CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI

Coram
1. Shri Bhanu Bhushan, Member
2. Shri R. Krishnamoorthy, Member

Review Petition No.164/2007
In Petition No.140/2005

In the matter of

Review of order dated 15.10.2007 in Petition No.140/2005 for approval of tariff of Ramagundam STPS Stage III (500 MW) for the period 25.3.2005 to 31.3.2009.

And in the matter of

Tamil Nadu Electricity Board, Chennai **….Petitioner**
Vs
National Thermal Power Corporation Ltd., New Delhi **….Respondent**

The following were present:
Shri S. Sowmyanarayanan, Consultant

ORDER
(DATE OF HEARING: 12.2.2008)

Tamil Nadu Electricity Board, hereinafter referred to as "the applicant" seeks review of the order dated 15.10.2007 in Petition No.140/2005 whereby the Commission had approved tariff for the period 25.3.2005 to 31.3.2009 in respect of Ramagundam Super Thermal Power Station Stage-III (500 MW), hereinafter referred to as "the generating station".

Facts

2. The application for approval of tariff for the generating station was made by the respondent based on actual cost of Rs.142491 lakh on the date of commercial operation, which included its claim for return on equity amounting to Rs.42747 lakh and the balance amount of Rs.99744 lakh as notional loan. The respondent in its claim for approval of tariff considered

FIFO method of repayment of loan. However, while determining tariff, the Commission considered capital cost of Rs.131674 lakh after disallowing the amount of the outstanding and undischarged liabilities and by considering the expenditure actually incurred and capitalized on the date of commercial operation. Further, for the reasons recorded at para 27 (c) of the order dated 15.10.2007, the Commission considered average method of loan repayment, instead of FIFO method considered by the petitioner. As a result there was a reduction in IDC amounting to Rs.318 lakh, further reducing the capital cost to Rs.131356 lakh. Corresponding to the capital cost of Rs.131356 lakh, loan amount on the date of commercial operation was worked out to Rs.89813 lakh again by applying average method of loan repayment, leaving equity component of Rs.41543 lakh. However, for allowing return on equity, equity was restricted to Rs.39407 lakh, which represents 30% of the capital cost of Rs.131356 lakh. Resultantly, the notional loan amount considered was Rs.91949 lakh against at the capital cost of Rs.131356 lakh.

Ground for review

3. The applicant has stated that the actual equity applied for the generating station works out to Rs.37725 lakh against the equity of Rs.39407 lakh considered by the Commission, since, according to the applicant, the respondent had contracted loan of Rs.100091 lakh. Thus, there is inflation in the amount of equity by Rs.1682 lakh. According to the applicant, equity considered by the Commission is contrary to the provisions of clause (2) of Regulation 20 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004 which reads as under:

> "In case of the generating stations for which investment approval was accorded prior to 1.4.2004 and which are likely to be declared under commercial operation during the period from 1.4.2004 to 31.3.2009, debt-equity in the ratio of 70:30 shall be considered:
>
> Provided that where deployment of equity is less than 30%, the equity deployed shall be considered for the purpose of determination of tariff.
> ………………….. "

4. The applicant has further pointed out that the Commission while considering equity of Rs.39407 lakh has not considered the Power Purchase Agreement dated 12.9.2001 signed by the applicant with the respondent, according to which, the project cost is allocable in the debt-equity ratio of 70:30. The relevant extract of the PPA has been placed and is extracted as under:

> "The Debt-Equity ratio for the project shall be 70:30 (Seventy: Thirty) as approved by the Government of India. All capital expenditure towards the project shall stand allocated in the same proportion for tariff purposes".

Findings

5. We have heard Shri Sowmyanarayanan on admission.

6. The comparison made by the applicant in funding pattern as given in the application for review is not correct. The respondent had drawn gross loan of Rs.100091 lakh, a part of which was repaid up to the date of commercial operation, and is, therefore, not the actual outstanding loan on the date of commercial operation. In support of its claim for tariff, the respondent, in fact considered loan of Rs.99744 lakh (notional). However, the Commission while approving tariff reduced the capital cost to Rs.131674 lakh, after adjusting the outstanding and undischarged liabilities. The capital cost was further reduced to Rs.131356 lakh by adopting the average loan repayment methodology.

Against this capital cost, notional loan amount works out to Rs.89813 lakh by applying the same methodology, leaving balance equity of Rs.41543 lakh. However, for the purpose of tariff, equity of Rs.39407 lakh has been considered, which is 30%, of the capital cost of Rs.131356 lakh considered for computation of tariff and the excess amount of Rs.2136 lakh (Rs.41543 lakh – Rs.39407 lakh) has been considered as notional loan. After reduction in capital cost from Rs.142491 lakh claimed by the respondent, to Rs.131356 lakh, as on the date of commercial operation, loan amount drawn or claimed by the respondent has lost its significance. With the reduction in capital cost, loan and equity amounts have also to be reduced proportionately and apportioned in the ratio of 70:30, unless the actual loan exceeds 70% of the capital cost, which is not so in the present case. This has been done in this case. Incidentally, the respondent in the petition for approval of tariff had claimed return on equity of Rs.42747 lakh, but return has been allowed on equity of Rs.39407 lakh, and this has reduced the liability of the petitioner and other beneficiaries of the generating station. Perhaps, this aspect has been overlooked by the petitioner when it made the application for review.

Result

7. In view of the above discussion, there is no error in computation of tariff since return on equity has been allowed by restricting equity to 30% of the capital cost considered. Accordingly, the application for review is not maintainable and is dismissed at admission stage.

Sd/-	Sd/-
(**R KRISHNAMOORTHY**)	(**BHANU BHUSHAN)**
MEMBER	**MEMBER**

New Delhi, dated 26th May 2008