

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Petition No. 289/2009

Coram:

- 1. Shri S.Jayaraman, Member**
- 2. Shri V.S.Verma, Member**

DATE OF HEARING: 9.2.2010

DATE OF ORDER: 23.2.2010

In the matter of

Revision of transmission tariff due to additional capital expenditure incurred during 2008-09 for Neelamangala-Mysore 400 kV D/C transmission line along with 2x315 MVA 400/220 kV ICTs at Mysore sub-station and bay extension at Neelamangala (KPTCL) 400/220 kV sub-station for the tariff period 2004-09 in Southern Region.

And in the matter of

Power Grid Corporation of India Limited, Gurgaon **..Petitioner**
Vs

1. Karnataka Power Transmission Corporation Limited, 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
6. Eastern Power Distribution Company of Andhra Pradesh Limited, Vishakhapatnam
7. Southern Power Distribution Company of Andhra Pradesh Limited, Tirupati
8. Central Power Distribution Company of Andhra Pradesh Limited, Hyderabad
9. Northern Power Distribution Company of Andhra Pradesh Limited, Warangal
10. Bangalore Electricity Supply Company Ltd., Bangalore
11. Gulbarga Electricity Supply Company Ltd. Gulbarga
12. Hubli Electricity Supply Company Ltd., Hubli
13. MESCOM Corporate office, Mangalore
14. Chamundeswari Electricity Supply Corporation Ltd., Mysore.

.Respondents

The following were present:

1. Shri U.K.Tyagi, PGCIL
2. Shri M.M.Mondal, PGCIL
3. Shri Mohd. Mohsin, PGCIL

4. Shri R.Prasad, PGCIL
5. Shri R. Krishnaswami, TNEB

ORDER

This petition has been filed for revision of transmission tariff on account of additional capital expenditure in respect of Neelamangala-Mysore 400 kV D/C transmission line along with 2x315 MVA 400/220 kV ICTs at Mysore sub-station and bay extension at Neelamangala (KPTCL) 400/220 kV sub-station (the transmission assets) in Southern Region during the period from 1.4.2008 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, licence fee and other expenditure in connection with the filing of the petition.

2. The administrative approval and expenditure sanction for the transmission assets was accorded by Government of India vide letter dated 22.8.2003 at an estimated cost of Rs. 15493 lakh, including IDC of Rs. 1488 lakh at 2nd quarter of 2002 price level. The transmission line was declared under commercial operation on 1.5.2006.

3. The transmission charges for the transmission assets were approved by the Commission vide its order dated 19.2.2008 in Petition No. 127/2007 for the period 1.5.2006 to 31.3.2009 after accounting for additional capital expenditure of Rs. 394.68 lakh incurred up to 31.3.2007. The transmission charges for the transmission assets due to additional capital expenditure for the year 2007-08 were revised by the Commission

vide its order dated 25.6.2009 in Petition No. 51/2009 for the period from 1.4.2007 to 31.3.2009. The summary of the revised transmission charges approve by the said order dated 25.6.2009 is extracted hereunder:

(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

4. The relevant details of the capital expenditure of the transmission assets claimed by the petitioner are as under:

(Rs. in lakh)

Capital Expenditure as on 1.4.2008	Additional Capital Expenditure during 2008-09	Capital expenditure as on 1.4.2009
14713.92 (As per order dated 25.6.2009)	213.37	14927.29

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

(Rs. in lakh)

	2008-09
Depreciation	413.20
Interest on Loan	734.76
Return on Equity	558.22
Advance against Depreciation	0.00
Interest on Working Capital	58.14
O & M Expenses	465.50
Total	2229.82

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

(Rs. in lakh)

	2008-09
Maintenance Spares	156.79
O & M expenses	38.79
Receivables	371.64
Total	567.22
Rate of Interest	10.25%
Interest	58.14

7. The reply to the petition has been filed by Tamil Nadu Electricity Board (TNEB), which was received on 12.1.2010. The petitioner vide its affidavit dated 27.1.2010 has filed rejoinder on the reply of TNEB. TNEB vide its reply has contended that as per clause (4) of the regulations 53 of the 2004 regulations, impact of additional capitalization may be considered only twice in a tariff period and therefore, the present petition is not maintainable. TNEB however, has not indicated the two instances when tariff was revised during the period 2004-09 for considering the impact of additional capital expenditure. We find from the records that impact of additional capital expenditure on tariff revision was considered only once in the past vide order dated 25.6.2009 in Petition No. 51/2009. Accordingly, the objection of the respondent is not tenable. TNEB has also objected to considering wage revision under O & M expenses, publication expenditure and reimbursement of the petition filing fee. These concerns have been taken care of in the order.

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
2008-09	Sub-station = Rs. 213.37 lakh	Balance and retention payments
	Total = Rs. 213.37 lakh	

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 the transmission line as on 31.3.2009 works out as under:

(Rs. in lakh)			
Capital expenditure as on 1.4.2008	Additional expenditure during 2008-09	capital during	Capital expenditure as on 1.4.2009
14713.92		213.37	14927.29

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 assets is as under:

(Rs. in lakh)			
Equity as on 1.4.2008	Notional additional equity during 2008-09	Total equity considered as on 31.3.2009	Average equity for 2008-09
3955.27	64.01	4019.29	3987.28

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 in the table under para 11 above has been considered. The tariff for the year 2008-09 has been allowed on average equity. Accordingly, revised return on equity of Rs. 558.22 lakh has been allowed for the year 2008-09.

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 and rate of interest and weighted average rate of interest on actual loan have been considered as per order dated 25.6.2009 in Petition No. 51/2009. Bond XXIX has been utilised for additional capital expenditure during 2008-09.

(b) Notional loan arising out of additional capitalization for the year 2008-09 has been added in loan amount as on 31.3.2008 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. Normative repayments have been 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 (a) above has been applied on the average loan during the year to arrive at the interest on loan.

16. Based on above, revised interest on loan for the year 2008-09 has been worked out as under:

(Rs. in lakh)	
Details	2008-09
Gross Normative Loan-Opening	10758.65
Cumulative Repayment up to Previous Year	768.82
Net Loan-Opening	9989.83
Addition due to Additional Capitalisation	149.36
Repayment during the year	413.20
Net Loan-Closing	9725.99
Average Loan	9857.91
Weighted Average Rate of Interest on Loan	7.45%
Interest	734.76

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)
	2008-09
Gross block as on 1 st April of the year	14713.92
Addition due to Additional Capitalisation	213.37
Gross Block	14927.29
Rate of Depreciation	2.7880%
Depreciable Value	13093.45
Balance Useful life of the asset	-
Remaining Depreciable Value	12324.63
Depreciation	413.20

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. 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 of 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 1.4.2005, 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)

	2008-09
Maintenance Spares	156.79
O & M expenses	38.79
Receivables	371.64
Total	567.22
Rate of Interest	10.25%
Interest	58.14

TRANSMISSION CHARGES

27. The revised transmission charges being allowed for the transmission line for the year 2008-09 are summarised below:

(Rs. in lakh)

	2008-09
Depreciation	413.20
Interest on Loan	734.76
Return on Equity	558.22
Advance against Depreciation	0.00
Interest on Working Capital	58.14
O & M Expenses	465.50
Total	2229.82

28. The petitioner shall recover from the respondent the additional transmission charges in one instalment and these charges shall be shared in accordance with the 2004 regulations.

29. The petitioner has also sought reimbursement of filing fee paid. The Commission by its separate general order dated 11.9.2008 in Petition No. 129/2005 (Suo-motu) has decided that the petitioner shall not be allowed

reimbursement of the petition filing fee. The decision on licence fee shall be communicated separately.

30. 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.

31. This order disposes of Petition No. 289/2009.

Sd/-
(V.S.VERMA)
MEMBER

sd/-
(S.JAYARAMAN)
MEMBER

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 up to the date of commercial operation /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 up to the date of commercial operation /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 up to the date of commercial operation /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 up to the date of commercial operation /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 up to the date of commercial operation /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		
6	Bond XXIX (ADD CAP FOR 2008-2009) Drawl on 12-3-2009			
	Gross Loan opening	0.00	0.00	0.00
	Cumulative Repayment up to the date of commercial operation /previous year	0.00	0.00	0.00
	Net Loan-Opening	0.00	0.00	0.00
	Additions during the year	0.00	0.00	150.00
	Repayment during the year	0.00	0.00	0.00
	Net Loan-Closing	0.00	0.00	150.00
	Average Loan	0.00	0.00	75.00
	Rate of Interest	0.00%	0.00%	9.20%
	Interest	0.00	0.00	6.90
	Repayment Schedule	12 Annual Installments from 12.3.2013		
	Gross Loan opening	10273.00	10633.00	10633.00
	Cumulative Repayment up to the date of commercial operation /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	150.00
	Repayment during the year	0.00	0.00	424.00
	Net Loan-Closing	10633.00	10633.00	10359.00
	Average Loan	10453.00	10633.00	10496.00
	Rate of Interest	7.4089%	7.4342%	7.4535%
	Interest	774.4569	790.4755	782.3235