

**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.154/2004

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 Vindhyaachal Super Thermal Power Station Stage – II.

And in the matter of

National Thermal Power Corporation Ltd. ... Petitioner

Vs

1. Madhya Pradesh State Electricity Board, Jabalpur
 2. Maharashtra State Electricity Board, Mumbai
 3. Gujarat Electricity Board, Vadodara
 4. Chhattisgarh 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 S.K. Sharma, Sr. Mgr (C), NTPC
2. Shri S.K. Johar, DGM(C), NTPC
3. Shri R.B. Pandey, Sr. Mgr (F), NTPC
4. Shri C.S. Gupta, AGM(C), NTPC
5. Shri C.P. Sahoo, Sr. Supdtt. (V), NTPC
6. Shri V.B.K. Jain, NTPC
7. Shri I.J. Kapoor, NTPC
8. Shri D. Khandelwal, SE, MPSEB
9. Shri Deepak K. Shrivastava, EE(Comml.), MPSEB

ORDER
(DATE OF HEARING: 23.12.2004)

Through this petition, the petitioner seeks approval for the revised fixed charges in respect of Vindhyachal Super Thermal Power Station Stage –II (Vindhyachal STPS-II) for the period 1.4.2001 to 31.3.2004 after considering the impact of additional capital expenditure incurred during the period.

2. Vindhyachal STPS-II comprises of two units of 500 MW each. The generating station was commissioned on 1.10.2000. The Central Government in Ministry of Power by its letter dated 31.10.2001 had accorded approval for the cost estimate of Rs.2593.05 Crore excluding FERV of 108.95 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.77/2002) was filed by the petitioner for approval of tariff for the period from 1.4.2001 to 31.3.2004 in respect of Vindhyachal STPS-II, 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 1.8.2003. For the purpose of tariff, the capital cost of Rs.2392.11 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 Crore)				
	2001-02	2002-03	2003-04	Total
Total additional expenditure on the generating station (A)	64.822	91.955	(-)5.492	151.286
Exclusions				
FERV capitalized (B)	28.426	75.390	(-)3.865	99.951
Balance payment of works not admitted (C)	(-)0.085	(-)0.142	(-)0.102	(-)0.328
Replacement Exclusion (D)	(-)3.653	(-)0.184	0.000	(-)3.837
Sub Total Exclusions (E=B+C+D)	24.688	75.065	(-)3.966	95.786
Additional capital expenditure Claimed (A-E)	40.134	16.891	(-)1.526	55.499

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. Additional capitalisation as per books of accounts is Rs.151.286 Crore, including FERV of Rs.99.551 Crore. However, as the impact of FERV is being claimed separately from the respondent beneficiaries, the total claim after excluding FERV is Rs.51.335 Crore. The petitioner has claimed additional capitalisation of Rs.55.499 Crore. The difference is because of re-inclusion of certain assets decapitalised from books of accounts on being declared unserviceable and inter-unit temporary transfers. The year-wise and category-wise break up of additional expenditure claimed by the petitioner is as follows:

(Rs. in Crore)

Details of additional capitalization claim	2001-02	2002-03	2003-04	Total
(A) Within the Scope of approved Cost or Admitted works by GOI/CERC after date of commercial operation				
Balance payment against admitted works (category-10A)	13.829	3.916	(-)7.643	10.101
New works within approved Revised Cost Estimates (category-21A)	24.530	7.146	0.775	32.451
Spares within approved cost (Category – 22A)	1.820	5.827	5.340	12.987
Sub Total (A)	40.179	16.889	(-)1.528	55.539
(B) Others				
Replacement (Category – 23)	0	0	(-)0.037	(-)0.037
Inter-Unit Transfers	0	0.002	0.040	0.042
Rearrangement (Category-24)	(-)0.045	0.000	0.000	(-)0.045
Sub-total (B)	(-)0.045	0.002	0.003	(-)0.040
Total of additional Capitalisation claimed (A+B)	40.134	16.891	(-)1.526	55.499

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

9. The expenditure claimed for additional capitalisation and our decisions thereon are as under:

(a) **Balance Payment against admitted works**

The balance payment against works already admitted by GOI/CERC of Rs.10.101 Crore claimed in the petition is in order and has been allowed.

(b) **New works within the approved cost**

The petitioner has claimed capital expenditure of Rs.32.451 Crore on new works within the approved cost. The items covered under this head are civil works relating to ash handling system, bridges and culverts, office equipment, miscellaneous tools and plants, cars, air conditioners, furniture, computers, accommodation for employees, recreation facilities for employees, communication system, etc. These items are allowed to be capitalised considering the fact that these works/assets are within the approved cost and have been procured within initial years after the date of commercial operation.

(c) **Spares within the approved cost**

The petitioner has claimed additional capitalisation of Rs.12.987 Crore for spares within the original approved cost. The admitted capital cost of Rs.2392.11 Crore by the Commission vide order dated 1.8.2003 in petition No.77/2002 includes initial capital spares of Rs.19.84 Crore. After including the additional expenditure of Rs.12.987 Crore claimed by the petitioner on spares, the amount of spares capitalised would stand at Rs.32.827 Crore which is 1.37% of the admitted cost. The cost estimates approved by the Central Government vide letter dated 31.10.2001 includes initial spares for

an amount of Rs.48.53 Crore. Therefore, the initial capital spares of Rs.38.827 Crore are in order and capitalisation of these spares for the purpose of tariff has been allowed.

(d) Others

- (i) **Replacement** – An amount of Rs.0.037 Crore has been indicated on account of de-capitalisation of the obsolete miscellaneous items bought at the time of construction. New items as replacement have been purchased and capitalised under “New works within approved cost”. As such, de-capitalisation of Rs.0.037 Crore has been allowed.
- (ii) **Inter-Unit Transfer** – An amount of Rs.0.042 Crore has been capitalised on permanent inter-unit transfer of furniture, sofa, ARN router, A.Cs etc. from other stations. The representative of the petitioner during the hearing has confirmed that value of these assets had been de-capitalised from books of accounts of the corresponding stations from which the transfers have been effected. Such permanent transfers from other stations are need-based and have been allowed.
- (iii) **Rearrangement of accounting code** – An amount of (-) Rs.0.045 Crore has been indicated under this head. Normally, rearrangement of accounting code shall lead to “zero” sum. However, the petitioner has submitted that these are on account of shifting of items from one account code to other account code. Some of the entries are on account of

transfer of assets from VSTPS Stage-I. Net balance of this item Rs.(-)4,47,026/-. There is a corresponding positive entry from VSTPS Stage-I. However, it has been verified from the additional capitalisation petition of VSTPS-I that the positive entry under re-arrangement head is for Rs.3,08,883/- only and is not matching with the amount claimed. In view of this, we have ignored the rearrangement for the purpose of tariff for both VSTPS-I and VSTPS-II.

10. Based on the above, the following additional capital expenditure has been allowed.

(Rs. in Crore)				
Details of additional capitalisation	2001-02	2002-03	2003-04	Total
(A) Within the scope of approved cost or admitted works after the date of commercial operation				
Balance payment against admitted works	13.829	3.916	(-)7.643	10.101
New works within approved Revised Cost Estimates	24.530	7.146	0.775	32.451
Spares within approved cost	1.820	5.827	5.340	12.987
Sub-total (A)	40.179	16.889	-1.528	55.539
(B) Others				
Replacement	0	0	(-)0.037	(-)0.037
Inter-Unit transfers	0	0.002	0.040	0.042
Rearrangement	0	0	0	0
Sub-total(B)	0	0.002	(-)0.003	0.005
Total (A+B)	40.179	16.891	(-)1.525	55.544
Exclusions not permitted (C)				
Replacement	(-)0.085	(-)0.142	(-)0.102	(-)0.328
Sub-total (C)	(-)0.085	(-)0.142	(-)0.102	(-)0.328
Additional Capitalisation allowed (A+B+C)	40.094	16.749	(-)1.627	55.216

11. Next arises the question of revision of fixed charges for the period 1.4.2001 to 31.3.2004. In the order dated 31st 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 31st 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.

12. 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.

13. After taking into account the year-wise additional capitalisation as allowed, the capital cost for the purpose of tariff as on 31.3.2004 is worked out as follows:

(Rs. in Crore)

Gross Block as on 1.4.2001	2392.11
Additional Capitalisation for 2001-02	40.094
Gross Block as on 31.3.2002	2432.204
Additional Capitalisation for 2002-03	16.749
Gross Block as on 31.3.2003	2448.953
Additional Capitalisation for 2003-04	(-)1.627
Gross Block as on 31.3.2004	2447.326

14. As such, the opening gross block for the purpose of tariff for the period 2004-09 as on 1.4.2004 shall be Rs.2447.326 Crores.

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

Sd/-
(BHANU BHUSHAN)
MEMBER

Sd/-
(K.N. SINHA)
MEMBER

Sd/-
(ASHOK BASU)
CHAIRMAN

New Delhi dated the 4th April 2005