

**CENTRAL ELECTRICITY REGULATORY COMMISSION  
NEW DELHI**

**Coram:**

1. **Shri Ashok Basu, Chairman**
2. **Shri K.N. Sinha, Member**

**Review Petition No. 47/2003  
in  
Petition No. 41/2002**

**In the matter of**

Review of the Commission's order dated 25.6.2003 in Petition No. 41/2002 (Tariff for 3<sup>rd</sup> 315 MVA ICT at Nagarjunasagar for the year 2001-2002).

**And in the matter of**

Tamil Nadu Electricity Board

.... **Petitioner**

**Vs**

1. Power Grid Corporation of India Ltd, Chennai
  2. Transmission Corporation of Andhra Pradesh Ltd., Hyderabad
  3. Karnataka Power Transmission Corporation Ltd, Bangalore
  4. Kerala State Electricity Board, Thiruvananthapuram
  5. Electricity Department, Pondicherry
- ..... **Respondents**

**The following were present:**

1. Shri S. Garg, DGM(JV), PGCIL
2. Shri Akhil Kumar, PGCIL
3. Shri Ashwani Nain, PGCIL
4. Shri S. Gopal, Manager (F), PGCIL
5. Shri U.K. Tyagi, DGM, PGCIL
6. Shri P.C. Pankaj, PGCIL
7. Shri C. Kannan, PGCIL
8. Shri A.K. Nagpal, PGCIL
9. Shri S. Sowmyanarayanan, TNEB
10. Shri R. Krishnaswami, TNEB

**ORDER  
(DATE OF HEARING: 15.9.2003)**

The petitioner, through this Petition seeks review of the Commission's order dated 25.6.2003 in Petition No. 41/2002.

2. Petition No. 41/2002 was filed by Respondent No.1, Power Grid Corporation of India Ltd. to seek the Commission's approval for tariff for the period from 1.4.2001 to 31.3.2004 for 315 MVA ICT at Nagarjunasagar, based on the terms and conditions notified by the Commission vide its notification dated 26.3.2001 by virtue of powers under Section 28 of the Electricity Regulatory Commissions Act, 1998. The tariff was decided by the Commission vide order dated 25.6.2003, presently sought to be reviewed. The review sought is limited to calculation of liability of the petitioner as also the respondents 2 to 5 on account of Foreign Exchange Rate Variation (FERV). The petition is listed for hearing on admission after notice to the respondents.

3. Clause 1.13 of the Commission's notification dated 26.3.2001 lays down the extra rupee liability of the beneficiaries of the generation/transmission assets and the same is reproduced below for facility of reference:

“(a) Extra rupee liability towards interest payment and loan repayment actually incurred, in the relevant year shall be admissible; provided it directly arises out of foreign exchange rate variation and is not attributable to Utility or its suppliers or contractors. Every utility shall follow the method as per the Accounting Standard – 11 (eleven) as issued by Chartered Accountants of India to calculate the impact of exchange rate variation on loan repayment”.

4. The Commission awarded FERV by considering the difference of exchange rate as on the date of commercial operation of the assets and as on 31.3.2001 which was capitalised on 1.4.2001 and tariff was allowed by dividing FERV amount into debt and equity.

5. According to the petitioner, the Commission has erred in allowing FERV. Relying upon a submission recorded in the Commission's order dated 22.8.2001 in Petition No. 49/2000 wherein it refers to the statement of an officer of the Respondent No.1 to the effect that the project was originally proposed to be executed from ADB funding but a new transformer was procured from domestic fund, it has been argued that since the assets have been financed through borrowings from the domestic market, Respondent No.1 was not entitled to any benefit on account of capitalisation of FERV. It has been next contended by the petitioner that repayment of loan is to commence with effect from 10.6.2004 and therefore, the impact of FERV could not be capitalised on 1.4.2001 by considering the exchange rate applicable as on 31.3.2001. It has been submitted that FERV amount can be considered to the extent of repayment made against the loan. It is further averred that the Commission has erred by apportioning the amount of FERV capitalised into equity and loan in the same ratio of actual debt equity on the date of commercial operation. Accordingly, the petitioner seeks review of the order dated 25.6.2003 in Petition No. 41/2002.

6. We have considered the averments made on behalf of the petitioner. Before considering the petitioner's challenge to the method employed by the Commission for capitalisation of FERV, it is necessary to deal with the fundamental issue of the petitioner's entitlement to FERV. As we have noted above, the petitioner has argued that since the loan was taken from domestic market, benefit of FERV should not be available. We do not find any merit in this

contention of the petitioner. It is on record that the petitioner had taken a loan in foreign currency from Bank of India. This fact has been duly admitted by the petitioner in its written statement and the present application for review wherein, in para 5, it is stated as under:

“The project cost for the installation of the 3<sup>rd</sup> transformer at Nagarjunasagar has been financed by loan and equity in the ratio of 52:48. The loan component consists of a foreign currency loan of US\$ 8.84 lakhs from Bank of India (BOI) out of 100 million US\$ loan sanctioned for the purpose of creation of capital assets for transmission of high voltage power. At the exchange rate of Rs.43.57 per US\$ as on 1.4.2001 this works out to Rs.385.16 lakhs”.

7. The repayment of loan as also the interest to Bank of India are to be made in foreign currency. The petitioner, therefore, becomes entitled to FERV in terms of Clause 1.13 of notification dated 26.3.2001, relevant part of which is already extracted above.

8. As per Accounting Standard 11 (AS 11) of the Institute of Chartered Accountants of India, FERV is allowed based on the exchange rate difference on the outstanding balance at the end of the year as well as on repayment of loan during the year. In this context, the relevant provisions of AS 11 are reproduced.

"7. At each balance sheet date:

a) monetary items denominated in a foreign currency (e.g. foreign currency notes, balances in bank accounts denominated in a foreign currency, and receivables, payables and loans denominated in a foreign currency) should be reported using the closing rate. However, in certain circumstances, the closing rate may not reflect with reasonable accuracy the amount in reporting currency that is likely to be realised or required to disburse, a foreign currency monetary item at the

balance sheet date, e.g. where there are restrictions on remittances or where the closing rate is unrealistic and it is not possible to effect an exchange of currencies at that rate at the balance sheet date. In such circumstances, the relevant monetary item should be reported in the reporting currency at the amount which is likely to be realised from, or required to disburse, such items at the balance sheet date;

- b) non-monetary items other than fixed assets which are carried in terms of historical cost denominated in a foreign currency, should be reported using the exchange rate at the date of the transaction;
- c) non-monetary items other than fixed assets, which are carried in terms of fair value or other similar valuation, e.g. net realisable value, denominated in a foreign currency, should be reported using the exchange rates that existed when the values were determined (e.g. if the fair value is determined as on the balance sheet date, the exchange rate on the balance sheet date may be used); and
- d) the carrying amount of fixed assets should be adjusted as stated in paragraphs 10 and 11 below.

“10. Exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets, which are carried in terms of historical cost, should be adjusted in the carrying amount of the respective fixed assets. The carrying amount of such fixed assets should, to the extent not already so adjusted or otherwise accounted for, also be adjusted to account for any increase or decrease in the liability of the enterprise, as expressed in the reporting currency by applying the closing rate, for making payment towards the whole or a part of the monies borrowed by the enterprise from any person, directly or indirectly, in foreign currency specifically for the purpose of acquiring those assets” (emphasis added).

9. A plain reading of the provisions of AS 11 would suggest that FERV is to be capitalised at the end of the year. In view of this provision, the Commission has taken a conscious view that FERV is to be capitalised on 31.3.2001 for adding in the gross block as on 1.4.2001 in the following manner.

Foreign loan outstanding as on 31.3.2001 x (Exchange Rate as on 31.3.2001 – Exchange Rate as on date of commercial operation /1.4.1992 as given in the petition whichever is later).

10. There is thus no error in the method of capitalisation of FERV on the date of commencement of tariff period, that is, 1.4.2001 since it accords with clause 1.13 of the notification dated 26.3.2001. The method has been followed uniformly in all the cases for approval of tariff by the Commission.

11. Similarly, we do not find any merit in the grievance made out by the petitioner in regard to allocation of the amount of FERV to debt and equity. Once FERV has been capitalised, the natural consequence is its distribution between debt and equity for the purpose of tariff, otherwise its capitalisation does not serve any purpose, whatsoever. Accordingly, the Commission has decided that FERV amount be added in the loan and equity as on 1.4.2001 in the debt-equity ratio in which the tariff for the period ending 31.3.2001 was allowed.

12. In the light of foregoing discussion, there is no error whatsoever much less an error apparent on the face of record, necessitating review of the order dated 25.6.2003. Accordingly, we hold that the review petition is without any merit and hence direct its dismissal at the admission stage itself, without any order as to costs.

Sd/-  
**(K.N. SINHA)**  
**MEMBER**

Sd/-  
**(ASHOK BASU)**  
**CHAIRMAN**

New Delhi dated the 25<sup>th</sup> September, 2003