

**CENTRAL ELECTRICITY REGULATORY COMMISSION  
NEW DELHI**

**Coram:**

1. **Shri A.K.Basu,Chairperson**
2. **Shri K.N. Sinha, Member**
3. **Shri Bhanu Bhushan, Member**
4. **Shri A.H.Jung, Member**

**Petition No.109/2005**

**In the matter of**

Approval of revised fixed charges on account of additional capital expenditure for the period 1.4.2001 to 31.3.2004 in respect of Gandhar GPS ( 657.39 MW)

**And in the matter of**

National Thermal Power Corporation Ltd.

... **Petitioner**

**Vs**

1. Madhya Pradesh State Electricity Board, Jabalpur
2. Maharashtra State Electricity Distribution Company Limited, Mumbai
3. Gujarat Urja Vikas Nigam Ltd, Vadodara
4. Chattisgarh State Electricity Board, Raipur
5. Electricity Department, Govt. of Goa, Panaji, Goa
6. Electricity Department, Administration of Daman & Diu, Daman
7. Electricity Department, Administration of Dadra and Nagar Haveli, Silvassa...**Respondents**

**The following were present:**

2. Shri V.B.K. Jain, NTPC
3. Shri N.N. Sadasivan, NTPC
4. Shri S.K. Sharma, NTPC
5. Shri A.S.Pandey, NTPC
6. Shri Alka Saigal, NTPC
7. Shri Gaurav Maheshwar, NTPC
8. Shri P.M.Matey,MSEDCL
9. Shri D.Khandelwal,MPSEB
10. Shri D.Srivastava,MPSEB.

**ORDER  
(DATE OF HEARING: 22.11.2005)**

Through this petition, the petitioner seeks approval for the revised fixed charges in respect of Jhanor Gandhar Gas Power Station ( 657.39 MW) (the generating station) comprising three gas turbine units of 144.3 MW each and one

steam turbine unit of 224.49 MW for the period 1.4.2001 to 31.3.2004, after considering the impact of additional capital expenditure incurred during the period.

2. The date of commercial operation of the gas turbine units and the generating station as a whole are as follows :

<b>UNIT</b>	<b>Date of commercial operation</b>
GT-1	1.3.1995
GT-2	1.10.1995
GT-3	1.3.1995
ST- I (Generating Station)	1.11.1995

3. The Central Government in Ministry of Power by its letter dated 23.1.1995 had accorded approval of the revised cost estimate for the generating station at Rs.244760 lakh, including IDC of Rs.20032 lakh and excluding working capital margin of Rs.5240 lakh. Also, the Central Electricity Authority accorded approval vide letter dated 4.7.2000 for installation of Effluent Disposal System at a cost of Rs.658 lakh. As such, the total approved cost of the generating station, excluding working capital margin works out to Rs.245418 lakh.

4. The terms and conditions for determination of tariff for the period 1.4.2001 to 31.3.2004 were notified by the Commission on 26.3.2001 in terms of the Central Electricity Regulatory Commission (Terms & Conditions of Tariff) Regulations 2001 (hereinafter referred to as "the notification dated 26.3.2001"). A petition (No.33/2001) was filed by the petitioner for approval of tariff for the period from 1.4.2001 to 31.3.2004 in respect of the generating station, the basis for which was stated to be the notification dated 26.3.2001. In the tariff claimed, the petitioner had considered the impact of additional capitalisation for the period from 1.4.2001 to 31.3.2004, based on budgetary projections. The tariff was approved by the Commission by its order dated 1.4.2005. For the purpose of tariff, the capital cost of Rs.242505 lakh as on 1.4.2001

(which included initial spares over the gross block), was considered, without considering the additional capital expenditure for the period 1.4.2001 to 31.3.2004. The petitioner has now filed the present petition for approval of the revised fixed charges after accounting for the additional capital expenditure incurred.

5. The year-wise details of additional capitalisation claimed with reference to the balance sheet are as follows:

	(Rs.in lakh)			
	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>Total</b>
<b>Opening Gross Block</b>	232107.9	230257	232849	
<b>Closing Gross Block</b>	<b>230257</b>	<b>232849</b>	<b>233299</b>	
Additional capitalization as per books of accounts (A)	(-)1850.8	2592.3	449.8	<b>1191.3</b>
Exclusion for additional capitalisation vis-a-vis books of account of Inter-unit transfers (B)	379.8	Nil	Nil	<b>379.8</b>
<b>Additional capitalization claimed (A)-(B)</b>	(-)2230.6	2592.3	449.8	811.5

6. Based on the above, the petitioner has claimed the approval of revised fixed charges due to additional capitalization.

7. Clause 1.10 of CERC notification dated 26.3.2001, is as under :

“Tariff revisions during the tariff period on account of capital expenditure within the approved project cost incurred during the tariff period may be entertained by the Commission only if such expenditure exceeds 20% of the approved cost. In all cases, where such expenditure is less than 20%, tariff revision shall be considered in the next tariff period.”

8. The petitioner has claimed an additional capitalization of Rs.811.5 lakh which is about 0.33% of the admitted cost of Rs 242405 lakh as on 1.4.2001.

9. The respondents have objected to the claim of the petitioner for revision of fixed charges due to additional capitalisation.

### Additional Capitalisation

10. In the first instance we consider the admissibility of additional capital expenditure claimed in the present petition:

11. It is observed that additional capitalization as per books of accounts is Rs.1191.3 lakh. Out of this, the cost of transfer of ICT transformer amounting to Rs 379.8 lakh from NCTPP Dadri has been excluded, because the transfer is on returnable basis and the expenditure is being serviced at that station (Dadri). The exclusion of this ICT transformer is in order. There is no FERV component in the additional capital expenditure.

12. Now we consider the admissibility of additional capital expenditure claimed in the present petition. The year-wise and category-wise break up of the additional expenditure claimed by the petitioner is as follows-

(Rs. in lakh)				
Details of additional capitalization claim	2001-02	2002-03	2003-04	Total
<b>(A) Within the scope of approved Cost or Admitted works</b>				
(a) Balance payment against works admitted by the Central Government/Commission (Category-10A)	(-)2375.737	0.799	0	(-) 2374.938
(b) New works within approved Revised Cost Estimates (Category-21A)	24.338	49.096	15.037	88.470
(c) Inter-unit transfer (11)	0	(-) 0.740	0.551	(-) 0.189
<b>Sub-total (A)</b>	<b>(-) 2351.400</b>	<b>49.156</b>	<b>15.588</b>	<b>-2286.657</b>
<b>(B) Not within the scope of approved Cost and works</b>				
(a)New works not in approved Revised Cost Estimates (Category-21B)	119.669	70.914	65.272	255.855
(b)Spares not in approved cost (Category-22B)	0.00	2472.211	369.262	2841.473
(c)Replacements (Category.-23)	1.080	0.000	-0.296	0.784
<b>Sub-total (B)</b>	<b>120.750</b>	<b>2543.125</b>	<b>434.238</b>	<b>3098.113</b>
<b>Total of additional Capitalisation claimed (A)+(B)</b>	<b>(-)2230.650</b>	<b>2592.281</b>	<b>449.826</b>	<b>811.456</b>

**Additional capital expenditure within the scope of approved cost/ admitted works by the Central Government/Commission**

**Additional Capital Expenditure relating to balance payments**

13. De-capitalisation of the balance payments of Rs.2374.9 lakh against the admitted works is found to be in order and has been allowed. The major component of this de-capitalisation, is on account of refund of Government guarantee fees amounting to Rs.2372 lakh during the construction phase.

**Expenditure on new works within approved cost –**

14. The petitioner has claimed additional capital expenditure of Rs. 88.47 lakh for the three years. This expenditure relates to fencing of plant, establishment of training centre for its employees, tools and tackles, PLE Microprocessor based 3 phased transmitter, CO2 cylinder etc. Since the expenditure relates to works under approved cost, the same is allowed for capitalization for the purpose of tariff.

**Inter-unit Transfer.**

15. An expenditure of Rs.0.74 lakh has been de-capitalised in 2002-03 due to transfer of certain hospital equipment and furniture to new generating station at Sipat. The transfer appears to be of permanent nature and hence de-capitalisation of amount is in order. An expenditure of Rs.0.55 lakh has been capitalised in 2003-04 on account of transfer of furniture items from Kawas GPS to the generating station, for the new school. The capitalization is allowed as an employee welfare measure of providing educational facility at the generating station.

**Additional capital expenditure not within the scope of approved cost and works admitted by the Central Government/Commission**

**Expenditure on new works not within approved cost**

16. A capital expenditure of Rs 255.855 lakh has been claimed under this head. The petitioner has furnished asset-wise justification for incurring this expenditure. On scrutiny of the items/assets procured under this head, it has been observed that these items can be broadly categorized as follows :

- (i) Creation of IT infrastructure and modernization of communication system,
- (ii) Purchase of recreational /musical equipments for the recreation club, expenditure relating to employee welfare measures on education facilities, health and hospital equipments and development of township infrastructure etc,
- (iii) Purchase of furniture and car etc,
- (iv) Purchase of tool and tackle of special nature for the gas turbine maintenance etc and new metering equipments.

17. The expenditure on creation of IT infrastructure and modernization of communication system has been allowed under ABT regime to ensure high availability of machines. The expenditure on purchase of special tools and tackles and new metering equipments has also been allowed for reducing downtime and ensuring availability under ABT. The expenditure relating to employee welfare and on safety considerations are also allowed. The purchase of new furniture and other items are allowed with corresponding de-capitalisation. In respect of the new purchase for the township recreation facility, the expenditure is allowed to be capitalized. However, for purchase of car, solar water heating, and replacement of obsolete system, the capitalisation, without corresponding de-capitalisation, has been disallowed. for want of proper justification.

18. Accordingly the following additional capitalisation is allowed against the petitioner's claim under this head:

( Rs in lakh).

	<b>Claimed</b>	<b>Disallowed</b>	<b>Allowed</b>
2001-02	119.669	0.00	119.669
2002-03	70.914	6.265	64.648
2003-04	65.272	7.763	57.510
<b>Total</b>	<b>255.855</b>	<b>14.028</b>	<b>241.827</b>

### **Expenditure on spares**

19. The petitioner has claimed an amount of Rs 2841.473 lakh during 2001-04 on spares, which are not a part of the approved cost. The petitioner has submitted that these items are required for safety against break-down, which if not available in time could lead to loss of generation and aggravation of already power deficit condition. It was further submitted that these critical spares are required to be procured from the original equipment manufacturer and the lead time for procurement is one to one and half year and hence in order to avoid outage of units it is necessary to maintain sufficient stock of these spares in capital account of spares. The generating station is in operation for about 8 years and capitalization of additional spares is over and above the reasonable spares already capitalized as initial spares within the approved capital cost. The Commission while dealing with additional capitalization petitions of other generating stations belonging to the petitioner, has not allowed capitalization of additional spares in such cases. The Commission felt that consumption of such spares should form part of O&M. On the same considerations, capitalisation of spares as claimed has not been allowed.

### **Expenditure on Replacement**

20. An amount of Rs.0.784 lakh for 2001-04 has been excluded under this head. The petitioner by way of negative entries in exclusions has sought to de-capitalise the

asset like the washing machine, furniture and IT infrastructure, on the ground that they have become unusable and have been replaced. Since these are old assets and not in use, the capitalization along with corresponding de-capitalisation (Category-23) is allowed.

21. The following additional capital expenditure has been allowed based on discussions in the above paragraphs:

(Rs. in lakh.)				
Details of additional capitalization claim	2001-02	2002-03	2003-04	Total
<b>(A) Within the scope of approved Cost or Admitted works after the date of commercial operation</b>				
(a) Balance payments against the admitted works (Category-10A)	(-)2375.737	0.799	0	(-)2374.938
(b) New works within the approved Revised Cost Estimates (Category-21A)	24.338	49.096	15.037	88.470
(c) Inter-unit transfers (11)	0.00	-0.740	0.551	(-)0.189
<b>Sub-total (A) [(a)+(b)+(c)]</b>	<b>(-)2351.400</b>	<b>49.156</b>	<b>15.588</b>	<b>(-)2286.657</b>
<b>(B) Not within the scope of approved Cost and works</b>				
(a) New works not in the approved Revised Cost Estimates (Category-21B)	119.669	64.648	57.510	241.827
(b) Spares not in approved cost (Category-22B)	0.00	0.00	0.00	0.00
(c) Replacement (Category-23)	1.080	0.000	(-)0.296	0.784
<b>Sub-total (B) [(a)+(b)+(c)]</b>	<b>120.750</b>	<b>64.648</b>	<b>57.214</b>	<b>242.612</b>
<b>Additional Capitalisation (A)+(B)</b>	<b>(-) 2230.650</b>	<b>113.804</b>	<b>72.801</b>	<b>(-) 2044.045</b>

22. Next arises the question of revision of fixed charges for the period 1.4.2001 to 31.3.2004. In the order dated 31<sup>st</sup> March 2005 in Petition No. 139/2004, (National Thermal Power Corporation Ltd Vs Uttar Pradesh Power Corporation Ltd and others) the Commission has held that the additional capital expenditure incurred during the tariff period, not exceeding 20% of the approved capital cost, does not qualify for retrospective revision of tariff. In the present case, the additional capital expenditure approved is less than 20% of the approved cost. For the reasons given in the said order dated 31<sup>st</sup> March 2005, the retrospective revision of fixed charges for the period 1.4.2001 to 31.3.2004 is not warranted. However, the additional capital expenditure



approved shall be added to the gross block as on 1.4.2001 to arrive at the gross block as on 1.4.2004 for the purpose of fixation of tariff for the tariff period 2004-05 to 2008-09.

23. After taking into account additional capitalization allowed, the opening gross block as on 31.3.2004 works out as follows:

	(Rs. in lakh)		
	2001-02	2002-03	2003-04
Capital cost as on 1 <sup>st</sup> April	242505	240274	240388
Additional capitalisation	(-)2231	114	073
Capital cost as on 31 <sup>st</sup> March of respective financial year	240274	240388	240461

24. Further, for the reasons recorded in order dated 31.3.2005 in a similar petition (petition No.139/2004), the petitioner shall be entitled to earn return on equity @ 16% on the equity portion of additional capitalisation now approved by us. Similarly, the petitioner shall also be entitled to interest on loan at the rate, as applicable, during the relevant period. Return on equity and interest shall be worked out on the additional capitalisation from 1<sup>st</sup> April of the financial year following the financial year to which additional capital expenditure relates and up to 31.3.2004. The lump sum of the amount of return on equity and interest on loan so arrived shall be payable by the respondents along with the tariff for the period 2004-09 to be approved by the Commission. The exact entitlement of the petitioner on this account shall be considered by the Commission while approving tariff for the period 2004-09.

25. With the above, the present petition stands disposed of.

Sd/- <b>(A.H.JUNG)</b> <b>MEMBER</b>	Sd/- <b>(BHANU BHUSHAN)</b> <b>MEMBER</b>	Sd/- <b>( K.N.SINHA)</b> <b>MEMBER</b>	Sd/- <b>(ASHOK BASU)</b> <b>CHAIRPERSON</b>
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New Delhi dated the 9<sup>th</sup> day of May 2006