

**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.110/2005

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 Kawas GPS (656.20 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:

1. Shri V.B.K. Jain, NTPC
2. Shri N.N. Sadasivan, NTPC
3. Shri S.K. Sharma, NTPC
4. Shri A.S.Pandey, NTPC
5. Shri Alka Saigal, NTPC
6. Shri Gaurav Maheshwar, NTPC
7. Shri P.M.Matey, MSEDCL
8. Shri D.Khandelwal, MPSEB
9. 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 Kawas Gas Power Station, (656.20 MW)(hereinafter referred to

as “the generating station”) for the period 1.4.2001 to 31.3.2004, after considering the impact of additional capital expenditure incurred during the period.

2. The generating station with a total capacity of 656.20 MW comprises of four gas turbine units (4x106 MW) and two steam turbine units (2x116.1 MW).The date of commercial operation of the station was 1.11.2003.

3. The Central Government by its letter dated 18.9.1996 had accorded approval to the cost estimates for Rs.157927 lakh for the generating station, including IDC of Rs.15687 lakh and excluding working capital margin of Rs.2036 lakh.

4. The Commission by its order dated 7.4.2005, in petition 31/2001 had approved the tariff of the generating station for the period from 1.4.2001 to 31.3.2004. For the purposes of tariff, the capital cost of Rs 151319 lakh (which included initial spares over the gross block) as on 1.4.2001 was considered.

5. The additional capital expenditure as claimed by the petitioner, year-wise, as per balance sheet is as follows:

	(Rs.in lakh)			
	2001-02	2002-03	2003-04	Total
Opening gross block	149367.99	150119.36	155703.08	
Closing gross block	150119.36	155703.08	160658.54	
Additional capitalization as per books of accounts	751.37	5583.72	4955.46	11290.55
Works related to Stage –II	13.07	0.00	1.29	14.36
Additional capitalization as per books of accounts related to Kawas GPS: (A)	738.30	5583.72	4954.18	11276.2
Exclusions (B)				
FERV Capitalised (25)	1147.09	5162.04	1283.93	7593.06
Inter-unit transfers(11)	-499.05	0.00	-0.11	-499.06
Interest on land for post Commissioning period (10A)	0.00	0.00	-168.54	-168.54
Sofa set purchased in the year 2002-03 and de-capitalised in the year 2003-04	0.00	0.11	0.00	0.11
Total exclusions for additional capitalisation vis-a-vis books of accounts.	648.04	5162.15	1115.27	6925.46
Additional capitalization claimed NTPC for the purpose of tariff (A)-(B)	90.26	421.57	3838.90	4350.73

6. The petitioner has filed this present petition for approval of revised fixed charges on account of the above additional capitalization.

7. Clause 1.10 of the notification dated 26.3.2001, provides as follows :

“ 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.4350.73 lakh, which is 2.87% of the admitted capital cost of Rs.151319 lakh as on 1.4.2001.
9. The respondents, GUVNL, MPSEB and MSEDCL have filed their replies and have objected to the petitioner’s said claim for revised fixed charges due to additional capitalization.
10. In Petition No. 79/2005 for fixing tariff for 2004-09, the petitioner has claimed additional capital expenditure amounting to Rs 1409 lakh for the period 2001-04. After filing the tariff petition for the period 2004-09, the petitioner filed the present instant petition for determination of the impact of additional capital expenditure incurred during 2001-02, 2002-03, and 2003-04, for Rs 4351 lakh.
11. The Commission by its order dated 20.3.2006, directed the petitioner to explain the reasons for difference in the amount of additional expenditure claimed in the tariff petition (Petition No. 79/2005), vis-à-vis that claimed in the present petition.
12. The petitioner by an affidavit dated 10.4.2006, has clarified that the capital cost adopted in the tariff petition (Petition No.79/2005), was based on the capital cost admitted as on 1.4.2001 plus the estimated claim of additional capital expenditure incurred by the petitioner during 2001-04, whereas the claim for the additional expenditure in the instant petition is based on actual capitalization as per books of

accounts. The petitioner, prayed that the additional capital expenditure as claimed in the present petition, be considered by the Commission.

Additional Capitalisation

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

14. It is observed that additional capitalization as per books of accounts is Rs.11276.2 lakh for the period 2001-04. However the petitioner has claimed additional capital expenditure of Rs.4350.73 lakh. The difference is on account of exclusion of FERV inter-unit transfers (inclusion) and interest on land compensation after the commercial operation of the generating station. Since the impact of FERV was being claimed from the beneficiaries directly, the exclusion of FERV of Rs.7593.06 lakh is in order.

Inter-unit transfers

15. The petitioner has excluded an amount of Rs.499.05 lakh on account of transfer of compressor rotor to Kayamkulam GPS on loan basis. The said transfer is treated as temporary transfer and the exclusion of Rs.499.05 lakh is in order. Further, one sofa set purchased at the generating station in the year 2002-03 for Rs. 0.11 lakh was sent on permanent basis to NCR headquarters. Both the positive and negative entries arising out of the purchase and subsequent transfer are in order and have been allowed.

Interest on compensation for land for post Commissioning period

16. The petitioner, as per order of the High Court of Gujarat, has paid compensation along with interest to the land oustees. The differential amount along with interest was paid and capitalized in 2000-01 and the same was allowed by the

Commission for tariff purposes. Since the interest has been paid after the date of commercial operation, de-capitalisation of this interest has been done in the books of accounts as per Accounting Standards. As the interest paid needs to be retained in the capital base, the de-capitalisation entry needs to be excluded. Hence the exclusion is in order.

17. The year-wise and category-wise break up of the additional expenditure claimed by the petitioner are as follows:

(Rs. in lakh)

Details of additional capitalization claim	2001-02	2002-03	2003-04	Total
(A) Within the scope of approved Cost				
(a)Balance payments against works admitted by the Central Government / Commission (Category-10A)	(-)41.57	(-)3.56	(-)30.44	(-)75.57
(b)New works– Capitalisation under approved cost –(Category-21A)	24.66	(-)1.25	0.00	23.40
Total within the scope of approved cost (A)= (a)+(b)	-16.91	-4.81	-30.44	-52.17
(B) Works not within the scope of approved cost				
(a) New works :capitalised under other than approved cost (Category-21B)	62.43	60.47	36.50	159.41
(b) Spares capitalized other than approved cost (Category-22B)	41.26	370.16	3845.83	4257.25
(c) Inter – unit transfer (11)	0.00	(-)0.26	(-)0.55	(-)0.81
(d) Replacements (23)	3.48	(-)3.99	(-)12.44	(-)12.95
Total additional capitalisation not within the scope (B)=(a)+(b)+(c)+(d)	107.17	426.38	3869.34	4402.9
Total additional Capitalisation claimed (A)+(B)	90.26	421.57	3838.9	4350.73

18. Now we consider the admissibility of additional capital expenditure claimed in the present petition.

Additional capital expenditure within the scope of approved cost

Additional Capital Expenditure relating to balance payments against works admitted by the Central Government/Commission (10A)

19. The balance payments of Rs.75.57 lakh against works already admitted by the Central Government/Commission is found to be in order and has been allowed.

New works – Capitalisation under approved cost

20. An expenditure on new works within the original scope to the tune of Rs 23.40 lakh for three years has been claimed under this head and relates to expenditure mainly on IT infrastructure, balance payment/adjustment of the fibre optical cables work, auditorium work, partition in administrative building and watch tower for safety of liquid storage/handling system etc. Since this expenditure relate to works under approved cost, the same is allowed for capitalisation.

Additional capital expenditure on new works not within the scope of approved cost

Expenditure on new works not within approved cost (21B)

21. An expenditure of Rs 159.41 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 items related to technology upgradation, safety consideration, IT infrastructure development, requirement for implementation of ABT regime, environment protection, statutory norms, etc. As no proper justification has been provided by the petitioner for expenditure on some of the items/assets, the expenditure on the same had been disallowed. Hence only an amount of Rs 141.13 lakh has only been found admissible .

22. Accordingly, the following additional capitalisation is allowed against the petitioners claim under this head as follows :

(Rs in lakh).

	Claimed	Disallowed	Allowed
2001-02	62.43	7.87	54.56
2002-03	60.47	5.13	55.34
2003-04	36.50	5.27	31.23
Total	159.41	18.28	141.13

Additional capital expenditure on spares not within approved cost (22B)

23. For an expenditure of Rs 4257.25 lakh relating to the capitalisation of spares during 2001-04, the petitioner has submitted that the items are of repetitive/consumptive nature and they are required for safety against breakdown, which if not available would lead to loss of generation and aggravation of already power deficit situation. It was also submitted that these critical spares are required to be procured from the original equipment manufacture, with a lead time of one to one and a half year and hence to avoid long outage of units it has become necessary to maintain stock of these spares in capital account of spares.

24. The submission of the petitioner deserves no consideration since the generating station is in operation since 1993 and capitalization of additional spares is over and above the reasonable spares already capitalized as initial spares, within the approved capital cost. Moreover, the Commission, while dealing with additional capitalization petitions of other generating stations belonging to the petitioner, for the period prior to 2001, had not allowed capitalization of additional spares in such cases. The Commission, also felt that consumption of such spares should form part of O&M. On the same consideration, capitalisation of spares as claimed has not been allowed.

Additional capital expenditure on Inter –unit transfers

25. Decapitalisation of an amount of Rs. 0.81 lakh for the years 2001-04 has been claimed under this head as follows :

- (i) An amount of Rs 2.11 lakh has been decapitalised in the 2002-03 due to the transfer of the Boyels apparatus to FGUTPP Unchahar. No reason had been furnished by the petitioner ,for the transfer. As the asset is not in use in the station, the decapitalisation is allowed. Further an amount

of Rs 18.48 lakh has been capitalized at the generating station in 2002-03 due to the transfer of furniture from WRHQ, Mumbai, replacing the old furniture. As the gross value of the old furniture had not been decapitalised, the said amount of Rs 18.48 lakh is not allowed for capitalisation. Thus, the decapitalisation of the sum of Rs 2.11 lakh in the year 2002-03 is allowed.

- (ii) An amount of Rs 0.55 lakh has been decapitalised in the year 2003-04, due to the closing of school in the instant station and transfer of the furniture to another school of the petitioner. As the transfer is of a permanent nature and the item had been decapitalised and subsequently capitalized for tariff purposes, the decapitalisation is in order and the same is allowed.

26. In view of the above, the decapitalisation of Rs 2.66 lakh during the period 2001-04, is allowed.

Additional capital expenditure on Replacements :

27. The capitalisation of assets under this head during the period 2001-04 is with the corresponding decapitalisation of old assets. The existing assets had been replaced by new assets as the old assets had outlived their life or were rendered unserviceable. Hence, an amount of Rs.10.55 lakh qualifies to be de-capitalised for the period 2001-04 and the same is allowed.

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

(Rs.in lakh.)

Details	2001-02	2002-03	2003-04	Total
(A) Within the Scope of approved Cost				
Balance payment against works admitted by the Central Government/ Commission (Category-10A)	(-)41.57	(-)3.56	(-)30.44	(-)75.57
New works within approved Revised Cost Estimates (Category-21A)	24.66	(-)1.25	0.00	23.40
Total within the scope of approved cost(A)	(-)16.91	(-)4.81	(-)30.44	(-)52.17
(B) Works not within the scope of approved cost				
(a) New works capitalized under other than approved cost -(Category-21B)	54.56	55.34	31.23	141.13
(b) Spares capitalized under other than approved cost (Category-22B)	0.00	0.00	0.00	0.00
(c) Inter –unit transfers (11)	0.00	(-)2.11	(-)0.55	(-)2.66
(d) Replacements (Category-23)	3.48	(-)3.32	(-)10.71	(-)10.55
Total Additional Capitalisation not within the scope (B)	58.04	49.91	19.97	127.92
Total Additional Capitalisation allowed (A)+(B)	41.13	45.10	(-)10.47	75.75

29. Next arises the question of revision of fixed charges for the period 1.4.2001 to 31.3.2004. In the order dated 31.3.2005 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 31.3.2005, 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.

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

(Rs. in lakh)

Capital cost as on 1 st April, 2001	151319.00
Additional capitalisation, for 2001-04	75.75
Capital cost as on 31.3.2004	151394.75

31. Further, for the reasons recorded in order dated 31.3.2005 in 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 1st 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.

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

Sd/-
(A.H.JUNG)
MEMBER

Sd/-
(BHANU BHUSHAN)
MEMBER

Sd/-
(K.N.SINHA)
MEMBER

Sd/-
(ASHOK BASU)
CHAIRPERSON

New Delhi dated 9th May 2006