

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram:

1. Dr. Pramod Deo, Chairperson
2. Shri R.Krishnamoorthy, Member
3. Shri S.Jayaraman, Member
4. Shri V.S.Verma, Member

Petition No. 51/2009

In the matter of

Revision of transmission tariff due to additional capital expenditure incurred during 2007-08 for 400 kV D/C Mysore-Neelamangala transmission line along with Mysore sub-station and bay at Neelamangala under 400 kV D/C Mysore-Neelamangala Transmission system in Southern Region.

And in the matter of

Power Grid Corporation of India Limited, New Delhi

... **Petitioner**

Vs

1. Karnataka Power Transmission Corporation Ltd., Bangalore
2. Transmission Corporation of Andhra Pradesh Ltd., Hyderabad
3. Kerala State Electricity Board, Thiruvananthapuram
4. Tamil Nadu Electricity Board, Chennai
5. Electricity Department, Govt. of Pondicherry, Pondicherry... **Respondents.**

The following were present:

1. Shri U.K.Tyagi, PGCIL
2. Shri V.V.Sharma, PGCIL
3. Shri M.M.Mondal, PGCIL
4. Shri Mohd. Mohsin, PGCIL
5. Shri R.Krishnaswami, TNEB

**ORDER
(DATE OF HEARING: 21.5.2009)**

This petition has been filed for revision of transmission tariff on account of additional capital expenditure incurred during 2007-08 in respect of 400 kV D/C Mysore-Neelamangala transmission line along with Mysore sub-station and bay at Neelamangala (the transmission line) under 400 kV D/C Mysore-Neelamangala Transmission system (the transmission system) in Southern Region from 1.4.2007 to 31.3.2009, based on the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004,

(hereinafter referred to as “the 2004 regulations”). The petitioner has also prayed for reimbursement of the petition filing fee and other expenditure .in connection with the filing of the petition.

2. The administrative approval and expenditure sanction for the transmission system was accorded by Government of India vide letter dated 22.8.2003 at an estimated cost of Rs.3338 lakh, which included IDC of Rs. 15493 lakh, including IDC of Rs. 1488 lakh. The transmission line was declared under commercial operation on 1.5.2006.

3. The transmission charges for the transmission line were approved by the Commission in its order dated 19.2.2008 in Petition No. 127/2007 for the period 1.5.2006 to 31.3.2009 based on capital cost of Rs. 14020.14 lakh as on the date of commercial operation and Rs. 14414.82 lakh as on 31.3.2007, after considering additional capital expenditure of Rs. 394.68 lakh for the period 1.5.2006 to 31.3.2007. The summary of the transmission charges approved by the said order dated 19.2.2008 is extracted hereunder:

	(Rs. in lakh)		
	2006-07(Pro rata)	2007-08	2008-09
Depreciation	363.30	401.68	401.68
Interest on Loan	694.74	742.31	713.10
Return on Equity	488.48	541.18	541.18
Advance against Depreciation	0.00	0.00	0.00
Interest on Working Capital	50.57	56.38	57.27
O & M Expenses	394.56	447.34	465.50
Total	1991.65	2188.88	2178.72

4. The relevant details of the completion cost etc. of the transmission assets claimed by the petitioner are as under:

(Rs.in lakh)				
Capital expenditure up to 1.5.2006	Additional Capitalization during 2006-07	Capital expenditure as on 1.4.2007	Additional Capitalization during 2007-08	Capital expenditure as on 1.4.2008
14020.14 (As per order dated 19.2.2008)	394.68	14414.82	299.10	14713.92

5. Based on the above additional capital expenditure, the petitioner has claimed the revised transmission charges for the years 2007-08 and 2008-09 as under:

(Rs.in lakh)		
	2007-08	2008-09
Depreciation	405.52	409.36
.Interest on Loan	749.95	728.11
Return on Equity	547.45	553.73
Advance against Depreciation	0.00	0.00
Interest on Working Capital	56.68	57.88
O & M Expenses	447.34	465.50
Total	2206.94	2214.58

6. The details submitted by the petitioner in support of its claim for interest on working capital are given hereunder:

(Rs. in lakh)		
	2007-08	2008-09
Maintenance Spares	147.91	156.79
O & M expenses	37.28	38.79
Receivables	367.82	369.10
Total	553.01	564.68
Rate of Interest	10.25%	10.25%
Interest	56.68	57.88

7. The reply to the petition has been filed by the Tamil Nadu Electricity Board.

CAPITAL COST

8. The details submitted by the petitioner in support of its claim for additional capital expenditure are given hereunder:

Year	Amount (Rs. in lakh)	Nature and details of expenditure
2007-08	Sub-station	= Rs. 62.90 lakh
	Land	= Rs. 23.66 lakh
	Building and other civil work	= Rs. 6.56 lakh
	Transmission line	= Rs. 205.98 lakh
	Total	= Rs. 299.10 lakh
		Final retention payments and compensation payments

9. It is found that the additional capital expenditure claimed is in respect of committed liabilities. These are part of the deferred liabilities relating to works/services which have since materialised, and are within the original scope of work. Therefore, the additional expenditure sought to be capitalised is allowed under clauses (1) and (2) of Regulation 53 of the 2004 regulations.

TOTAL CAPITAL COST

10. Based on the above, capital cost for the purpose of tariff for transmission line as on 31.3.2008 works out as under:

(Rs. in lakh)				
Capital expenditure up to 1.5.2006	Additional Capitalization during 2006-07	Capital expenditure as on 1.4.2007	Additional Capitalization during 2007-08	Capital expenditure as on 1.4.2008
14020.14	394.68	14414.82	299.10	14713.92

DEBT- EQUITY RATIO

11. The petitioner has considered the amount of additional capitalization in the debt-equity ratio of 70:30. This has been found to be in order. Accordingly, for the purpose of tariff, equity considered for the transmission line is as under:

(Rs. in lakh)						
Equity as on 1.5.2006 (As per order dated 19.2.2008)	Notional additional equity during 2006-07	Average equity for 2006-07	Equity as on 1.4.2007	Notional additional equity during 2007-08	Average equity for 2007-08	Equity as on 1.4.2008
3747.14	118.40	3806.34	3865.54	89.73	3910.41	3955.27

RETURN ON EQUITY

12. As per clause (iii) of Regulation 56 of the 2004 regulations, return on equity shall be computed on the equity base determined in accordance with regulation 54 @ 14% per annum. Equity invested in foreign currency is to be allowed a return in the same currency and the payment on this account is made in Indian Rupees based on the exchange rate prevailing on the due date of billing.

13. Equity as given the table under para 11 above has been considered. The tariff for the years 2007-08 has been allowed on average equity. Accordingly, revised return on equity allowed each year is given as under:

(Rs. in lakh)

Return on equity	
2007-08	2008-09
547.46	553.74

INTEREST ON LOAN

14. Clause (1) of regulation 56 of the 2004 regulations *inter alia* provides that,-
- (a) Interest on loan capital shall be computed loan wise on the loans arrived at in the manner indicated in regulation 54.
 - (b) The loan outstanding as on 1.4.2004 shall be worked out as the gross loan in accordance with Regulation 54 minus cumulative repayment as admitted by the Commission or any other authority having power to do so, up to 31.3.2004. The repayment for the period 2004-09 shall be worked out on a normative basis.
 - (c) The transmission licensee shall make every effort to re-finance the loan as long as it results in net benefit to the beneficiaries. The costs associated with such re-financing shall be borne by the beneficiaries.
 - (d) The changes to the loan terms and conditions shall be reflected from the date of such re-financing and benefit passed on to the beneficiaries.
 - (e) In case of dispute, any of the parties may approach the Commission with proper application. However, the beneficiaries shall not withhold any payment ordered by the Commission to the transmission licensee during pendency of any dispute relating to re-financing of loan;
 - (f) In case any moratorium period is availed of by the transmission licensee, depreciation provided for in the tariff during the years of moratorium shall be treated as repayment during those years and interest on loan capital shall be calculated accordingly.
 - (g) The transmission licensee shall not make any profit on account of re-financing of loan and interest on loan;
 - (h) The transmission licensee may, at its discretion, swap loans having floating rate of interest with loans having fixed rate of interest, or vice versa, at its own cost and gains or losses as a result of such swapping shall accrue to the transmission licensee:

Provided that the beneficiaries shall be liable to pay interest for the loans initially contracted, whether on floating or fixed rate of interest.”

15. In our calculation, the interest on loan has been worked out as detailed below:

(a) Gross amount of loan, repayment of instalments as per the loan , rate of interest and weighted average rate of interest on actual loan have been considered as per order dated 19.2.2008 in Petition No. 127/2007.

(b) Notional loan arising out of additional capitalisation for the year 2007-08 has been added in loan amount as on 31.3.2007 to arrive at total Notional loan. This adjusted Gross loan has been considered as normative loan for tariff calculations.

(c) Tariff has been worked out considering normative loan and normative repayments. Once the normative loan is arrived at, it is considered for all purposes in the tariff. Normative repayments are worked out by the following formula:

$$\frac{\text{Actual repayment of actual loan during the year}}{\text{Opening balance of actual loan during the year}} \times \text{Opening balance of normative loan during the year}$$

(d) Moratorium in repayment of loan has been considered with reference to normative loan and if the normative repayment of loan during the year is less than the depreciation during the year, it has been considered as moratorium and depreciation during the year has been deemed as normative repayment of loan during the year.

(e) Weighted average rate of interest on actual loan worked out as per (i) above has been applied on the average loan during the year to arrive at the interest on loan.

16. Based on above, revised year-wise interest on loan has been worked out as under:

(Rs. in lakh)		
Details	2007-08	2008-09
Gross Normative Loan-Opening	10549.28	10758.65
Cumulative Repayment up to Previous Year/date of commercial operation	363.30	768.82
Net Loan-Opening	10185.98	9989.83
Addition due to Additional Capitalisation	209.37	-
Repayment during the year	405.52	409.36
Net Loan-Closing	9989.83	9580.47
Average Loan	10087.90	9785.15
Weighted Average Rate of Interest on Loan	7.43%	7.44%
Interest	749.95	728.11

17. The detailed calculations in support of the weighted average rate of interest are contained in Annexure attached.

DEPRECIATION

18. Sub-clause (a) of clause (ii) of Regulation 56 of the 2004 regulations provides for computation of depreciation in the following manner, namely:

(a) The value base for the purpose of depreciation shall be the historical cost of the asset.

(b) Depreciation shall be calculated annually based on straight line method over the useful life of the asset and at the rates prescribed in Appendix II to these regulations. The residual value of the asset shall be considered as 10% and depreciation shall be allowed up to maximum of 90% of the historical capital cost of the asset. Land is not a depreciable asset and its cost shall be excluded from the capital cost while computing 90% of the historical cost of the asset. The historical capital cost of the asset shall include additional capitalisation on account of Foreign Exchange Rate Variation up to 31.3.2004 already allowed by the Central Government/Commission.

(c) On repayment of entire loan, the remaining depreciable value shall be spread over the balance useful life of the asset.

(d) Depreciation shall be chargeable from the first year of operation. In case of operation of the asset for part of the year, depreciation shall be charged on pro rata basis.

19. Depreciation allowed has been worked out as below:

(Rs. in lakh)

	2007-08	2008-09
Gross block as on 1 st April of the year	14414.82	14713.92
Addition due to Additional Capitalisation	299.10	
Gross Block	14713.92	14713.92
Rate of Depreciation	2.7843%	2.7821%
Depreciable Value	12873.48	12997.43
Balance Useful life of the asset	-	-
Remaining Depreciable Value	12510.18	12228.61
Depreciation	405.52	409.36

ADVANCE AGAINST DEPRECIATION

20. As per sub-clause (b) of clause (ii) of Regulation 56 of the 2004 regulations, in addition to allowable depreciation, the transmission licensee is entitled to Advance Against Depreciation, computed in the manner given hereunder:

AAD = Loan repayment amount as per regulation 56 (i) subject to a ceiling of 1/10th of loan amount as per regulation 54 minus depreciation as per schedule

21. It is provided that Advance Against Depreciation shall be permitted only if the cumulative repayment up to a particular year exceeds the cumulative depreciation up to that year. It is further provided that Advance Against Depreciation in a year shall be restricted to the extent of difference between cumulative repayment and cumulative depreciation up to that year.

22. The petitioner has not claimed Advance Against Depreciation and, thereafter, Advance Against Depreciation has not been considered.

OPERATION & MAINTENANCE EXPENSES

23. In accordance with clause (iv) of Regulation 56 the 2004 regulations, the following norms are prescribed for O & M expenses:

	Year				
	2004-05	2005-06	2006-07	2007-08	2008-09
O&M expenses (Rs in lakh per ckt-km)	0.227	0.236	0.246	0.255	0.266
O&M expenses (Rs in lakh per bay)	28.12	29.25	30.42	31.63	32.90

24. O&M expenses as taken for the tariff calculations as per order dated 19.2.2008 in Petition No. 127/2007 have been considered, since line length and number of bays remain unchanged.

INTEREST ON WORKING CAPITAL

25. The components of the working capital and the interest thereon are discussed hereunder:

(i) Maintenance spares

Regulation 56(v) (1) (b) of the 2004 regulations provides for maintenance spares @ 1% of the historical cost escalated @ 6% per annum from the date of commercial operation. The petitioner has claimed maintenance spares after accounting for additional capital expenditure. For the purpose of computation of maintenance spares, the historical cost is being taken as the cost on the date of commercial operation. Maintenance spares on additional capital expenditure are not being considered for the present. Therefore, the petitioner's claim in this regard is not being allowed. Accordingly, maintenance spares have been worked out on the historical cost and providing escalation from the date of commercial operation.

(ii) O & M expenses

Regulation 56(v)(1)(a) of the 2004 regulations provides for operation and maintenance expenses for one month as a component of working capital. O&M expenses as considered in the order dated 19.2.2008 in Petition No. 127/2007 have been considered.

(iii) Receivables

As per Regulation 56(v)(1)(c) of the 2004 regulations, receivables will be equivalent to two months average billing calculated on target availability level. Accordingly, in the tariff being allowed, receivables have been worked out on the basis 2 months' transmission charges.

(iv) Rate of interest on working capital

As per Regulation 56(v) (2) of the 2004 regulations, rate of interest on working capital shall be on normative basis and shall be equal to the short-term Prime Lending Rate of State Bank of India as on 1.4.2004 or on 1st April of the year in which the project or part thereof (as the case may be) is declared under commercial operation, whichever is later. The interest on working capital is payable on normative basis notwithstanding that the transmission licensee has not taken working capital loan from any outside agency. The petitioner has claimed interest on working capital @ 10.25% based on SBI PLR as on 1.4.2006, which is in accordance with the 2004 regulations and has been allowed.

26. The necessary computations in support of revised interest on working capital, as revised, are appended herein below:

(Rs. in lakh)		
	2007-08	2008-09
Maintenance Spares	147.91	156.79
O & M expenses	37.28	38.79
Receivables	367.82	369.10
Total	553.02	564.68
Rate of interest	10.25%	10.25%
Interest	56.68	57.88

TRANSMISSION CHARGES

27. The revised transmission charges being allowed for the transmission line for the years 2007-08 and 2008-09 are summarised below:

(Rs. in lakh)		
	2007-08	2008-09
Depreciation	405.52	409.36
Interest on Loan	749.95	728.11
Return on Equity	547.46	553.74
Advance against Depreciation	0.00	0.00
Interest on Working Capital	56.68	57.88
O & M Expenses	447.34	465.50
Total	2206.95	2214.58

28. The petitioner shall recover from the respondent the additional transmission charges in three monthly instalments. The petitioner has also sought reimbursement of filing fee paid. The Commission by its separate general order dated 19.2.2008 in Petition No. 127/2007 has decided that the petitioner shall not be allowed reimbursement of the petition filing fee.

29. In addition to the transmission charges, the petitioner shall be entitled to other charges like income-tax, incentive, surcharge and other cess and taxes in accordance with the 2004 regulations.

30. This order disposes of Petition No.51/2009.

Sd/-	sd/-	sd/-	sd/-
(V.S.VERMA)	(S.JAYARAMAN)	(R.KRISHNAMOORTHY)	(DR.PRAMOD DEO)
MEMBER	MEMBER	MEMBER	CHAIRPERSON

New Delhi dated the 25th June 2009

Annexure**CALCULATION OF WEIGHTED AVERAGE RATE OF INTEREST ON LOAN**

(Rs. in lakh)

	Details of Loan	2006-07	2007-08	2008-09
1	Bond XVI			
	Gross Loan opening	4240.00	4240.00	4240.00
	Cumulative Repayment upto DOCO/previous year	0.00	0.00	0.00
	Net Loan-Opening	4240.00	4240.00	4240.00
	Additions during the year	0.00	0.00	0.00
	Repayment during the year	0.00	0.00	424.00
	Net Loan-Closing	4240.00	4240.00	3816.00
	Average Loan	4240.00	4240.00	4028.00
	Rate of Interest	7.10%	7.10%	7.10%
	Interest	301.04	301.04	285.99
	Repayment Schedule	10 Annual instalments from 18.2.2009		
2	Bond XVII			
	Gross Loan opening	4550.00	4550.00	4550.00
	Cumulative Repayment upto DOCO/previous year	0.00	0.00	0.00
	Net Loan-Opening	4550.00	4550.00	4550.00
	Additions during the year	0.00	0.00	0.00
	Repayment during the year	0.00	0.00	0.00
	Net Loan-Closing	4550.00	4550.00	4550.00
	Average Loan	4550.00	4550.00	4550.00
	Rate of Interest	7.39%	7.39%	7.39%
	Interest	336.25	336.25	336.25
	Repayment Schedule	10 Annual instalments from 22.9.2009		
3	Bond XVIII			
	Gross Loan opening	1385.00	1385.00	1385.00
	Cumulative Repayment upto DOCO/previous year	0.00	0.00	0.00
	Net Loan-Opening	1385.00	1385.00	1385.00
	Additions during the year	0.00	0.00	0.00
	Repayment during the year	0.00	0.00	0.00
	Net Loan-Closing	1385.00	1385.00	1385.00
	Average Loan	1385.00	1385.00	1385.00
	Rate of Interest	8.15%	8.15%	8.15%
	Interest	112.88	112.88	112.88
	Repayment Schedule	12 Annual instalments from 9.3.2010		
4	Bond XIX (Bridge financing from IOB replaced by Bond XIX on 24-7-06)			
	Gross Loan opening	98.00	98.00	98.00
	Cumulative Repayment upto DOCO/previous year	0.00	0.00	0.00
	Net Loan-Opening	98.00	98.00	98.00
	Additions during the year	0.00	0.00	0.00
	Repayment during the year	0.00	0.00	0.00

	Net Loan-Closing	98.00	98.00	98.00
	Average Loan	98.00	98.00	98.00
	Rate of Interest	8.85%	9.25%	9.25%
	Interest	8.67	9.07	9.07
	Repayment Schedule	12 Annual Installments from 24.7.2010		
5	Bond XXII (ADD CAP FOR 2006-2007)			
	Gross Loan opening	0.00	360.00	360.00
	Cumulative Repayment upto DOCO/previous year	0.00	0.00	0.00
	Net Loan-Opening	0.00	360.00	360.00
	Additions during the year	360.00	0.00	0.00
	Repayment during the year	0.00	0.00	0.00
	Net Loan-Closing	360.00	360.00	360.00
	Average Loan	180.00	360.00	360.00
	Rate of Interest	8.68%	8.68%	8.68%
	Interest	15.62	31.25	31.25
	Repayment Schedule	12 Annual Installments from 7.12.2010		
	Gross Loan opening	10273.00	10633.00	10633.00
	Cumulative Repayment upto DOCO/previous year	0.00	0.00	0.00
	Net Loan-Opening	10273.00	10633.00	10633.00
	Additions during the year	360.00	0.00	0.00
	Repayment during the year	0.00	0.00	424.00
	Net Loan-Closing	10633.00	10633.00	10209.00
	Average Loan	10453.00	10633.00	10421.00
	Rate of Interest	7.41%	7.43%	7.44%
	Interest	774.46	790.48	775.42