

**CENTRAL ELECTRICITY REGULATORY COMMISSION  
NEW DELHI**

**Petition No. 235/2009**

**Coram:**

**Shri S.Jayaraman, Member  
Shri M.Deena Dayalan, Member**

**DATE OF HEARING: 11.5.2010**

**DATE OF ORDER: 20.8.2010**

**In the matter of**

Revision of transmission tariff due to de-capitalization and additional capital expenditure incurred during 2008-09 for the tariff period 2004-09 for Ramagundam Transmission System including ICT at Khammam and Reactor at Gazuwaka in Southern Region.

**And in the matter of**

Power Grid Corporation of India Ltd., Gurgaon ..... **Petitioner**

**Vs**

1. Karnataka Power Transmission Corporation Ltd., Bangalore
2. Transmission Corporation of Andhra Pradesh Ltd., Hyderabad
3. Kerala State Electricity Board, Thiruvananthapuram
4. Tamilnadu Electricity Board, Chennai
5. Electricity Department, Govt. of Pondicherry, Pondicherry
6. Eastern Power Distribution Company of Andhra Pradesh Ltd., Andhra Pradesh
7. Southern Distribution Company of Andhra Pradesh, Andhra Pradesh
8. Central Power Distribution Company of Andhra Pradesh, Andhra Pradesh
9. Northern Power Distribution Company of Andhra Pradesh Ltd., Andhra Pradesh
10. Bangalore Electricity Supply Company Ltd., Karnataka

11. Gulbarga Electricity Supply Company Ltd., Karnataka
  12. Hubli Electricity Supply Company Ltd., Karnataka
  13. MESCOM Corporate Office, Karnataka
  14. Chamundeswari Electricity Supply Corporation Ltd., Karnataka
- .....**Respondents**

**The following were present:**

1. Sh. Mohd. Mohsin, Power Grid
2. Sh. R. Prasad, Power Grid
3. Sh. Rajeev Gupta, Power Grid
4. Sh. M. M. Mondal, Power Grid

**ORDER**

Through this petition Power Grid Corporation of India Ltd. has sought approval for allowing interest on loan on de-capitalisation and additional capitalization during 2008-09 and for revision of transmission tariff in respect of Ramagundam Transmission System including ICT at Khammam and Reactor at Gazuwaka in Southern Region.

2. The petitioner has made the following submissions:

(a) It has filed Petition No. 76/2009 with the prayer to approve de-capitalisation and additional capitalization for 2008-09 in view of efficient and successful operation of the project and to approve the reviewed transmission tariff due to de-capitalisation and additional capitalization.

(b) The Commission vide order dated 7.8.2009 in Petition No. 76/2009 has revised the transmission tariff for tariff period 2004-09 due to

de-Capitalization and additional Capitalization incurred during 2008-09 for Ramagundam Transmission System including ICT at Khammam and Reactor at Gazuwaka in Southern Region, in line with the tariff prayed by the petitioner.

- (c) A net additional capital expenditure of Rs. 205.21 Lakh was made on the said asset during 2008-09 (additional Capitalization of Rs. 293.07 Lakh and de-Capitalization of Rs. 87.86 Lakh). This net additional capitalization consists of a notional equity portion of Rs. 61.56 Lakh and Rs. 143.65 Lakh as notional loan.
- (d) This additional capital expenditure was incurred by borrowing loan of Rs. 205.00 Lakh for which an interest @ of 9.20% is payable.
- (e) Interest on loan amount for a year and afterwards ceases to exist where balance loan becomes less than the depreciation amount. The same was applied for calculation of transmission tariff for this asset due to de-Capitalization and additional Capitalization incurred during 2008-09 for tariff period 2004-09.
- (f) Although the petitioner is paying interest on the expenditure of Rs. 143.65 lakh (70% of net additional capital of Rs. 205.21 lakh), but no interest on the same is being recovered in the revised tariff resulting in revenue loss to the extent of interest on loan

component every year. As a result, the petitioner is not getting interest on apportioned notional loan amount of Rs. 143.65 Lakh @ 9.2% per annum amounting to Rs. 13.22 Lakh per annum for the additional capitalization amount of this asset and the cumulative impact of this loss will be a huge amount for the life of the asset.

(g) Similar is the case with analogous add-cap cases where in spite of putting loan for additional capitalization, the apportioned interest portion of the same shall not be payable as per the calculation methodology presently in vogue.

(h) The petitioner has therefore prayed that the interest on loan portion of the expenditure made by them be allowed by calculation of the add-cap tariff.

(i) The petitioner has therefore submitted that the loss on account of interest on loan amount be allowed by the Commission in exercise of its powers to "remove difficulties" and "power to relax" under Regulations 12 and 13 of 2004 regulations.

3. Tamil Nadu Electricity Board (TNEB) has filed reply to the petition. TNEB has submitted that the petitioner must have planned and finalized the funding pattern in 2007-08 for the additional capitalisation and de-capitalisation made during 2008-09. The petitioner has filed the present

petition three years after the cause of action arose. Therefore, the petition is not maintainable, being time-barred.

4. TNEB has further submitted that the petitioner is indirectly seeking amendment to the tariff regulations under the clause 'power to remove difficulties' which is not permissible. It has been further submitted that the petitioner is seeking interest on additional capitalized loan whereas as per the regulation, the tariff is determined based on the notional loan capitalized for tariff purposes. The petitioner has not filed any rejoinder to the reply of TNEB.

5. We have gone through the pleadings and heard the representatives of the parties present. In reply to a query of the Commission during the course of the hearing, the representative of the petitioner clarified that similar dispensation would arise in other petitions also involving de-capitalisation of old assets and additional capitalisation.

6. The petitioner has incurred a net additional capital expenditure of Rs. 205.21 lakh during 2008-09 (de-capitalisation of Rs. (-) 87.86 lakh and additional capitalization of Rs. 293.07 lakh). The petitioner has submitted that the additional capitalization has been funded by borrowing loan of Rs. 205.00 lakh at an interest of 9.20%. Thus the actual equity component in the net additional capital expenditure is only Rs. 0.21 lakh only.

7. As per the provisions of Regulation 54 of 2004 regulations, any additional capital expenditure admitted by the Commission shall be recovered in the debt equity ratio specified in Regulation 54. In accordance with the provisions of Regulation 54, the net amount of additional capitalization of Rs. 205.21 lakh has been apportioned between debt and equity in the ratio of 70:30. Depreciation is calculated considering the additional capitalisation and de-capitalisation. Depreciation is considered for repayment of loan on account of harmonious construction of the following provisions of the 2004 regulations:

(a) As per Regulation 56 (i) (f), "in case the moratorium period is availed of by the transmission licensee, depreciations provided for in the tariff during these years of moratorium shall be treated as repayment during these years and interest on loan capital shall be calculated accordingly.

(b) Regulation 56 (ii)(a)(iii) provides that on repayment of entire loan, the remaining depreciable value shall be spread over the balance useful life of the assets.

(c) Proviso to Regulation 56(ii)(b) provide that Advance Against Depreciation shall be permitted only if the cumulative repayment upto particular year exceeds the cumulative depreciation upto that year and Advance Against Depreciation shall be restricted to the

extent of the difference between cumulative repayment and cumulative depreciation upto that year.

The above provisions of the 2004 regulations clearly establish that depreciation allowed in tariff should be considered for repayment of loan.

8. In case of the transmission system, the entire loan was repaid by 31.3.2005. Therefore, the depreciation admissible to the petitioner is sufficient to cover the loan liability arising out of the additional capitalization for the year 2008-09. Due to this reason, the petitioner had not claimed any interest on loan on account of additional capital expenditure in Petition No. 76/2009. During 2008-09, depreciation allowed is only Rs. 619.37 lakh which is sufficient to cover the notional loan liability of Rs. 143.65 lakh arising out of additional capitalisation during 2008-09. Therefore, the petitioner does not have a case for interest on loan component of additional capitalisation when it is getting sufficient funds to cover the loan liability.

9. The expenditure on additional capitalisation has been apportioned between debt and equity in the ratio of 70:30. The notional equity of Rs. 61.56 lakh will fetch the petitioner Return on Equity @ 14% during 2008-09 and 17.481% for the period 2009-14 on perpetual basis, even though the actual equity invested is only Rs. 0.21 lakh. In our view, the interest of the petitioner has been adequately taken care of and there is no justifiable reason to allow interest on loan as claimed in the present petition.

10. Accordingly, Petition No. 235/2009 is dismissed being devoid of merit.

sd/-  
(M. DEENA DAYALAN)  
MEMBER

sd/-  
(S.JAYARAMAN)  
MEMBER