

11. Shr S.K. Meena, NHPC
12. Shr D.S. Ahluwalia, SM (F&A), NHPC
13. Shr, V.K. Kanjlia, NHPC
14. Shr R.K. Arora, XEN (T), HVPNL
15. Shr G.M Agrawal, Dy. CE (Comm), RVPN
16. Shr K.K. Mittal, XEN (ISP), RVPN
17. Shr D. Chandra, XEN, NREB
18. Shr Amarjeet Singh, S.E., NREB
19. Shr T.P.S. Bawa, S.E., PSEB
20. Shr S.R. Narasimhan, NRLDC
21. Shr H.C. Verma, EE, UPPCL
22. Shr S.P. Srivasta, Sr. AE, UPPCL

**ORDER (DATE OF HEARING
6.3.2003)**

The application for review has been filed by National Hydroelectric Power Corporation Ltd. (in short, NHPC) with a prayer for modification of the order dated 27.7.2002 in Petition No.62/2001, to the extent of errors alleged therein and on the grounds mentioned in the application, with a further prayer to modify and allow the Annual Fixed Charges for the power sold from Tanakpur Hydro Electric Project (in short, Tanakpur HEP) for the period from 2000-01 to 2003-04 as per para (J) of the application for review.

2. The Commission in its order dated 27.7.2002 in Petition No.62/2001 had approved tariff, which included fixed charges as well as the energy charges for the power sold from Tanakpur HEP to the respondents, based on the norms contained in the Commission's notification dated 26.3.2001. The prayer for review is confined to fixed charges only. The replies to the application for review have been filed on behalf of respondent No.1, Punjab State Electricity Board and respondent No.4, Uttar Pradesh Power Corporation Ltd.

3 The different issues raised in the application for review are discussed in the succeeding paragraphs.

Additional Capitalisation

4. Against Net additional capitalisation of Rs.2.84 crore (gross Rs. 11.82 crore -Rs.8.98 crore after adjustment of negative additional capitalisation during 1997-98 and 1998-99) claimed in the petition by NHPC, the Commission had allowed additional capitalisation of Rs.2.55 crore (net) for the years 1996-97 to 2000-01. Thus, the Commission did not allow additional capitalisation to the extent of Rs.0.29 crore, the details of which along with reasons for disallowing, were duly incorporated in the order. According to NHPC, in the petition it had claimed additional capitalisation of Rs.5.76 crore during 2000-01. However, Rs.0.05 crore had been disallowed as per the order. Therefore, the amount allowed should have been Rs.5.71 crore and not Rs.5.57 crore shown in the order. Accordingly, the amount of additional capitalisation allowed should have been Rs.2.69 crore instead of Rs.2.55 crore. NHPC has further submitted that the Commission has erred in not considering the amount of Rs.0.29 crore as part of O&M expenses during the period 1996-97 to 2000-01, after it had not allowed additional capitalisation of this amount.

5. We have considered the submissions. NHPC in the petition had claimed additional capitalisation of Rs.5.76 crore during 2000-01. However, subsequently through its letter dated 21.3.2002, which forms part of record of the Commission, NHPC had submitted the revised figure of Rs.5.62 crore for additional capitalisation during

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2000-01 and this amount has been considered by the Commission. Out of this sum, Rs.0.05 crore was disallowed. Accordingly, the amount of Rs.5.57 crore has been correctly allowed to be capitalised during 2000-01. Accordingly, there is no error while considering claim of NHPC for additional capitalisation. As regards consideration of Rs.0.29 crore as part of O&M expenses, the matter deserves to be addressed separately under the head "O&M expenses". On these considerations, we do not feel it appropriate to allow review of order dated 27.7.2002 on the issue of additional capitalisation and the prayer of NHPC is, therefore, rejected.

Gross Block as on 31.3.1996

6. As we have noticed in para 4 above, the Commission had allowed additional capitalisation of Rs.2.55 crore during 1996-97 to 2000-01. This amount has been considered for the purpose of arriving at gross block as on 31.3.2001. However, NHPC, in its application for review has submitted that the Commission should have added Rs.2.69 crore, instead of Rs.2.55 crore for the purpose of calculating gross block as on 31.3.2001. The submission of NHPC is based on the presumption that a sum of Rs.0.14 crore has been less allowed towards additional capitalisation during 2000-01. In view of our finding in para 5 above that additional capitalisation has been correctly computed, we do not find any error in deducing gross block of Rs.379.97 crore as on 31.3.2001. Therefore, the contention of NHPC for review of gross block as on 31.3.2001 is also rejected.

Effect of Additional Capitalisation on Debt and Equity and Return on Equity

7. The Commission in Para 12 of its order dated 27.7.2002 had observed that financing of additional capital expenditure had been considered from the Govt of India loan raised during 1996-1997 and the balance amount was considered from equity. The return on equity and interest on loan were allowed by considering equity and loan so arrived at. It has been stated that no additional equity had been provided by the Central Government, therefore, additional capitalisation ought to have been considered by the Commission as met out of the loans arranged by NHPC and the balance amount, if any, was to be considered as financed through internal resources. It has been further averred that additional capitalisation is from debt only.

8. The Commission for the purpose of return on equity had considered the equity of Rs.91.32 crore. It is submitted by NHPC that equity of Rs.93.19 crore was received by it from the Central Government for Tanakpur HEP, the details of which, duly audited by the statutory auditors of the corporation were given in the prescribed proforma. According to NHPC, return on equity has to be allowed on the actual equity employed. NHPC, therefore, seeks review of order with a further prayer that equity of Rs.93.19 crore should be considered for the purpose of return thereon.

9. NHPC in its petition had furnished details of opening gross block of Rs.377.42 crore as on 31.3.1996. This was considered by the Commission for the purpose of tariff. NHPC had further claimed additional capitalisation during the years 1996-97 to 2000-01. Against the net claim of Rs.2.84 crore, the Commission had allowed

additional capitalisation of Rs.2.55 crore (net). In this manner, the Commission arrived at a gross block of Rs.379.97 crore as on 31.3.2001. The details of the amount claimed and those allowed by the Commission are given below :-

(Rs. in crore)

Year	As claimed	As allowed
1996-97	0.97	0.97
1997-98	(-)8.11	(-)8.11
1998-99	(-)0.87	0.87
1999-2000	5.23	4.99
2000-01	5.62	5.57
Total	2.84	2.55

10. The basic grievance of NHPC appears to be in regard to source of funding of additional capitalisation for the period 1996-97 to 2000-01. The Commission in its order dated 27.7.2002 had held that financing of additional capitalisation had been considered from loan first and from equity thereafter. The allocation of additional capitalisation in this manner would not have affected NHPC's equity. Further, NHPC in its petition had not claimed any additions or reductions in equity of Rs.93.19 crore considered by the Central Government while notifying tariff with effect from 1.4.1996. However, in effect, the amount of equity has been reduced from Rs.93.19 crore to Rs.91.32 crore and consequently the return on equity, for which the order dated 27.7.2002 does not specify the reasons. In our opinion, the matter needs to be deliberated upon in detail so far as the source of financing of additional capitalisation is concerned and a decision to be arrived at thereafter. Accordingly, we allow review on the manner of financing of additional capitalisation and its impact on equity and loan for the purpose of calculation of return on equity and interest on loan with effect from 1.4.2001.

Depreciation

11. The Commission, for the purpose of tariff, had considered the weighted average depreciation rate of 2.22% and it allowed depreciation of Rs.8.39 crore to be recovered through tariff each year during 2001-02 to 2003-04. For the purpose of calculation of depreciation, the amount of Rs.2.02 crore, the cost of initial spares was excluded and depreciation was calculated on gross block of Rs.377.95 crore.

12. It has been pointed out by NHPC that amount of Rs.2.02 crore could not be excluded for the purpose of calculation of depreciation as the initial spares capitalised are recoverable through depreciation only. Therefore, according to NHPC, depreciation ought to have been worked out on the gross block without deducting the amount of initial spares and has sought review of order on this count also. The respondents in their replies have not questioned the maintainability of review.

13. On perusal of the order dated 27.7.2002 it is revealed that based on the weighted average depreciation rate of 2.22%, the depreciation has been allowed on the gross block of Rs.377.95 crore which excludes initial spares of Rs.2.02 crore. The order does not state the reasons for exclusion of initial spares for the purpose of recovery of depreciation. Therefore, we allow review on this count also.

O&M Expenses

14. We have noted the contention of NHPC that in a case, where additional capitalisation is not allowed, the relevant expenditure should have been considered as a

part of O&M expenses for the relevant period. This issue has already been dealt in ¶ para 4 & 5 above. As we have already noted that an amount of Rs.0.29 crore was not allowed by the Commission to be capitalised. The NHPC have further contended that the Commission in its order of 27.7.2002 had not allowed the expenses on account of incentive under the category "staff welfare expenses", claimed by NHPC in the petition as part of O&M expenses. According to NHPC, the incentive is payable and has been paid as "staff welfare expenses." to all employees and is considered as a part of salary and irrespective of any profit from the project and, therefore, should be considered as O&M expenses for the relevant years. NHPC seeks review of O&M expenses allowed in the Commission's order dated 27.7.2002 on these two counts. The replies filed by the respondents are silent on the maintainability of review of O&M expenses sought by NHPC. The respondents have though submitted that O&M expenses allowed by the Commission are very high and further review may hike them further.

15. So far as the question of considering the amount of Rs.0.29 crore not allowed to be capitalised is concerned, we are of the opinion that this issue needs further deliberation and decision by the Commission. Therefore, we allow review of O&M expenses on this count. However, as regards payment of incentive to the staff under the head "staff welfare expenses", NHPC has submitted before the Commission that incentive being paid was the productivity-linked bonus under Section 31A of the Payment of Bonus Act, 1965. That being the position, the incentive paid by NHPC to its employees has the effect of increasing its productivity, which enables it to earn incentive from respondents, in addition to normal tariff approved by the Commission. Therefore,

we do not feel that the productivity-linked bonus paid by NHPC to its employees as incentive should qualify to be considered as a part of O&M expenses for the purpose of tariff. In our opinion this expenditure should be met out of incentive earned by NHPC for achieving higher productivity. Therefore, we do not allow review of O&M expenses for the purpose of consideration of "staff welfare expenses".

Interest on Loan

16. The Commission in its order dated 27.7.2002 had allowed Rs.2.03 crore, 1.43 crore and 0.91 crore respectively dury 2001-02, 2002-03 and 2003-04 on account of interest on loan. NHPC in the application for review has submitted that after review as prayed for, there will be a reduction in the amount of interest on loan during the tariff period and has sought review. In our opinion, reconsideration and decision on manner of financing of additional capitalisation during the period from 1996-97 to 2000-01 would necessitate review of interest on loan, allowed in order dated 27.7.2002. The decision on interest on loan being consequential to decision on the different issues considered in earlier part of this order is also amenable to review and is hereby allowed.

Interest on Working Capital

17. In accordance with the Commission's notification dated 26.3.2001, interest on working capital covers the following :

- (a) Operation and Maintenance expenses for one month;

- (b) Maintenance spares at actuals but not exceeding one year's requirements less value of one fifth of initial spares already capitalized for the first five years;
- (c) Receivables equivalent to two months of average billing for sale of electricity.

18. The issues on which review has been allowed as per our decision in the preceding paras will necessitate review of interest on working capital as some of the elements form the ingredient for calculation of working capital. Accordingly, the interest on working capital as component of tariff (fixed charges) will be considered based on decision on the issues on which review has been allowed as per this order. Thus interest on working capital allowed by the Commission in order dated 27.7.2002 shall also be subject to review.

Advance Against Depreciation

19. NHPC has also sought review of Advance Against Depreciation amounts allowed in tariff. We have allowed review of financing of additional capitalisation and its allocation between debt and equity, during the years 1996-97 to 2000-01. The recalculation of debt and interest thereon will have its impact on calculation of Advance Against Depreciation. Therefore, we allow review of amount of Advance Against Depreciation allowed in the order dated 27.7.2002 as consequential to the decision on debt and equity components of the gross block, as on 31.3.2001.

20. The entire Annual Fixed Charges will be required to be recalculated based on the decisions on the issues allowed to be reviewed.

21. Review petition is allowed to the extent indicated in the preceding paras of this order.

22. We direct that Petition No.62/2001 be set down for hearing on 12.8.2003. However, the respondents shall continue to pay tariff as approved by the Commission in its order dated 27.7.2002 till further orders.

23. With the above order, Review Petition No. 100/2002 stands disposed of.

(KM, SINHA) MEMBER

New Delhi dated the 19th May,
2003

**(G.S. RAJAMANI)
MEMBER**



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CHAIRMAN

CENTRAL ELECTRICITY REGULATORY COMMISSION

NEW DELHI

Coram:

- 1. Shri Ashok Basu, Chairman**
- 2. Shri G.S. Rajamani, Member**
- 3. Shri K.N. Sinha, Member**

Petition No. 106/2002

In the matter of

Approval under Section 13 (c) and (d) of the Electricity Regulatory Commissions Act, 1998

And in the matter of

Koyela Energy Resources P. Ltd. (KERPL) **Petitioner**

Vs

1. Grid Corporation of Orissa Ltd, Bhubaneshwar (GRIDCO)
2. West Bengal Power Dev. Corpn Ltd., Kolkata (WBPDCCL)
3. Punjab State Electricity Board, Patiala (PSEB) ..

Respondents

ORDER

This petition has been filed by Koyela Energy Resources Pvt. Ltd., a company registered under the Companies Act praying for an appropriate approval/clearance permitting the petitioner to market on behalf of GRIDCO and WBPDCCL available surplus electricity to any buying utility, particularly PSEB and an appropriate approval/clearance permitting the petitioner to undertake power marketing and trading activities.

2. KERPL, the petitioner, is a private limited company registered under the Companies Act, 1956. It has been stated by the petitioner that the Eastern Region is surplus in power by about 2000 MW during peak hours and 3200 MW during off peak hours. GRIDCO and WBPDCCL, two constituents of the Eastern

Region, surplus in power, intend to sell their surplus power comprising of unutilised allocated share from NTPC owned power stations in the Eastern Region to buyers in other regions. The petitioner is stated to have been appointed by GRIDCO as their sole marketing representative for sale of GRIDCO surplus power in Northern Region. The petitioner also proposes as stated in the petition to enter into an arrangement with WBPDCCL for buying surplus power and arranging its resale. The role of the petitioner in the process as stated in the petition is to identify the buyers, formalise sale agreements, ensure payment security, etc. The petitioner has stated that PSEB has decided to purchase 100/150 MW of power from Eastern Region constituents through KERPL and a Memorandum of Understanding to that effect has already been signed.

3. We have considered the petition.

4. The functions of the Commission are defined under Section 13 of the Electricity Regulatory Commissions Act, 1998 (for short, the Act). The primary functions of Commission as outlined in Section 13 of the Act are to regulate tariff of generating companies owned or controlled by Central Government, to regulate tariff of generating companies other than those owned or controlled by the Central Government, which enter into or otherwise have a composite scheme for generation and sale of electricity in more than one state, to regulate the inter-state transmission of energy including tariff of the transmission utilities and to promote competition, efficiency and economy in the electricity industry.

5. The terms and conditions for inter-state transmission (i.e. trading) have not been notified by the Commission so far. Pending this, the Commission vide its notification No. 7/2(5)/99-CERC dated 24.11.1999 had ordered that till such time, the regulatory framework for sale and purchase transactions involving inter-state transmission of energy is notified by the Commission, no specific approval from the Commission would be required for such transactions, subject to the condition that provisions of Indian Electricity Act, 1910, Electricity (Supply) Act, 1948 or any other laws or government order in force shall be complied with before such transactions involving inter-state transmission of energy are entered into.

6. The petitioner has already deposited filing fee of Rs. 10,000/-. The petitioner is directed to deposit the balance fee of Rs.90,000/- immediately.

7. With the above directions, the petition is disposed of.
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(K.N. SAINHA)
MEMBER

(G.S. RAJAMANI)
MEMBER

(ASHOK BASTI)
CHAIRMAN

New Delhi dated the 26th November 2002.

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram:

1. **Shri Ashok Basu, Chairman**
2. **Shri G.S. Rajamani, Member**
3. **Shri K.N. Sinha, Member**

Petition No. 70/2002

And in the matter of

Approval of tariff for one additional converter transformer (Spare) for Rihand-Dadri HVDC Bi-pole in Northern Region for the period from 1.4.2001 to 31.3.2004.

And in the matter of

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

Vs

1. Rajasthan Rajya Vidyut Prasaran Nigam Ltd, Jaipur
2. Himachal Pradesh State Electricity Board, Shimla
3. Punjab State Electricity Board, Patiala
4. Haryana Vidyut Prasaran Nigam Ltd, Panchkula
5. Power Development Department, Govt, of J&K, Srinagar
6. Uttar Pradesh Power Corporation Ltd., Lucknow
7. Delhi Vidyut Board, New Delhi
8. Chandigarh Administration, Chandigarh
9. Uttaranchal Power Corporation Ltd., Dehradun **Respondents**

The following were present:

- 1 Shr | S. S. Sharma, PGCIL
- 2 Shri | A.K. Nagpal, PGCIL
- 3 Shr | S.K. Jain, Manager (Law), PGCIL
- 4 Shr | R Prasad, PGCIL
- 5 Shri | Mahesh Kumar, PGCIL
- 6 Shri | R.K. Vohra, ED (CommI), PGCIL
- 7 Shri | M.K. Kulshrestha, PGCIL
- 8 Shri | R.N Pathak, ACE (CommI-LD), RVPNL
- 9 Shri | K.K. Mitta, XEN (ISP), RVPNL
10. Shri | R.K. Arora, XEN(Tariff), HVPNL
11. Shri Mahendra Kumar, EE, UPPCL
12. Shri D.D. Chopra, Advocate, UPPCL
13. Shri T.P.S Bawa, SE, PSEB

**ORDER (DATE OF HEARING
13.12.2002)**

The petition for approval of the transmission tariff for the period from 1.4.2001 to 31.3.2004 for one additional converter transformer (spare) for Rihand-Dadri HVDC Bi-pole in Northern Region has been filed by the PGCIL, the petitioner, based on the terms and conditions of tariff notified by the Commission.

Capital Cost

2. On security considerations, the need for procurement of a spare converter transformer at an estimated cost of Rs.20 crores for installation at Rihand-Dadri HVDC Bi-pole system was agreed to at 114th meeting of NREB held on 15.1.1998. Accordingly, the converter transformer procured by the petitioner has been installed at Rihand and has been under commercial operation since 1.10.2000. The Commission, vide its order dated 31.5.2002 in Petition No. 19/2001 has approved transmission tariff for these assets for the period from 1.10.2000 to 31.3.2001 based on an estimated cost of Rs.1,916.60 lakhs. While deciding on tariff for the earlier period, it came to notice of the Commission that the petitioner had recovered liquidated damages of Rs.75.66 lakhs during 2001-02. The Commission ordered that the benefits accruing to the constituents of Northern Region on account of liquidated damages recovered by the petitioner would be considered while approving tariff for the period from 1.4.2001 to 31.3.2004. Accordingly, the amount of Rs.75.66 lakhs, recovered by the petitioner has been adjusted towards capital cost. Therefore, the tariff will be calculated based on the capital cost of Rs. 1840.94 lakhs.

Financial Package

3. The project has been financed by the petitioner by employing its internal resources and without loan from any outside agency. The respondent has claimed tariff by considering the entire capital cost as equity. The respondents have objected to this, as according to them the petitioner should have claimed tariff based on debt-equity ratio of 4:1 or as approved in TEC by CEA. This issue was earlier raised by the respondents in Petition No. 19/2001. The Commission, in its order of 31.5.2002 in Petition No. 19/2001 after considering all the relevant facts has allowed tariff by considering the entire capital employed by the petitioner as equity and the different components of tariff were allowed accordingly. For the purpose of the present petition, we adopt the methodology followed by the Commission in its order dated 31.5.2002. Therefore, the entire amount of Rs. 1840.94 lakhs has been considered as equity.

Interest on Loan

4. In view of the position indicated above, no interest on loan is being allowed by us.

Interest on Working Capital

5. In accordance with the Commission's notification dated 26.3.2001, interest on working capital shall cover the following :-

- (a) Operation and maintenance expenses (cash) for one month,
- (b) Maintenance spares at a normative rate of 1% of the Capital cost less 1/5th of the initial capitalised spares. Cost of maintenance spares for each

subsequent year shall be revised at the rate applicable for revision of expenditure on O&M of transmission system; and

(c) Receivables equivalent to two months' average billing calculated on normative availability level.

6. While considering maintenance spares for the present tariff period, maintenance spares for the year 2000-01 considered by the Commission in its order dated 31.5.2002 have been escalated at the rate of 6% per annum from 2001-02 and onwards. The value of initially capitalised spares has been considered zero as per the petition. In accordance with the above methodology, the working capital calculated are as under :-

(Rs. in lakhs)

	2001-02	2002-03	2003-04
O&M expenses	0.00	0.00	0.00
Spares	19.35	20.14	21.34
Receivables	62.95	61.71	61.73
Total	82.30	81.85	83.07

7. The interest rate for the purpose of calculation of interest on working capital is to be the cash-credit rates prevailing at the time of tariff filing, as provided in the Commission's notification dated 26.3.2001. Accordingly, for the purpose of interest on working capital, SBI PLR rate of interest of 11.5%, as applicable on 1.4.2001, the start of the tariff period, has been considered though PSEB has contested that the petitioner should be entitled to claim interest at the rate of 9.5% per annum, which is the interest rate charged by Power Finance Corporation Ltd. The interest rate allowed by us is in accordance with the said notification dated 26.3.2001. The year-wise impact of interest on working capital, as calculated is given below :-

(Rs. in lakhs)

2001-02	9.46
2002-03	9.41
2003-04	9.55

Depreciation

8. The Commission in its notification dated 26.3.2001 has prescribed the rate of depreciation applicable to different assets. The weighted average rate of deprecation calculated in accordance with the Commission's notification dated 26.3.2001 works out to 3.60%. By this methodology the depreciation of Rs.66.27 lakhs during 2001-02 on a capital investment of Rs. 1840.94 lakhs is being allowed. Depreciation of Rs.66.27 lakhs per year has been allowed during 2002-03 and 2003-04.

Advance Against Depreciation

9. The petitioner is not entitled to claim advance against depreciation as the entire cost of the assets has been financed through equity and the advance against depreciation is relatable to recovery of loan.

Return on Equity

10. Return on equity @ 16% as per the Commission's notification dated 26.3.2001 has been allowed, which works out as under during the tariff period :

(Rs. in lakhs)

2001-02	300.60
2002-03	294.55
2003-04	294.55

O&M Expenses

11. The petitioner has not claimed O&M expenses on account of these assets and as such these are not being considered for the purpose of tariff.

Tariff

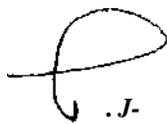
12. Based on the above methodology, the year-wise transmission charges allowed are as under:

(Rs. in hs)

	Particulars	2001-02	2002-03	2003-04
1	Interest on Loan	0.00	0.00	0.00
2	Interest on Working Capital	9.46	9.41	9.55
3	Depreciation	67.64	66.27	66.27
4	Advance against Depreciation	0.00	0.00	0.00
5	Return on Equity	300.60	294.55	294.55
6	0 & M Expenses	0.00	0.00	0.00
	TOTAL	377.70	370.23	370.37

13. In addition, the petitioner shall be entitled to other charges like incentive, recovery of income tax, development surcharge, rebate/late payment surcharge, etc in accordance with the Commission's notification dated 26.3.2001, subject to orders, if any, of the superior courts.

14. The petitioner has been billing the respondents provisional charges. The charges recovered by the petitioner on provisional basis shall be adjusted against the tariff approved above.



(K.N. SINHA)
MEMBER

New Delhi dated the
2003

(G.S. RAJAMANI)
MEMBER

23rd January,



(ASHOK BASU)
CHAIRMAN