

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram:

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

Petition No.88/2005

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 Uri Hydroelectric Project

And in the matter of

National Hydroelectric Power Corporation Ltd..

... Petitioner

V/s

1. Punjab State Electricity Board, Patiala
2. Haryana Vidyut Prasaran Nigam Ltd., Panchkula
3. Delhi Transco Ltd., New Delhi
4. Uttar Pradesh Power Corporation Ltd., Lucknow
5. BSES Rajdhani Power Ltd., New Delhi
6. Rajasthan Rajya Vidyut Prasaran Nigam Ltd., Jaipur
7. BSES Yamuna Power Ltd., New Delhi
8. North Delhi Power Ltd., Delhi
9. Jaipur Vidyut Vitran Nigam Ltd., Jaipur
10. Power Transmission Corporation of Uttaranchal Ltd., Dehradun
11. Jodhpur Vidyut Vitran Nigam Ltd., Jaipur
12. Himachal Pradesh State Electricity Board., Shimla
13. Ajmer Vidyut Vitran Nigam Ltd., Jaipur
14. Power Development Department, Chandigarh
15. Power Development Department, Govt.of J&K, Srinagar Respondents

The following were present:

1. Er. P. Kaul, CE, NHPC
2. Er. P. Kumar, Dy. Manager, NHPC
3. Shri R.S. Batra, NHPC
4. Shri Joyant Kumar, NHPC
5. Shri Ansuman Ray, NHPC
6. Shri Naveen Samriya, NHPC
7. Shri P.K. Sarin, AM (F), NHPC
8. Shri V.K. Rattan, CE (CC), NHPC
9. Shri Ajay K. Arora, NHPC
10. Shri S.D. Tripathi, NHPC
11. Shri S.K. Meena, Engineer (E), NHPC
12. Shri T.P.S. Bawa, OSD (C), PSEB
13. Shri J. Verma, EE, UPPCL

ORDER
(DATE OF HEARING : 15.9.2005)

Through this petition, the petitioner seeks approval for the revised fixed charges in respect of Uri Hydroelectric Project (4X120 MW) (Uri HEP) for the period 1.4.2001 to 31.3.2004 after considering the impact of additional capital expenditure incurred during the period.

2. Uri HEP, comprising of four units was commissioned on 1.6.1997.
3. The revised investment approval for Uri HEP was accorded by Ministry of Power under its letter dated 12.1.1998, at a cost of Rs. 3333.00 Crore, including IDC of Rs.681.50 Crore.
4. 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. 61/2001) was filed by the petitioner for approval of tariff for the period from 1.4.2001 to 31.3.2004, the basis for which was the notification dated 26.3.2001. The tariff was approved by the Commission by its order dated 10.3.2005. For the purposes of tariff, the capital cost of Rs. 3363.83 Crore, as on 1.4.2001, was considered. The additional capitalisation for the period 1.4.2001 to 31.3.2004 was not considered while approving tariff for the period ending 31.3.2004.

5. The year-wise details of additional capitalisation on works (excluding FERV) claimed by the petitioner are as follows:

(Rs. in lakh)

Additional Capital expenditure claimed	2001-02	2002-03	2003-04	Total
1. Works within the scope of approved cost - Balance payments				
(i) Balance Payments	555.94	2.69	0.02	558.65
(ii) New Works	16.11	0.31	7.37	23.79
Sub-total (1)	572.05	3.00	7.39	582.44
2. Works not within the scope of approved cost				
(i) Balance payments	11.96	0.00	0.00	11.96
(ii) Replacement of obsolete/ worn out equipment	25.53	23.56	12.80	61.89
(iii) Safety & security measures	2.75	7.56	0.17	10.48
(iv) Improvement in efficiency & performance	67.90	75.44	186.02	329.36
(v) Misc. assets incl. minor assets (less than Rs. 5000/-)	15.84	19.43	9.47	44.74
Sub-total (1+2)	123.98	125.99	208.46	458.43
3. Capital spares	0.00	132.46	96.69	229.15
4. Deletions	15.98	0.76	0.39	17.13
Net additions(1+2+3-4)	680.05	260.69	312.15	1252.89

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

7. 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."

ADDITIONAL CAPITALISATION

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

WORKS WITHIN THE SCOPE OF APPROVED CAPITAL COST

Balance Payments

9. Uri HEP was commissioned during June, 1997. An expenditure of Rs. 558.65 lakh has been incurred during the years 2001-04 on making balance payments pertaining to

construction period now settled and includes compensation for acquisition of land, TDS paid on the amount released from un-discharged liability, settlement of final account of the consortium involved in the construction of the project, PLCC system installed at Wagoora sub-station and payment made to the contractor for construction of bridges. The expenditure incurred seems to be justified and its capitalization has been allowed.

New works

10. An expenditure of Rs. 23.79 lakh has been incurred during the years 2001-04 on new works within the scope of approved cost. The works include expansion of school building for Kendriya Vidyalaya necessity for which was felt because of increase in higher classes every year. Accordingly, the amount on account of new works within the scope of approved project cost has been allowed to be capitalised.

WORKS NOT WITHIN THE SCOPE OF APPROVED CAPITAL COST- NEW WORKS UNDERTAKEN

New works- Balance payments

11. The petitioner has claimed an amount of Rs. 11.96 lakh towards balance payments on new works. The expenses under this head include capitalization of balance asset of analyser transferred from Chamera HEP in 1999-00 and balance payments of freight charges of 50 MVA generator transformer added during 2000-01. On prudence check it is observed that 50 MVA generator transformer, whose freight charges have been sought to be capitalized, was not allowed to be capitalized in Commission's order dated 10.3.2005 in Petition No. 61/2001 while approving tariff for the period ending 31.3.2004. Accordingly, its freight charges of Rs. 11.58 lakh claimed during 2001-02 have also not been allowed to be capitalised. However, capitalization of balance amount of Rs. 0.38 lakh on new works has been allowed.

Replacement of obsolete / worn out equipment

12. The petitioner has claimed capitalization of an amount of Rs 61.89 lakh during the period 2001-04 (Rs. 25.53 lakh in 2001-02, Rs. 23.56 lakh in 2002-03 and Rs. 12.80 lakh in 2003-04) on replacement of obsolete/worn out equipment. The assets/equipment claimed against replacement include cars and buses, air compressor, telephone exchange, tables, chairs, DG set, water tanks, voltage stabilizer, portable generator etc.

13. On perusal, it has been observed that while the new assets have been capitalized in 2001-02, 2002-03 and 2003-04, as per the submission of the petitioner, the old assets are to be surveyed off and most of these old assets have been proposed to be de-capitalized in 2004-05 or 2005-06. Thus, the petitioner may get benefit in gross block for new as well as replaced assets/equipment for 2 to 3 years. The respondents Ajmer Vidyut Vitran Nigam Ltd., Jaipur Vidyut Vitran Nigam Ltd and RRVNL have objected to this and have pleaded that the replaced assets may be decapitalised in the year of capitalization itself.

14. The Commission has in other cases taken a view that de-capitalization of the obsolete/ worn out assets should be simultaneous with the capitalization of new assets. Accordingly, the replaced assets need to be de-capitalized in the year of capitalization itself.

15. The petitioner has de-capitalised certain equipment and other assets acquired for construction of Uri HEP. While explaining the methodology adopted for decapitalisation of construction equipment and other similar assets acquired during the construction period, the petitioner has placed reliance on Note 2 below regulation 34 of the Commission's

notification dated 26.3.2004, which stipulates that any expenditure on replacement in case of old asset is to be considered after writing off the gross value of the original assets from the capital cost, except such items as are listed in clause (3) of this regulation.

16. The petitioner has explained that mostly these assets in the nature of automobile, transport equipment, construction equipment, furniture & fixtures and office equipment etc. were acquired during construction period to facilitate construction of different components of the project. In stead of acquiring, the assets could be taken on hire or lease and in that case hire or lease charges would have been capitalized as incidental expenses during construction. Similarly, the assets acquired during construction used for construction of main components of the project, get depreciated during construction period and the depreciation constitutes 'indirect cost' of the project, like any other indirect cost, including hire charges if assets are taken on hire/lease. The petitioner has stated that in compliance of the accounting norms, such assets are depicted in the balance sheet and has illustrated by taking hypothetical figures as under:

	(Rs. in crore)
Gross Value	100
Less provision for Depreciation	30
Net Block	70
Incidental Expenditure during construction (IEDC) Depreciation	30

17. It has been stated that depreciation of Rs. 30 crore appearing in IEDC along with other expenditure during construction period is capitalized along with the cost of main components of the project. Depreciation being the 'indirect cost' of construction period is added to the cost of main component on the date of commercial operation, as a compensating adjustment provision for depreciation relating to such assets is adjusted

against the gross value of such assets, otherwise gross block of the project as a whole will get increased by the amount of depreciation charged during construction.

18. In view of above, at the time of replacement of the old asset with a new asset, only Rs. 70 crore (as per above illustration) has been de-capitalised. The petitioner has substantiated his submission by the opinion given by an Expert Advisory Committee of the Institute of Chartered Accountants of India on the issue endorsing the methodology adopted a copy of which has been placed on record.

19. The explanation of the petitioner has been accepted. The assets acquired during construction have been de-capitalised after allowing depreciation up to the date of commercial operation. However, the assets acquired after the date of commercial operation and replaced have been de-capitalised at the gross value.

20. The justification given by the petitioner for replacement of obsolete/worn out equipment is generally satisfactory and has been accepted.

21. Year-wise details of additional capital expenditure claimed by the petitioner and net ACE allowed after considering de-capitalization of the replaced old/ worn out assets is given in the following table:-

(Rs. in lakh)			
Year	ACE claimed	De-capitalisation of replaced assets	Net ACE allowed
2001-02	25.53	4.78	20.75
2002-03	23.56	8.82	15.13
2003-04	12.80	1.87	16.71
Total	61.89	9.30	52.59

Safety and Security expenses

22. An amount of Rs. 10.48 lakh (Rs. 2.75 lakh in 2001-02, Rs. 7.56 lakh in 2002-03 and Rs. 0.17 lakh in 2003-04) has been claimed by the petitioner under the above category during the period 2001-04. The expenses claimed under this head are for CISF security personnel/ establishment deployed at the Uri hydro plant located in militancy prone area of J&K. The assets claimed to be capitalized include photo copier, wireless system for communication, bullet proofing of car for safety of official, door metal detector, gun metal fire pump, construction of garage for security personnel vehicles, siren etc. On consideration of the facts and circumstances, we allow capitalization of Rs. 10.48 lakh as claimed.

New works/equipment for improving efficiency and performance

23. Uri HEP was commissioned in the year 1997 and is about 8 years old. The petitioner has claimed additional capital expenditure of Rs. Rs. 329.36 lakh during 2001-04 (Rs. 67.90 lakh in 2001-02, Rs.75.44 lakh in 2002-03 and Rs.186.02 lakh in 2003-04) on procurement of new equipment and undertaking new works.

24. We have carried out prudence check from the point of view of necessity of various assets under this category for normal plant operation. Among the type of assets/equipment which have been added include winding workshop in the PH to facilitate maintenance work in power house, addl. DG set for alternate power supply under emergency at barrage, air compressor for maintenance work, computers & computers hardware like PCs, printers, UPS, scanners, LAN for upgrading & strengthening the IT system of the power station, boats for carrying out inspection in the upstream barrage and removal of trash in the barrage area, submersible pumps for

drainage & dewatering system in the barrage, variable voltage transformer for testing of electrical equipments in PH, wireless system for better communication between PH and barrage, battery bank, AC pumps set for oil handling unit, heavy duty hand drill, lathe etc.

25. The justification given by the petitioner for addition of these assets for reliable and efficient operation of the generating station is found to be in order, except for a total amount of Rs. 4.96 lakh. The year-wise break up of expenditure claimed for capitalization/de-capitalisation and that allowed is as follows:-

(Rs.in lakh)

Year	ACE claimed	ACE not allowed	Net ACE allowed
2001-02	67.90	1.06	66.84
2002-03	75.44	2.96	72.48
2003-04	186.02	0.94	185.08
Total	329.36	4.96	324.40

Miscellaneous assets including minor assets, costing less than Rs.5000/-

26. The petitioner has claimed capitalisation of an aggregate expenditure of Rs. 44.74 lakh (Rs 15.84 lakh in 2001-02, Rs 19.43 lakh in 2002-03 and Rs. 9.47 lakh in 2003-04) during 2001-04 on miscellaneous assets including minor assets costing less than Rs. 5000/-. The miscellaneous assets claimed under this category include air conditioners & colour TVs, water purifiers, cordless phones, sofa sets, chairs, water heaters, almirah, filing cabinets, vacuum cleaner, executive chairs, books cabinet and student tables for school, cash chest, Gynae table for project hospital, etc. In addition to above, there is long list of minor assets costing less than Rs. 5000/- which were added during the period 2001-04. These assets include life buoys, Resuscitator, room heaters, calculators, public address system, shamiana, carpet, blankets, hear convectors, chairs, tables, sofa sets, fans, mattresses, geysers, pressure cookers, Energy meters, emergency lights,

steel almirahs, fire extinguisher, water filters, computer tables, computer chairs, desk jet printer, computer accessories, telephone sets etc.

27. The respondents Ajmer Vidyut Vitran Nigam Ltd., Jaipur Vidyut Vitran Nigam Ltd, UPPCL and RRVNL have objected to capitalization of these items as, according to them, the expenditure is of regular nature, having been incurred every year during 2001-04.

28. The generating station is in operation for the last 8 years. The petitioner has not given specific location, adequate justification or necessity for adding most of the miscellaneous / minor assets. For example, the petitioner has added 333 nos. three phase energy meters at a cost of Rs. 2.75 lakh during 2002-03. The location of their installation and justification regarding the need for addition of such large number of energy meters has not been stated. As such, it will not be justified to add value of such assets to the capital base for tariff. Further, The petitioner was asked to de-capitalize the existing old assets so that a reasonable additional capitalization for assets under this head could be considered. However, the petitioner has not submitted any details of the old items (except in case of water heaters) to be replaced by new items. Hence capitalisation of such assets has not been allowed.

29. However, in case of certain other assets where specific location and adequate justification has been furnished or are otherwise considered necessary, capitalization of such assets has been allowed. The additional capitalisation claimed, additional capitalisation disallowed and additional capitalisation allowed for miscellaneous, and minor assets during the period 2001-04 is given in the following table:

(Rs. in lakh)			
Year	ACE claimed	ACE dis-allowed/ de-capitalized	ACE allowed
2001-02	15.84	5.70	10.14
2002-03	19.43	9.41	10.02
2003-04	9.47	3.33	6.14
Total	44.74	18.44	26.30

CAPITALIZATION OF SPARES

30. The petitioner has claimed an amount Rs. 229.15 lakh (Rs. 132.46 lakh in 2002-03 and Rs. 96.69 lakh in 2003-04) towards capitalization of spares, as per its accounting policy and based on Accounting Standard-2 of the Institute of Chartered Accountants of India. The capitalization of additional spares is over and above the reasonable spares already capitalized as initial spares within the approved capital cost. The generating station has been in operation for nearly 8 years. Capitalization of spares claimed by the petitioner cannot be allowed at this stage. However, the spares to the extent actually consumed for repairs & maintenance works during the years 2002-03 and 2003-04 may be considered as part of &M expenses.

DELETIONS

31. The petitioner has claimed de-capitalisation of Rs.17.13 lakh on construction machinery. Uri HEP was completed in the year 1997. The heavy construction machinery such as excavators, dumpers, dozers, tippers, compactors, tunneling equipment, cranes etc. acquired for construction has been de-capitalized by the petitioner during the years 2001-04.

32. De-capitalisation of an amount of Rs. 17.13 lakh for the construction equipment has been allowed during the period 2001-04. Year-wise break up of de-capitalized amount is as follows:

(Rs.in lakh)

Year	De-capitalization claimed	Amount De-capitalized
2001-02	15.98	15.98
2002-03	0.76	0.76
2003-04	0.39	0.39
Total	17.13	17.13

33. Based on discussions in the preceding paragraphs, the following additional capital expenditure has been allowed:

(Rs. in lakh)

Addl. Capital expenditure	ACE claimed	Additional capital expenditure allowed			
		2001-02	2002-03	2003-04	Total
1.Works within the scope of approved cost					
(i) Balance Payments	558.65	555.94	2.69	0.02	558.65
(ii) New Works	23.79	16.11	0.31	7.37	23.79
Sub-total (1)	582.44	572.05	3.00	7.39	582.44
2. Works not within the scope of approved cost					
(i) New Works	11.96	0.38	0.00	0.00	0.38
(ii) Replacement of obsolete/ worn out equipment	61.89	20.75	15.13	16.71	52.59
(iii) Safety & security measures	10.48	2.75	7.56	0.17	10.48
(iv) Improvement in efficiency & performance	329.36	66.84	72.48	185.08	324.40
(v) Misc. including minor assets	44.74	10.14	10.02	6.14	26.30
Sub-total (1+ 2)	458.43	100.86	105.19	208.10	414.15
3. Capital spares	229.15	0.00	0.00	0.00	0.00
4.Deletions (De- capitalization)	17.13	15.98	0.76	0.39	17.13
5. Net additions (1+2+3-4)	1252.89	656.93	107.43	215.10	979.46

ASSETS NOT IN USE

34. At the hearing, the petitioner was directed to submit list of assets (including construction machinery & equipment) not in use as on 1.4.2004. The petitioner has vide its letter dated 22.11.2004 submitted that there are no surplus assets, not in use as on 1.4.2004.

CAPITAL COST AS ON 1.4.2004

35. After taking into account additional capitalization considered above for the period 2001-04, the capital cost as on 1.4.2004 (excluding FERV) is worked out as follows-

	(Rs. in crore)
Capital cost as on 1.4.2001	3363.83
Additional capitalization for 2001-02	6.57
Capital cost as on 1.4.2002	3370.40
Additional capitalization for 2002-03	1.07
Capital cost as on 1.4.2003	3371.47
Additional capitalization for 2003-04	2.15
Capital cost as on 1.4.2004	3373.62
Assets not in use	0.00
Net Capital cost as on 1.4.2004	3373.62

36. The opening capital cost for the purpose of tariff for the period 2004-09 as on 1.4.2004 shall be Rs.3373.62 Crore.

Revision of Fixed Charges

37. 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, (NTPC V/s UPPCL & others), the Commission has held that the additional capital expenditure 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 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, cost of servicing of investment on this additional expenditure is to be reimbursed to the petitioner during tariff for 2004-09. Therefore, as per the decision in Petition No.139/2004, the impact of capitalisation of expenditure on return on equity and interest on loan for the period 1.4.2001 to 31.3.2004 will be worked out while approving tariff for Uri HEP for the period 1.4.2004 to 31.3.2009.

38. With the above observations the petition stands disposed of.

Sd/-
(BHANU BHUSHAN)
Member

Sd/-
(K.N. SINHA)
Member

Sd/-
(ASHOK BASU)
Chairperson

New Delhi, dated 3rd February, 2006