

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Petition No. 208/2009

Coram:

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

Date of Hearing: 17.12.2009

Date of order: 11.2.2010

In the matter of

Application for approval under Section 17(3) of Electricity Act, 2003 for creating Security in favour of security trustee pursuant to security trustee agreement, by way of mortgage on project assets for benefit of the lenders/security trustee to the project, through execution of indenture of mortgage for project C of Western Region Strengthening Scheme-II.

And in the matter of

1. Western Region Transmission (Gujarat) Pvt. Ltd., Mumbai
2. SBICAP Trustee Company Ltd., Mumbai

..... **Petitioners**

Vs

1. Maharashtra State Electricity Distribution Company Ltd., Mumbai
2. Gujarat Urja Vikas Nigam Ltd. Vadodara
3. Chattisgarh State Power Distribution Co. Ltd. Raipur
4. Electricity Deptt., Govt of Goa, Panaji
5. Electricity Deptt. Administration of Daman and Diu, Daman
6. Electricity Deptt., Govt. of UT of Dadra and Nagar Haveli, Silvass
7. Madhya Pradesh Audyogik Kendra Vikas Nigam Ltd., Indore
8. M.P. Power Trading Co. Ltd., Jabalpur

Respondents

The following was present:

1. Shri L.N.Mishra, RPTL
2. Shri Anil Rawal, RPTL
3. Shri Damodara Rao, RPTL

ORDER

The first petitioner herein, Western Region Transmission (Gujarat) Pvt. Ltd has been granted transmission licence under Section 14 of the Electricity Act,

2003 (the Act), to transmit electricity as a transmission licensee and for that purpose to construct, maintain and operate the transmission assets pertaining to Western Region System Strengthening Scheme-II, package-C, the details of which are specified in the schedule attached to the licence issued on 30.12.2008. In the present application, the petitioners have made following prayers:

- (a) Approve the creation of security in favour of Security Trustee pursuant to Security Trustee Agreement by way of mortgage on project assets through execution of indenture of mortgage for the project.
- (b) Pass such other relief as Hon`ble Commission deems fit and appropriate under the circumstances of the case and in the interest of justice"

2. According to the petitioners, request has been made for long-term debt through consortium of financial institutions [State Bank of India (SBI), India Infrastructure Finance Company Limited (IIFCL), Vijaya Bank (VB) , Bank of Maharashtra (BOM) and State Bank of Bikaner and Jaipur (SBBJ)], led by SBI and they have agreed to make available financial assistance amounting to approximately Rs. 329.70 crore for the purpose of part financing the construction, development and implementation of the project and on the terms and conditions set out in the `Common Loan Agreement`, `Inter Creditor Agreement`, Lenders Agent Agreement`, Security Trustee Agreement' and `

Trust and Retention Account Agreement` (hereinafter referred to as "Financing Agreements"). For this purpose, the first petitioner and lenders have appointed the second petitioner viz, SBICAP Trustee Co. Ltd. as Security Trustee (hereinafter referred to as `Security Trustee`). According to the petitioners, the Security Trustee has agreed to act as trustee for the lenders and hold the security to be created pursuant to the Financing Agreements in accordance with terms and conditions thereof for the benefit of the lenders based on Security Trustee Agreement dated 18.5.2009 entered into by the petitioners and lenders. It has been stated that the proposed indenture of mortgage has been settled and initialed between the first petitioner and Security Trustee.

3. The petitioners have proposed to agree under indenture of mortgage that it shall be lawful for the Security Trustee or lenders to enter into and take possession of the mortgaged premises along with all intangibles and any future assets under the project comprised in indenture of mortgage and thenceforth the first petitioner shall not take any action inconsistent with or prejudicial to the right of Security Trustee on behalf of lenders quietly to possess, use and enjoy the same and to receive the income, profits and benefits thereof without any interruption or hindrance by it or by any person or persons whatsoever. The petitioners have further stated that in view of the provisions of sub-section (3) and sub-section (4) of Section 17 of the Act, the first petitioner, as a licensee cannot assign the licence or transfer its utility or any part thereof to any person or enter into an agreement relating to any of these transactions

without approval of the Commission. Accordingly, the present petition has been filed wherein the petitioners have sought the Commission's prior approval for creating security in favour of Security Trustee pursuant to Security Trustee Agreement, by way of mortgage on facility together with all other amount whatsoever stipulated in the Financing Agreements through execution of indenture of mortgage for the project.

4. It is further stated that Implementation agreement signed between the first petitioner and Power Grid Corporation of India Limited and Power Transmission Agreement signed between the first petitioner and beneficiaries of the project provide that the first petitioner is free to create any encumbrance over all or part of the security package or the other assets of the project in favour of the lenders or the representatives of the lenders as security for;

- (a) Amount payable under the Financing Agreement; and
- (b) Any other amounts agreed by the parties:

Provided that,

- (i) The lenders or the representatives of the lenders shall have entered into the Financing Agreements; and
- (ii) Any encumbrance granted by the petitioners shall contain provisions pursuant to which the lenders or the representatives of the lenders agree unconditionally with

the petitioner to release such encumbrances upon payment, to the lenders, of all amounts due under the Financing Agreements.

5. Petition was heard after notice to all the parties. None was present on behalf of the respondents. No reply has been filed by any respondent.

6. We have considered the submissions made by the representative of the petitioners. Transmission projects are capital intensive projects requiring huge capital investment. These projects are financed through loans for which the recourse is against the project. Therefore, it is essential that to enable the licensee to avail the loan facility to set up the transmission project the licensee should be able to create security over the project assets, project documents and project licenses and approvals. In the event there is default under the financing documents, the lenders can then enforce their security by substituting the licensee by their nominee. However, it would be necessary at that point of time for the Commission to verify the credentials of such nominee of the lender to substitute the original licensee and to take over the project because the Commission will have to be satisfied about such nominee's capabilities (financial, technical and past experience) to set up and operate the transmission project. We are thus satisfied that the Security Trustee need to be given comfort by way of mortgage. We, therefore, accord our in principle approval allowing the applicant to create security in favour of Security Trustee

pursuant to Security Trustee Agreement by way of mortgage on project assets by execution of indenture of mortgage for the project. We, however, make it clear that the transmission licence granted by the Commission to the first petitioner cannot be assigned in favour of the nominee of the Security Trustee unless prior approval of the Commission has been obtained at the time of creating rights in favour of such nominee. Before agreeing to transfer of licence and the assets of the first petitioner to the nominee of Security Trustee, the Commission has to evaluate such a nominee's experience in development, design, construction, operation and maintenance of transmission lines, and to be able to execute the project and undertake transmission of electricity. The licensee, lender, security trustee and the nominee, accordingly, shall be jointly required to approach the Commission for seeking approval. This will give an opportunity to the Commission to satisfy itself of the circumstances necessitating such transfer. This decision of ours accords with Regulation 12 of the Central Electricity Regulatory Commission (Procedure, Terms and Conditions for grant of Transmission Licence and other related matters) Regulations, 2009 which reads as follows:-

"12. Assignment of Licence

In case of default by the licensee in debt repayment, the Commission may, on an application made by the lenders, assign the licence to a nominee of the lenders."

Accordingly, in case of default by the licensee in debt repayment, the Commission may, on a joint application made by the licensee, lenders, security trustee and the nominee, approve the assignment of the licence to a nominee of the lenders. Therefore, specific prior approval of the Commission

for assigning the licence to the nominee of Security Trustee or transfer of any assets to them shall always be needed. Lastly, finance documents and statements may be filed by the petitioner as and when required by the Commission for any specific purpose.

7. With the above, Petition No. 208/2009 stands disposed of.

Sd/-
(V.S.VERMA)
MEMBER

sd/-
(S.JAYARAMAN)
MEMBER

sd/-
(DR.PRAMOD DEO)
CHAIRPERSON