

**CENTRAL ELECTRICITY REGULATORY COMMISSION  
NEW DELHI**

Coram:

1. Shri Ashok Basu, Chairman
2. Shri K.N. Sinha, Member
3. Shri Bhanu Bhushan, Member

**Petition No.141/2004**

**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 Kayamkulam Gas Power Station

**And in the matter of**

**National Thermal Power Corporation Ltd. ... Petitioner**

**Vs**

1. **Kerala State Electricity Board, Trivandrum**
2. **Tamil Nadu Electricity Board, Chennai** ..... **Respondents**

**The following were present:**

1. Shri R.S. Sharma, ED, NTPC
2. Shri I.J. Kapoor, GM, NTPC
3. Shri V.B.K. Jain, GM, NTPC
4. Shri Balaji Dubey, Dy. Manager (Law), NTPC
5. Shri A.K. Juneja, DGM(Comml.), NTPC
6. Ms. Pranav Kapoor, NTPC
7. Shri C. Dwarakanath, DGM, NTPC
8. Shri S.K. Aggarwal, NTPC
9. Shri P. Srinivasan, NTPC
10. Shri S.N. Goel, NTPC
11. Ms Sangeeta Bhatia, NTPC
12. Ms. Alka Saigal, NTPC
13. Shri G.K. Dua, NTPC
14. Shri M. Ravindan Nair, KSEB
15. Shri K. Gopalakrishnan, KSEB

**ORDER  
(DATE OF HEARING: 30.11.2004)**

Through this petition, the petitioner seeks approval for the revised fixed charges in respect of Kayamkulam Gas Power Station Stage –I (Kayamkulam GPS) for the period 1.4.2001 to 31.3.2004 after considering the impact of additional capital expenditure incurred during the period.

2. Kayamkulam GPS comprises of two gas turbines of 116.60 MW each and one steam turbine of 126.38 MW. The generating station was declared under commercial operation on 1.3.2000. The Central Government in Ministry of Power by its letter dated 21.8.1995 had accorded approval for the cost estimate of Rs.1310.58 Crore. Subsequently, CEA vide its letter dated 6.11.2001 accorded its approval for the total approved project cost of Rs.1173.12 Crore.

3. 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.22/1999) was filed by the petitioner for approval of tariff, including for the period from 1.4.2001 to 31.3.2004 in respect of Kayamkulam GPS, 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 1.4.2001 to 31.3.2004. The tariff was approved by the Commission by its order dated 5.3.2004. For the purpose of tariff, the capital cost of Rs.1125.31 Crore as on 1.4.2001 was considered. The additional capitalisation claimed by the petitioner was not considered since it was based on the estimated capital expenditure and was without the supporting auditor's certificate.

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

(Rs. in lakh)

	2001-02	2002-03	2003-04	Total
As per balance sheet (A)	3573.05	1902.65	749.14	6224.84
Exclusions				
FERV	1687.87	3525.66	(-) 495.87	4717.66
Inter-Unit Transfers	499.05	0.00	0.00	499.05
Sub-Total (B)	2186.92	3525.66	(-) 495.87	5216.71
As claimed (A-B)	1386.13	(-)1623.01	1245.01	1008.13

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

6. The petitioner's claim for additional capitalisation and the revised fixed charges is based on Clause 1.10 of the notification dated 26.3.2001, reproduced hereunder:

"1.10 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."

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

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

(Rs. in lakh)

	2001-02	2002-03	2003-04	Total
A) Works with in the scope of approved Capital cost or admitted works after the date of commercial operation				
(a) Balance payment/ Balance works	(-)183.73	(-) 2548.18	34.65	(-) 2697.25
(b) New works	1536.66	0.00	264.84	1938.97
(c) Spares capitalised	31.54	776.66	945.15	1753.36
(d) Inter-unit Transfers	0.05	0.00	0.37	0.42
(e) Replacement	1.60	11.03	0.00	12.63
Total (a+b+c+d+e)	1386.13	(-)1623.01	1245.01	1008.13

\*There may be minor difference in decimal places due to rounding off of the corresponding figures in lakh.

9. The difference is mainly on account of re-inclusion (negative entries in exclusions) of certain assets in capital base on the grounds discussed below on

- (i) Out of the additional capital expenditure claimed by the petitioner most of the expenditure relates to new works and spares within the scope of approved project cost. A minor amount of Rs. 0.42 lakh has been claimed on account of inter-unit transfers and Rs. 12.63 lakh for replacement of assets.
- (ii) The additional capital expenditure on balance payments/balance works and new works within the scope of approved project cost in the respective years has been examined. There is adjustment of (-) 26.97 Crores on account of balance payments/balance works for the period 2001-04. TNEB has submitted that the petitioner was given tariff for the period 2001-04 on the higher cost. It has been found that a major component of this adjustment is in 2002-03. These are on account of reversal of liability pending decision of the Court in land case to the tune of Rs. 21.91 Crore, on account of decapitalisation of custom duty of Rs. 1.08 Crore and other adjustment in turbine-generator & fuel handling system of Rs. 2.83 Crore appears to be in order. As such capitalisation of (-) 26.97 Crore on account of balance payments/Balance works for the period 2001-04 has been allowed to be capitalised.
- (iii) The beneficiaries have submitted that expenditure relating to miscellaneous nature of assets like furniture, canteen items etc should not be allowed to be capitalised. However, all the expenditure in the project claimed as additional capital expenditure is within the scope of approved

Revised Cost Estimates (RCE) has been allowed. The new works within the scope of approved have otherwise found to be in order and have also been allowed to be capitalised.

- (iv) The petitioner has claimed additional capitalisation of initial capital spares of Rs.17.53 Crore. These spares have been bought by the petitioner over a 3 years' period. The Commission has allowed Rs.26.36 Crore of initial capital spares in the admitted project cost of Rs.1125.31 Crores, as on 1.04.2001 which were about 2.34% of the approved cost of 1173.12 Crore. With additional capitalisation of initial capital expenditure of Rs.17.53 Crore the total cost of initial capital spares works out to Rs.43.89 Crore which is about 3.74% of the CEA approved cost of Rs.1173.12 Crore including all liabilities. TNEB in their reply has stated that the spares of Rs.43.89 Crore works out to 3.69% of the project cost and are on higher side. In our view, initial capital spares of 3.74% are in order and have been allowed to be capitalised.
- (v) The petitioner has transferred cell phones from SR Head Quarter in 2001-02 and has transferred a telephone exchange from Talcher STPS in 2003-04. It has been confirmed by the petitioner that value of assets has been de-capitalised from the books of accounts of the station from which these assets have been transferred. This being the new station, asset has been transferred against new assets and as such, inter-unit transfer of assets amounting to Rs. 42 lakh has been allowed to be capitalised.
- (vi) The petitioner has claimed an amount of Rs. 12.43 lakh on account of replacement of photocopier in 2001-02 and furniture and kitchen items in 2002-03 after de-capitalising, corresponding gross value of the old assets.

Therefore, the captilisation of expenditure for these items has been allowed.

(Rs. in lakh)

	2001-02	2002-03	2003-04	Total
<b>A) Works with in the scope of approved capital cost or admitted works after the date of commercial operation</b>				
(a) Balance payments/ Balance works	(-)183.73	(-) 2548.18	34.65	(-) 2697.25
(b) New works	1536.66	0.00	264.84	1938.97
(c) Spares capitalised	31.54	776.66	945.15	1753.36
(d) Inter-unit Transfers	0.05	0.00	0.37	0.42
(e) Replacement	1.60	11.03	0.00	12.63
<b>Total (a+b+c+d+e)</b>	<b>1386.13</b>	<b>(-)1623.01</b>	<b>1245.01</b>	<b>1008.13</b>

10. 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 revision of tariff for this period. 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 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.

11. After taking into account additional capitalization as allowed, the gross block as on 31.3.2004 is worked out as follows-

(Rs. in Crore.)

Gross Block as on 1.4.2001	1125.31
Additional capitalization for 2001-04	10.08
Gross Block as on 31.3.2004	1135.39

12. As such, the opening gross block for the purpose of tariff for the period 2004-09, as on 1.4.2004 shall be Rs.1135.39 Crore.

13. 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 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.

14. With the above, the petition stands disposed of.

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

Sd/-  
**(K.N. SINHA)**  
**MEMBER**

Sd/-  
**(ASHOK BASU)**  
**CHAIRMAN**

New Delhi dated the 4<sup>th</sup> April 2005