would provide comfort to the investors as regard the tariff likely to be approved, and this will help in achieving the financial closure of the project.

The Commission was of the view that delay in project implementation could increase its cost and it would not be in the interest of the consumers. The in principle approval of the capital cost is subject to the following conditions:

- The completed capital cost approved by the Commission would be the ceiling cost for the purpose of tariff.
- The petitioner shall achieve the financial closure within 120 days.
- In case, the generating company and the buyers agree on performance norms better than those specified in the tariff regulations, such norms shall be the basis of determination of tariff.
- No additional capital expenditure incurred on maintaining operational and performance parameters shall be admissible for tariff enhancement during the rated life of the generating station.

The generating company had published public notices of its proposal in the newspapers inviting comments from the public. The Commission considered all the comments and objections received from public before taking a view in the matter. The Commission also carried out detailed in-house analysis of the project cost estimates. The comparative cost analysis was done with respect to recently implemented Simhadri STPS (1000 MW), Talcher TPS Stage-II (1000 MW), Vindhyachal TPS Stage-II (1000 MW) and Rihand TPS Stage-II (500 MW) of NTPC. The cost comparison was also done with Sipat TPS Stage I and II projects of the NTPC, which are now under construction. The cost estimate was also compared with CEA cleared cost of Barh STPS (3 x 660 MW), Sipat STPS Stage-I (3 x 660 MW), Kahalgaon Stage II (2 x 500 MW) and Vindhyachal TPS Stage-III (2 x 500 MW), all belonging to NTPC. The Commission finally came to the conclusion that the capital cost of Nagarjuna Power Project is on the whole reasonable considering the fact that it has a number of site specific features including Flue Gas De-sulphurisation plant, sea-water desalination plant, jetty at New Mangalore port for receiving the imported coal and impervious polyethylene layers in ash pond and coal storage areas for environmental protection.

The Commission was also satisfied with financial package of the project, which is based on interest on loan @ 7.25% to be provided by consortium of lending institutions led by the Power Finance Corporation. The debt equity ratio shall be 70 : 30.

Sd/-

(A.K. Sachan)

Secretary