

**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.146/2005

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 Kahalgaon STPS Stage-I (840 MW)

And in the matter of

National Thermal Power Corporation Ltd.

----- **Petitioner**

Vs

1. West Bengal State Electricity Board, Kolkata
2. Bihar State Electricity Board, Patna
3. Jharkhand State Electricity Board, Ranchi
4. Grid Corporation of Orissa Limited, Bhubaneswar
5. Damodar Valley Corporation, Kolkata
6. Power Department, Sikkim, Gangtok
7. Tamil Nadu Electricity Board, Chennai.
8. Union Territory of Pondicherry, Pondicherry
9. Uttar Pradesh Power Corporation Limited, Lucknow
10. Power Development Department, Govt. of Jammu & Kashmir, Srinagar
11. Power Department, Union Territory of Chandigarh, Chandigarh.
12. Madhya Pradesh State Electricity Board, Jabalpur.
13. Gujarat Urja Vikas Nigam Limited, Baroda.
14. Electricity Department, Administration of Daman & Diu, Daman
15. Electricity Department, Administration of Dadra & Nagar Haveli, Silvassa.
16. Delhi Transco Limited, New Delhi
17. Maharashtra State Electricity Board, Mumbai

----- **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. Ms. 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: 27.12.2005)

Through this petition, the petitioner seeks approval for the revised fixed charges in respect of Kahalgaon STPS Stage-I (840 MW) (hereinafter called 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 capacity of 840 MW comprises of four units of 210 MW each.

3. The Board of Directors of the petitioner company by letter dated 13.3.2004 approved the revised cost of the generating station for Rs.200205 lakh including IDC of Rs.26138 lakh and exchange rate liability of Rs.6749 lakh up to 31.3.1997 as of 3rd quarter price level. In addition, CEA, by its letter dated 10.7.1996, approved the Environmental Action Plan amounting to Rs.1300 lakh. Thus, the aggregated approved cost of the generating station is Rs.201505 lakh, which takes into account the exchange rate liability up to 31.3.1997, and not thereafter.

4. The Commission by its order dated 21.3.2005, in Petition No.98/2002 had approved the tariff of the generating station, for the period 1997-01, by admitting the additional capitalization of Rs 8444 lakh and FERV of Rs 3634 lakh upto 31.3.2001.

5. The Commission by its order dated 4.8.2005, in Petition No.37/2001 had approved the tariff of the generating station for the period from 1.4.2001 to 31.3.2004, considering the capital cost of Rs.195975 lakh, as on 1.4.2001.

6. 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
Total additional expenditure as per books of accounts after excluding Stage –II expenses (A)	2488.12	4104.62	367.75	6960.49
Exclusions				
FERV Exclusions (B)	(-) 63.73	598.12	5.10	539.49
Replacement Exclusions (C)	0	0	(-) 138.73	(-) 138.73
Inter-unit transfer exclusions (D)	0	0	(-) 9.80	(-) 9.80
Sub-Total Exclusions (E) = (B)+(C)+(D)	(-) 63.73	598.12	(-) 143.43	390.96
Additional capital expenditure (A) - (E)	2551.86	3506.50	511.19	6569.55

7. Based on the above, the petitioner has claimed the revised fixed charges.

8. 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.”

9. The petitioner has claimed additional capitalisation of Rs.6570 lakh which is about 3.35% of the admitted cost of Rs 195975 lakh as on 1.4.2001.

10. The respondents WBSEB and GUVNL have filed their replies and have objected to the petitioners claim of revised fixed charges due to additional capitalisation.

Exclusions

11. It is observed that additional capitalization as per books of accounts is Rs.6960.49 lakh, including FERV of Rs.539.49 lakh. Since impact of FERV was being claimed separately from the beneficiaries, the total additional capital expenditure claimed for the generating station, after excluding FERV, should be Rs.6421 lakh. However, the petitioner has claimed additional capitalisation of Rs.6569.55 lakh. The difference is mainly on account of re-inclusion (negative entries in exclusions in above table) of certain unserviceable assets in capital base. We are considering this aspect in the next para of this order.

12. In the first instance, we consider the exclusions in the claim for additional capital expenditure.

(a) **FERV** : The exclusion of an amount of Rs.539.49 lakh for the period 2001-04 on account of impact of FERV claimed has been allowed, as the amount has been billed directly to the beneficiaries, as per the notification dated 26.3.2001.

(b) **Replacement exclusions:** An amount of Rs.138.73 lakh for the year 2001-04, has been excluded under this head. The petitioner by way of negative entries in exclusions has sought to re-include certain miscellaneous assets like crane, jeep etc. The petitioner has submitted that these assets had become unserviceable and hence were decapitalised from the books as a requirement of accounting standard. It is also submitted that the servicing of the assets had to be continued for the purposes of tariff as the investments made in the items had not been returned. The submission of the petitioner has been considered, but does not find favour with us. These assets were part of the admitted capital cost, and the same had been decapitalised on becoming unserviceable. As such, these assets will have to be decapitalised for the purposes of tariff as well. Since these items are no longer in use, re-inclusion thereof cannot be allowed.

(c) **Inter-unit transfer exclusions:** An amount of Rs.9.8 lakh has been excluded under this head on account of transfer of spares to FSTPP on returnable basis. The petitioner has submitted that the value of these spares which was capitalized at FSTPP was allowed to be excluded by the Commission in its order dated 17.6.2005 in Petition No 170/2004 and hence, the exclusion should also be allowed at the generating station. The Commission while dealing with additional capitalisation petitions of other generating stations of the petitioner, had decided that both positive and negative entries arising out of inter-unit transfer of temporary nature shall be ignored, for the purposes of tariff. In consideration of the above, the exclusion of the amount of Rs.9.8 lakh is allowed.

Additional Capitalisation

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

(Rs. in lakh)				
Details of additional capitalization claim	2001-02	2002-03	2003-04	Total
Within the Scope of approved Cost or admitted works				
(a) Balance payments against works admitted (Category-10A)	(-) 426.76	(-) 183.33	(-) 529.05	(-) 1139.14
(b) New works within approved cost (Category-21A)	2044.64	2328.60	853.20	5226.45
(c) Capital spares within approved cost (Category-22A)	933.98	1361.23	226.18	2521.38
(d) Inter-unit transfers (Category-11)	0.00	0.00	(-) 39.14	(-) 39.14
Total	2551.86	3506.5	511.19	6569.55

Additional Capital Expenditure relating to balance payments

14. The negative entry arising out of balance payments of Rs.1139.14 lakh against works admitted is found to be in order and has been allowed.

Additional Capital Expenditure on new works within approved cost

15. The petitioner has claimed additional capital expenditure of Rs.5226.45 lakh on new works within the approved cost. This expenditure relates to Ash dyke, Liquid waste treatment plant, Auxillary systems of the plant, ash water recirculation system, fire protection system in additional areas such as fuel oil pump house, excitation room cable gallery and fire sealing of main cable gallery, civil works like construction of administrative building boundary walls, balance roads, employees recreation centre garages, bus stand and expenditure on training centre, township electrification, satellite communication system, IT equipment, hospital equipment etc. All these

assets/works capitalized by the petitioner, apart from being within the scope of the approved cost, are essential for the smooth and efficient functioning of the generating station. As per notification dated 26.3.2001, there is no time restriction on a generating station to take up or to complete the balance works after the date of completion. Hence, the additional expenditure of Rs. 5226.45 lakh pertaining to the period 2001-04, is allowed to be capitalised.

Capital on spares

16. The petitioner has procured capital spares of Rs. 2521.38 lakh during the period 2001-04 and are categorized as follows :

1. T.G.spares.
2. S.G.spares.
3. C& I spares.
4. Electrical system spares.
5. C.W.system spares.
6. Service and General Equipment spares.
7. Coal transportation system spares.

17. The date of commercial operation of the generating station is 1.8.1996 and there has been a substantial delay on the part of the petitioner in procuring initial spares. Explaining the delay in procurement of initial spares, the petitioner has submitted that the vendor M/s Soviet Technopromexport, erstwhile USSR with whom a contract was signed by the petitioner in 1985 for supply of the equipment and spares, failed to supply the same, during the implementation of the project, for the reasons of developments in USSR in early nineties. It is also submitted that the process of locating alternate vendors as well as developing necessary design,

drawing and manufacture of the items took enormous time and effort in getting the spares and hence the delay.

18. As per the order of the Commission dated 21.3.2005 in Petition 98/2002, determining the tariff for the period 1997-01, of the generating station of the petitioner, the admitted capital cost is Rs.195975 lakh as on 31.3.2001, which includes the initial spares of Rs.3014 lakh. This is 1.50% of the revised completion cost accepted by the Commission and include initial spares of Rs.1746 lakh procured during 1997-2001. The Commission has allowed capitalisation of initial spares of Rs.1746 lakh for the period 1997-2001, after considering the facts of the case and the reasonableness of the amount involved and that the expenditure on spares was within the approved cost. The petitioner has now sought capitalisation of additional spares of Rs.2521.38 lakh, after a lapse of long period.

19. As per the notification dated 26.3.2001, the project cost is to include reasonable amount of initial spares. In the present case if the amount of Rs 2521.38 lakh is allowed to be capitalised for the purpose of tariff, the gross value of the initial spares will be Rs 5535 lakh, which is 2.76% of the approved cost of Rs 200205 lakh. As the revised cost of Rs 200205 lakh approved by the Board of Directors of the petitioner company envisages the initial spares of Rs 4627 lakh, the aggregated amount of initial spares is restricted to Rs 4627 lakh. Accordingly initial spares of Rs.1613 lakh (Rs.4627 lakh-Rs.3014 lakh) is allowed to be capitalized under this head.

Inter-unit transfers

20. Decapitalisation of an amount of Rs.3914 lakh has been indicated under this head on account of the inter-unit transfers of Ganty crane -30 T (to Unchahar) and Refrigerator (from VSTPP) by the petitioner. As corresponding reverse entries were allowed by the Commission, in the additional capitalisation petitions filed in respect of the said generating stations by the petitioner, decapitalisation of the amount of Rs.3914 lakh is also allowed under this head, for the purpose of tariff, in the instant generating station.

Additional capitalization allowed

21. 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 or admitted works				
(a) Balance payment against works admitted by the Central Government / Commission (Category-10A)	(-) 426.76	(-) 183.33	(-) 529.05	(-) 1139.14
(b) New works within approved Revised Cost Estimates (Category-21A)	2044.64	2328.60	853.20	5226.45
(c) Capital spares within approved cost (Category-22A)	933.98	679.02	0	1613
(d) Inter-unit transfers (Category 11)	0.00	0.00	(-) 39.14	(-) 39.14
Sub-total (A)	2551.86	2824.29	285.01	5661.17
Exclusions not permitted (B)				
Replacement Exclusions	0.00	0.00	138.73	138.73
Sub-total (B)	0.00	0.00	138.73	138.73
Total Additional capitalisation allowed (A)-(B)	2551.86	2824.29	146.28	5522.44

Revised Fixed Charges

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

23. After including the additional capital expenditure as per para 21 above for the period 2001-04, the capital cost as on 31.3.2004, excluding FERV for the period 2001-04, works out to Rs 201497 lakh (Rs.195975 lakh + Rs.5522 lakh) as against the aggregated approved cost of Rs.205139 lakh which includes FERV of Rs.3634 lakh for the period 1.4.1997 to 31.3.2001 approved by the Commission vide order dated 21.3.2005 *ibid*.

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

(Rs. in lakh)	
Capital cost as on 1.4.2001	195975
Additional capitalisation for 2001-02	2552
Capital cost as on 31.3.2002	198527
Additional capitalisation for 2002-03	2824
Capital cost as on 31.3.2003	201351
Additional capitalisation, for 2003-04	146
Capital cost as on 31.3.2004	201497

25. 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.

26. 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 the 9th day of May 2006