

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Petition No. 149/2010

Coram:

- 1. Dr. Pramod Deo, Chairperson**
- 2. Shri S.Jayaraman, Member**
- 3. Shri V.S.Verma, Member**
- 4. Shri M.Deena Dayalan, Member**

DATE OF HEARING: 24.8.2010

DATE OF ORDER 27.9.2010

In the matter of

Revision of transmission tariff due to de-capitalization incurred during 2008-09 for Singrauli transmission system in Northern Region for the tariff block 2004-09.

And in the matter of

Power Grid Corporation of India Limited, Gurgaon
Vs

..Petitioner

1. Rajasthan Rajya Vidyut Prasaran Nigam Limited, Jaipur
2. Ajmer Vidyut Vitaran Nigam Ltd., Jaipur
3. Jaipur Vidyut Vitaran Nigam Ltd, Jaipur
4. Jodhpur Vidyut Vitaran Nigam Ltd, Jaipur
5. Himachal Pradesh State Electricity Board, Shimla
6. Punjab State Electricity Board, Patiala
7. Haryana Power Purchase Centre, Panchkula
8. Power Development Department, Govt. of J&K, Jammu
9. Uttar Pradesh Power Corporation Ltd, Lucknow
10. Delhi Transco Ltd, New Delhi
11. BSES Yamuna Power Limited, New Delhi
12. BSES Rajdhani Power Ltd., New Delhi
13. North Delhi Power Ltd., New Delhi
14. Chief Engineer, Chandigarh Administration, Chandigarh
15. Uttarakhand Power Corporation Ltd, Dehradun
16. North Central Railway, Allahabad
17. New Delhi Municipal Corporation, New Delhi

..Respondents

The following were present:

1. Shri U.K.Tyagi, PGCIL
2. Shri Mrs. Sangeeta Edwards, PGCIL
3. Shri M.M.Mondal, PGCIL

ORDER

This petition has been filed for revision of transmission tariff due to de-capitalization incurred in respect of 2008-09 for Singrauli transmission system (the transmission system) in Northern 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 transmission system associated with Singrauli STPS was approved by the Central Government in Ministry of Power vide its letter dated 8.1.1987 at a total cost of ₹25605.00 lakh.

3. The final transmission charges of the transmission system for the period from 1.4.2009 to 31.3.2009 approved by the Commission vide its order dated 30.11.2005 in Petition No. 102/2004 were revised vide order dated 22.1.2008.

The summary of the transmission charges approved by the said order dated 22.1.2008 is extracted hereunder:

(₹ in lakh)

	2004-05	2005-06	2006-07	2007-08	2008-09
Depreciation	346.56	346.56	346.56	346.56	346.56
Interest on Loan	0.00	0.00	0.00	0.00	0.00
Return on Equity	1651.73	1651.73	1651.73	1651.73	1651.73
Advance against Depreciation	0.00	0.00	0.00	0.00	0.00
Interest on Working Capital	111.13	115.13	119.40	123.80	128.55
O & M Expenses	1102.01	1146.01	1193.18	1238.77	1290.32
Total	3211.43	3259.44	3310.87	3360.86	3417.16

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

(₹ in lakh)

Capital cost as on 1.4.2008 (As per order dated 30.11.2005 read with order dated 22.1.2008)	De-capitalization during 2008-09	Capital cost as on 1.4.2009
23596.16	(-)121.28	23474.88

5. The petitioner has claimed the revised transmission charges for the year 2008-09 as under:

(₹ in lakh)

	2008-09
Depreciation	346.36
Interest on Loan	0.00
Return on Equity	1647.49
Advance against Depreciation	0.00
Interest on Working Capital	127.83
O & M Expenses	1265.65
Total	3387.33

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

(₹ in lakh)

	2008-09
Maintenance Spares	577.07
O & M expenses	105.47
Receivables	564.56
Total	1247.10
Rate of Interest	10.25%
Interest	127.83

7. No reply has been filed by any respondents.

CAPITAL COST

8. The details submitted by the petitioner in support of its claim for de-capitalization are given hereunder:

(₹ in lakh)

Year	Nature and details of expenditure	Amount
2008-09	Sub-station- Bus Reactor	121.28

9. The petitioner has submitted 50 MVAR ACEC make Bus Reactor at Sarojini Nagar, Lucknow (UPPCL sub-station) tripped on REF and differential protection due to internal fault which subsequently led to fire in the reactor causing complete damage to the reactor on 10.7.2008. Non-installation of this reactor is not affecting the power flow at Lucknow sub-station as it was installed for voltage regulation of the bus at Lucknow. The petitioner has further submitted audited capital cost up to 31.3.2009 duly certified by

Chartered Accountant. The reason given by the petitioner is justified. Therefore, de-capitalization of Rs. 121.28 lakh is allowed under clauses (4) of Regulation 53 of the 2004 regulations.

TOTAL CAPITAL COST

10. Based on the above, capital cost for the purpose of tariff in respect of the transmission assets as on 31.3.2009 works out as under:

(₹ in lakh)		
Capital cost as on 1.4.2008 (As per order dated 30.11.2005 read with order dated 22.1.2008)	De-capitalization during 2008-09	Capital cost as on 1.4.2009
23596.16	(-)121.28	23474.88

DEBT- EQUITY RATIO

11. The petitioner has claimed the amount of de-capitalization in the debt-equity ratio of 50:50. It is noted that the actual equity employed on the date of commissioning of the asset was 50% wherein the amount of bus reactor was included. Therefore, de-capitalization expenditure for the year 2008-09 has been considered in the ratio of 70:30 which is in accordance with regulation 54(1) of the 2004 regulations. Accordingly, for the purpose of tariff, equity considered for the transmission assets is as under:

(₹ in lakh)			
Equity as on 1.4.2008	Notional equity due to de- capitalization expenditure during 2008-09	Total equity considered as on 31.3.2009	Average equity for 2008-09
11798.08	36.38	11761.70	11779.89

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. However, tariff for 2008-09 have been allowed on average equity. Accordingly, return on equity has been allowed amounting to ₹1649.18 lakh for the year 2008-09.

INTEREST ON LOAN

14. Clause (i) 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. The entire loan was repaid up to 31.3.2004. The petitioner has not claimed interest on loan on account of the expenditure sought to be capitalised. Therefore, we have not considered interest on loan in tariff.

DEPRECIATION

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

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

- (ii) 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.
- (iii) On repayment of entire loan, the remaining depreciable value shall be spread over the balance useful life of the asset.
- (iv) 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."

17. In the present case, as noticed above, there was no outstanding loan as on 31.3.2009. As such, the remaining depreciable value was spread over from 2004-05 onwards during the tariff period. Cumulative depreciation of ₹106.73 lakh due to de-capitalisation of ₹121.28 during 2008-09 has been deducted from the cumulative depreciation recovered up to 31.3.2008 for working out the remaining depreciable value as on 1.4.2008.

18. Depreciation allowed has been worked out as below:

(₹ in lakh)

Details of Depreciation	2008-09
Gross block as on the date of commercial operation	23596.16
De-capitalisation during 2008-09	-121.28
Gross Block at the end of the year	23474.88
Rate of Depreciation	2.7105%
Depreciable Value	21099.17
Balance Useful life of the asset	12
Remaining Depreciable Value	4210.88
Depreciation	350.91

ADVANCE AGAINST DEPRECIATION

19. 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

20. 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.

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

OPERATION & MAINTENANCE EXPENSES

22. 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

23. O&M expenses as taken for the tariff calculations as per order dated 30.11.2005 read with order dated 22.1.2008 in Petition No. 102/2009 has been considered, since line length and number of bays remain unchanged.

INTEREST ON WORKING CAPITAL

24. 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. Accordingly, maintenance spares have been worked out on the historical cost and by 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 30.11.2005 read with order dated 22.1.2008 in Petition No. 102/2009 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 whether or not the transmission licensee has taken working capital loan from any outside agency. The petitioner has claimed interest on working capital @ 10.25% based on

SBI PLR as on 1.4.2004, which is in accordance with the 2004 regulations and has been allowed.

25. The necessary computations in support of interest on working capital are appended herein below:

(₹ in lakh)	
	2008-09
Maintenance Spares	577.07
O & M expenses	105.47
Receivables	565.61
Total	1,248.15
Rate of Interest	10.25%
Interest	127.94

TRANSMISSION CHARGES

26. The transmission charges being allowed for the transmission assets are summarised below:

(₹ in lakh)	
	2008-09
Depreciation	350.91
Interest on Loan	0.00
Return on Equity	1649.18
Advance against Depreciation	0.00
Interest on Working Capital	127.94
O & M Expenses	1265.65
Total	3393.68

27. The petitioner shall adjust/refund the revised transmission charges in accordance with the 2004 regulations.

28. 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 reimbursement of the licence fee shall be communicated separately.

29. This order disposes of Petition No. 149/2010.

sd/-	sd/-	sd/-	sd/-
(M.DEENA DAYALAN)	(V.S.VERMA)	(S.JAYARAMAN)	(Dr. PRAMOD DEO)
MEMBER	MEMBER	MEMBER	CHAIRPERSON