CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI

Coram :
1. **Shri. Ashok Basu, Chairperson**
2. **Shri. Bhanu Bhushan, Member**
3. **Shri. A.H.Jung, Member**

Petition No. 186/2004

In the matter of

Approval of tariff in respect of Neyveli Thermal Power Station –I (600 MW) for the period from 1.4.2004 to 31.3.2009.

And in the matter of

Neyveli Lignite Corporation Ltd. ……**Petitioner**

Vs

Tamil Nadu Electricity Board ...**Respondent**

The following were present

1. Shri. R.Suresh. DGM (Commercial), NLC
2. Shri. A.Ganesan, CM (Finance), NLC
3. Shri. S.Sowmyanarayanan, Consultant, TNEB

ORDER
(DATE OF HEARING : 20.12.2005)

This petition has been filed by the petitioner, a generating company owned and controlled by the Central Government for approval of tariff in respect of Neyveli Thermal Power Station–I (600 MW) (hereinafter referred to as "the generating station") for the period 1.4.2004 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").

2. The generating station with a total capacity of 600 MW comprises of six units of 50 MW each and three units of 100 MW each. The dates of commercial operation of these units of the generating station are as follows :

Unit-1 (50 MW)	23.5.62
Unit-2 (50 MW)	23.1.63
Unit-3 (50 MW)	11.6.63
Unit-4 (50 MW)	27.10.63
Unit-5 (50 MW)	29.4.64
Unit-6 (50 MW)	24.8.65
Unit-7 (100 MW)	28.3.67
Unit-8 (100 MW)	12.2.69
Unit-9 (100 MW)	21.2.70

3. The generating station was under extensive R&M during April 1992 to March 1999 under the Life Extension Programme. As a consequence, the life of the generating station was extended by 15 years, that is, up to 2014.

4. The power generated from the generating station is supplied to the State of Tamil Nadu and thus the respondent is the sole beneficiary of the generating station. The petitioner had entered into a Bulk Power Supply Agreement (BPSA) with the respondent effective from 1.4.1997 to 31.3.2002.

5. The petitioner had filed Petition No.33/2004 for fixation of tariff for the period 1.4.2002 to 31.3.2004 and the Commission by its order dated 31.8.2004, directed as under :

> '… All the terms contained in the BPSA shall govern determination of tariff from 1.4.2002 to 31.3.2004 and the auxillary energy consumption shall be charged at the rate of 12%...'

6. The present petition was initially filed on 30.11.2004. Subsequently, the petitioner filed I.A.No.4/2005, for amendment of the petition and also filed the amended petition. The entire proceedings before the Commission were with reference to the amended petition.

7 . The details of the annual fixed charges, claimed by the petitioner are given hereunder:

(Rs. in lakh)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Interest on loan	109.88	283.45	545.49	739.33	775.22
Interest on Working Capital	2016.49	2041.42	2061.87	2089.38	2109.00
Depreciation	1880.81	2195.19	2059.95	2336.03	2360.57
Advance against Depreciation	0	0	0	0	0
Return on Equity	2087.92	2028.43	2035.82	2042.66	1969.32
O & M Expenses	9120.00	9486.00	9864.00	10260.00	10668.00
TOTAL	**15215.10**	**16034.49**	**16567.13**	**17467.40**	**17882.11**

8. The details of working capital furnished by the petitioner and its claim for interest thereon are summarized hereunder:

(Rs. in lakh)

	2004-05	2005-06	2006-07	2007-08	2008-09
Fuel stock	0	0	0	0	0
Lignite Stock	6102.59	6102.59	6102.59	6102.59	6102.59
Oil Stock	249	249	249	249	249
O & M expenses	760	791	822	855	889
Spares	1172	1242	1317	1396	1479
Receivables	10921	11058	11147	11297	11366
Total Working Capital	19205	19442	19637	19899	20086
Rate of Interest	10.50%	10.50%	10.50%	10.50%	10.50%
Interest on Working capital	**2016**	**2041**	**2062**	**2089**	**2109**

9. In addition, the petitioner has claimed energy charge at 145 paise/kWh of the electricity sent out, based on the lignite price of Rs 876/MT, as approved by the Board of Directors of the petitioner company for the year 2004-05.

10. The reply to the petition had been filed by the respondent, TNEB. The petitioner had published notices in the newspapers in accordance with the

procedure specified by the Commission. However, no objections or suggestions have been received in response to these notices.

11. A question regarding treatment of depreciation when it exceeds repayment of loan in a year has been raised by certain beneficiaries. In its order dated 5.5.2006 in petition No. 162/2004 (NTPC Vs UPPCL and another), the Commission has held that when depreciation recovered in a year is more than the amount of repayment during that year, the entire amount of depreciation is to be considered as repayment of loan for tariff computation. Similar approach has been adopted by the Commission, while approving tariff in respect of the transmission assets of PGCIL and the generating stations of NHPC. In the present case also, where the depreciation recovered in a year is more than the amount of repayment during that year, the entire amount of depreciation has been considered as repayment of loan for tariff computation as per the above decision.

CAPITAL COST

12. The second proviso to regulation 11 of the 2004 regulations, provides as follows:

> ‘ In case of existing generating stations, TPS-I and TPS-II (Stage I & II) of Neyveli Lignite Corporation Ltd, whose tariff was initially determined by following Net Fixed Assets approach based on mutual agreement between Neyveli Lignite Corporation Ltd and the beneficiaries, tariff shall continue to be determined by adopting Net Fixed Assets approach.’

13. The petitioner has claimed the capacity charges in line with the 2004 regulations, by following the net fixed assets approach.

14. As per the second proviso to regulation 17 of the 2004 regulations, in case of the existing generating stations, the capital cost admitted by the Commission for determination of tariff prior to 1.4.2004 shall form the basis for determination of tariff. The Commission had earlier allowed fixation of tariff for the period 2002-04, in terms of the Bulk Power Supply Agreement with the respondent, which was valid up to 31.3.2002 and without going into the capital cost. Hence capital cost for the purpose of tariff, for the period 1.4.2004 to 31.3.2009, is to be determined first.

15. The gross block, as per books of accounts of the petitioner, as on 31.3.2004, is Rs 41970 lakh and the net block as on 1.4.2004 comes to Rs.18623 lakh after adjusting the cumulative depreciation of Rs 23347 lakh recovered upto 31.3.2004. In addition, the petitioner has considered additional capitalisation of Rs 17527 lakh during 2004-09 block.

16. The respondent in its reply has disputed the net block of Rs 18623 lakh as on 1.4.2004, considered by the petitioner and has arrived at the opening net block of Rs 17318 lakh as follows :

(Rs in lakh)

Closing net block as on 31.3.2002 as per expired BPSA.	22147
Less-Depreciation recovered during 2002-03 & 2003-04 @ Rs 30.56 crore per annum.	(-) 6112
Add-NFA value of additional capitalisation of Rs 2454 lakh on account of LEP works as on 1.4.2004	1442
Less-Deferred revenue expenditure and F.E. adjustment	(-) 159
Net Block as on 1.4.2004	**17318**

17. It has been a practice under the BPSA, to adopt a capital base considering anticipated additional capitalisation at the beginning of fixation of tariff. Hence, the capital cost for the purpose of tariff is higher than the actual capital expenditure. Also, the actual depreciation recovery in tariff is different than the depreciation recovery as per books of accounts. Inspite of the Commission's directions dated 21.10.2005, to place on record the details of cumulative depreciation recovered in tariff till 31.3.2004, the petitioner had expressed its inability to file the same, as according to it, these details from the date of commercial operation of the generating station, were not available.

18. The Commission directed the parties to reconcile the differences, in the gross block and the net block as on 1.4.2004. Thereafter, the following position has emerged :

(i) The gross block of Rs. 41970 lakh as on 31.3.2004 in the books of accounts of the petitioner is based on actual capital expenditure, duly audited.

(ii) The net block of Rs 22147 lakh as on 31.3.2002 indicated by the respondent is as per the BPSA and represented mutually agreed net block, as on 31.3.2002.

(iii) Depreciation recovery of Rs 6112 lakh for 2002-03 and 2003-04 as per the respondent, is based on depreciation of Rs 3056 lakh for the year 2001-02, considered in the BPSA, whereas depreciation of Rs 5594 lakh is actually charged by the petitioner, for the period 2002-04.

(iv) The respondent has not been able to substantiate the net fixed asset value of Rs 1442 lakh corresponding to additional capitalisation of Rs 2454 lakh on account of LEP works as on 1.4.2004 and deferred revenue expenditure and FE adjustment of Rs 159 lakh. The actual additional capitalisation was Rs 3201 lakh during 2002-04.

19. Based on the above the capital cost for the purpose of tariff is worked out as under :

(Rs in lakh)

(a) Gross block as on 31.3.2004	**41970**
(b) Net block as on 31.3.2002	22147
(c)Less-Depreciation recovered during 2002-04 @ Rs 2797 lakh per year	(-) 5594
(d) Additional capitalisation as per actual expenditure prior to 1.4.2004	3201
(e) Net block as on 31.3.2004,as per BPSA.	19754
(f) Net block as on 31.3.2004 claimed by the petitioner	18623
(g) Net block for the purposes of tariff as on 31.3.2004	**18623**

20. The petitioner has claimed anticipated additional capitalisation of Rs 17527 lakh (without FERV) for the period 1.4.2004 to 31.3.2009. The amount of Rs 17527 lakh claimed under this head has not been considered for the purposes of tariff during 2004-09, since the claim is based on estimates. The petitioner is, however, at liberty to file a fresh petition in accordance with the 2004 regulations, after the expenditure has been actually incurred. Additional capitalisation will be considered, if found to be justified based on cost-benefit analysis.

21. The petitioner, vide affidavit dated 28.11.2005, has confirmed that all the assets included in the balance sheet of the generating station for 2003-04, were in use as on 1.4.2004. The petitioner has further submitted that no assets are found to be unserviceable as on 1.4.2004 and that the Gross Fixed Assets value of Rs.41970.63 lakh considered in the petition is serviceable for the period 1.4.2004 to 31.3.2009.

22. The petitioner has further submitted that capital cost considered for the purpose of tariff does not include capitalisation on account of FERV, since the claim on account of FERV was settled on repayment basis.

23. Based on the above, the following capital base as on 1.4.2004, for the purpose of tariff for the period 1.4.2004 to 31.3.2009, is allowed :

(Rs in lakh)

Gross block as on 1.4.2004	41970
Net block as on 1.4.2004	**18623**

DEBT-EQUITY RATIO

24. Clause (1) of regulation 20 of the 2004 regulations *inter alia* provides that in case of the existing generating stations, debt–equity ratio considered by the Commission for fixation of tariff for the period ending 31.3.2004 shall be considered for determination of tariff.

25. The petitioner has adopted the debt-equity ratio at 17:83 as on 31.3.2002, which was at the time of expiry of the BPSA. The petitioner has submitted that the Commission, in its order dated 31.8.2004 in Petition No. 33/2004, had directed that the BPSA as on 31.3.2002, would govern determination of tariff for the period ending 31.3.2004. The petitioner has

adopted the debt-equity ratio of 17:83, as on 31.3.2002, for the fixation of tariff for the period from 1.4.2004 to 31.3.2009.

26. The Commission has adopted the Net Fixed Assets approach, in case of the generating stations belonging to the petitioner. Therefore, the actual source of funding is to be considered for calculating the debt-equity ratio. In the present tariff computation, the actual debt and the equity are in the ratio of 17:83, based on the capital cost approved and the actual loan drawn and has been considered for the purposes of tariff.

TARGET AVAILABILITY

27. The petitioner has considered target availability of 75%, as notified by the Commission. Accordingly, target availability of 75% has been considered for recovery of full fixed charges and computation of fuel element in the working capital for the period from 1.4.2004 to 31.3.2009.

RETURN ON EQUITY

28. As per clause (iii) of regulation 21 of the 2004 regulations, return on equity shall be computed on the equity base determined in accordance with regulation 20 @ 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.

29. The petitioner has claimed return on equity @14%. The return on equity has been worked out with equity of Rs 15330 lakh (which corresponds to 82.3% of the net fixed assets value of Rs 18623 lakh) as on 1.4.2004,as the starting

point. Thereafter, during the tariff period, equity shall notionally come down year by year to the extent of depreciation charged in tariff minus the actual loan repayment. The charges on account of return on equity during the period 2004-09 works out as follows:

(Rs. in lakh)

	2004-05	2005-06	2006-07	2007-08	2008-09
Depreciation	1359	1359	1359	1359	1359
Loan repayment	603	222	41	82	82
Equity reduction	756	1137	1318	1277	1277
Equity opening	15330	14574	13437	12119	10842
Equity closing	14574	13437	12119	10842	9565
Average equity	14952	14006	12778	11480	10203
ROE	2093	1961	1789	1607	1428

INTEREST ON LOAN

30. Clause (i) of regulation 21 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 20.

(b) The loan outstanding as on 1.4.2004 shall be worked out as the gross loan as per regulation 20 minus cumulative repayment as admitted by the Commission for the period up to 31.3.2004. The repayment for the period 2004-09 shall be worked out accordingly on normative basis.

(c) The generating company shall make every effort to swap the loan as long as it results in net benefit to the beneficiaries. The costs associated with such swapping shall be borne by the beneficiaries.

(d) The changes to the loan terms and conditions shall be reflected from the date of such swapping and benefits passed on to the beneficiaries.

(e) In case any moratorium period is availed of by the generating company, 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.

(f) The generating company shall not make any profit on account of loan and interest on loan.

31. In the instant case, since NFA method has been adopted, loan repayment and interest on loan have been allowed as per actuals.

32. The necessary calculations in support of interest on loan are appended below:

CALCULATIONS OF INTEREST ON LOAN

(Rs. in lakh)

	2004-05	2005-06	2006-07	2007-08	2008-09
EURO 4.68M Loan- (Portion-I)					
Gross loan Opening	0	0	0	0	0
Cumulative repayments upto previous period	0	0	0	0	0
Net –Loan opening	2468.090	2468.090	2468.090	2427.200	2345.430
Addition due to drawal	0	0	0	0	0
Addition due to FERV	0	6	0	0	0
Repayment	0.00	0	40.89	81.77	81.77
Net Loan closing	2468	2468	2427.20	2345.43	2263.66
Average Loan	2468	3468	2448	2386.31	2305
Rate of Interest	1.95%	1.95%	1.95%	1.95%	1.95%
Interest	48.13	48.13	47.73	46.53	44.94
EURO 4.68M Loan- (Portion-II)					
Gross Loan Opening	0	0	0	0	0
Cumulative repayments upto previous period	0	0	0	0	0

Net –Loan opening	825	222	0	0	0
Addition due to drawal	0	0	0	0	0
Addition due to FERV	0	0	0	0	0
Repayment	603	222	0	0	0
Net Loan closing	222	0	0	0	0
Average Loan	524	111	0	0	0
Rate of Interest	9.31%	9.31%	9.31%	9.31%	9.31%
Interest	49	10	0	0	0
Total Loan					
Net –Loan opening	3293	2690	2468	2427	2345
Addition due to drawal	0	0	0	0	0
Addition due to FERV	0	6	0	0	0
Repayment	603.22	221.96	40.89	81.77	81.77
Net Loan closing	2690	2468	2427	2345	2264
Interest	97	58	48	47	45

DEPRECIATION

33. Sub-clause (a) of clause (ii) of regulation 21 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 life 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 capitalization 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.

34. The petitioner has calculated the weighted average depreciation rate of 5.12% (excluding land) based on the depreciation rates prescribed in Appendix-II (Depreciation schedule) to the 2004 Regulations. It has been noted that all the nine units of the generating station were given a fresh lease of life through Life Extension Programme (LEP) with effect from March 1999. Accordingly, the balance depreciation is spread over the remaining life of the generating station. As on 1.4.2004, the balance life of the generating station is 10 years, considering the extension of life of 15 years from 1.4.1999. Hence, the depreciation rate of 5.12% claimed by the petitioner is not relevant and is to be spread over the present balance useful life.

35. Depreciation has been allowed at opening gross block of Rs. 41970 lakh. The depreciable value of the generating station is 0.9 x (Rs.41970 lakh – Rs.925 lakh) = Rs 36941 lakh. Already an amount of Rs 23347 lakh has been recovered in depreciation up to 31.3.2004. Thus, the balance depreciation recoverable as on 1.4.2004 is Rs.13594 lakh. This amount has been spread over the balance useful life of 10 years as on 1.4.2004. The petitioner is entitled to an amount of Rs.1359 lakh each year during the tariff period on account of depreciation.

ADVANCE AGAINST DEPRECIATION

36. As per sub-clause (b) of clause (ii) of regulation 21 of the 2004 regulations, in addition to allowable depreciation, the generating company is entitled to Advance Against Depreciation, computed in the manner given hereunder:

> AAD = Loan repayment amount as per regulation 21 (i) subject to a ceiling of 1/10th of loan amount as per regulation 20 minus depreciation as per schedule

37. 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.

38. The petitioner has not claimed Advance Against Depreciation. Therefore, the petitioner's entitlement to Advance Against Depreciation is "nil".

O&M EXPENSES

39. The 2004 regulations have prescribed the following Operation and Maintenance expense norms for the generating station :

(Rs. lakh /MW)

Year	2004-05	2005-06	2006-07	2007-08	2008-09
O & M expenses	15.20	15.81	16.44	17.10	17.78

40. Based on the above norms, the petitioner has claimed O&M expenses for the generating station of 600 MW capacity as detailed below:

(Rs. in lakh)

Years	2004-05	2005-06	2006-07	2007-08	2008-09
O&M expenses	9120	9486	9864	10260	10668

41. O&M expenses claimed by the petitioner are in order and allowed.

INTEREST ON WORKING CAPITAL

42. In accordance with clause (v) of regulation 21 of the 2004 regulations, working capital in case of Coal based/Lignite-fired generating stations shall cover:

(i) Cost of coal or lignite for 1½ months for pit-head generating stations and two months for non-pit-head generating stations, corresponding to the target availability;

(ii) Cost of secondary fuel oil for two months corresponding to the target availability;

(iii) Operation and Maintenance expenses for one month;

(iv) Maintenance spares @ 1% of the historical cost escalated @ 6% per annum from the date of commercial operation; and

(v) Receivables equivalent to two months of fixed and variable charges for sale of electricity calculated on the target availability.

43. Under the 2004 regulations, the rate of interest on working capital shall be on a 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 generating station or a unit thereof is declared under commercial operation, whichever is later. Interest on working capital shall be payable on normative basis notwithstanding that the generating company has not taken working capital loan from any outside agency.

44. Working capital has been calculated considering the following elements:

(a) Lignite Cost : The lignite stock has been worked out for 1.5 months on the basis of operational parameters given in the 2004 regulations and weighted average price and GCV of lignite. The necessary details in this regard are given hereunder :

Description	As claimed	As allowed
Price of Lignite(Rs./MT)	876	797
GCV of Lignite(Kcal/kg.)	2737	2737.33

(b) **Secondary Fuel Oil :** The petitioner has considered price and GCV of secondary fuel oil as under :

Price of Secondary fuel oil (Rs./KL)	12625
GCV of Secondary fuel oil (Kcal./KL)	10000

The petitioner has stated that the furnace oil prices and LDO price prevailing during the preceeding three months of the tariff period .i e January 2004 to March 2004, were considered for arriving at the weighted average secondary fuel oil price at Rs 12625/KL, to arrive at the rate of energy charges with the secondary fuel.

It has been observed that the petitioner has actually procured only Furnace Oil in the months of January 2004 and February 2004 and has not procured any secondary fuel in March 2004. Secondary fuel for computation of energy charges indicate the unit price of fuels and not the amount charged. Further, the price of secondary fuel has been considered for the month of February 2004 only and not the weighted average for the months of January 2004 and February 2004, which works out to Rs

11916.19/MT. This has been considered and allowed. GCV of secondary fuel oil of 10000 Kcal/KL as claimed has been allowed. Accordingly, the fuel component in working capital for the purpose of the tariff for the period 2004-09, works out as follows:

(Rs in lakh)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Cost of Lignite for 1.5 months	5552.25	5552.25	5552.25	5552.25	5552.25
Cost of secondary fuel oil for two months	234.87	234.87	234.87	234.87	234.87

(c) **O & M expenses** : O& M expenses for working capital has been worked out for one month of O & M expenses approved above and are considered in tariff of the respective year.

(d) **Maintenance spares :** The petitioner had calculated the value of maintenance spares for the purpose of working capital considering additional expenditure after the date of completion. The claim of the petitioner for maintenance spares for working capital are as follows :

(Rs in lakh)

Year	2004-05	2005-06	2006-07	2007-08	2008-09
Amount claimed for maintenance spares	1172	1242	1317	1396	1479

The 2004 regulations do not provide for taking into account additional capital expenditure for working out the cost of maintenance spares for the working capital. Hence, the cost of maintenance spares for the working capital is computed on historical cost of Rs 7404 lakh as on 31.3.1970 (the closing date of the financial year in which the generating station was declared under commercial operation). The value of the spares as on 1.4.2004 works out to Rs 537 lakh.

(e) **Receivables** : As per the 2004 regulations, receivables equivalent to two months of fixed and variable charges, for sale of electricity calculated on target availability are the part of the working capital. The supporting calculations in respect of receivables considered are tabulated hereunder:

(Rs in lakh)

Variable Charges	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Lignite (Rs/kwh)	1.2804	1.2804	1.2804	1.2804	1.2804
Oil (Rs/kwh)	0.0406	0.0406	0.0406	0.0406	0.0406
Rs./kwh	1.3211	1.3211	1.3211	1.3211	1.3211
Variable Charges per year	45827	45827	45827	45953	45827
Variable Charges -2 months	7637.86	7637.86	7637.86	7658.79	7637.86
Fixed Charges - 2 months	2404.15	2438.31	2472.57	2510.54	2549.57
Receivables	**10042.01**	**10076.17**	**10110.43**	**10169.33**	**10187.62**

45. The average SBI PLR of 10.25% as on 1.4.2004 has been considered as the rate of interest on working capital during the tariff period 2004-05 to 2008-09.

46. The necessary details in support of calculation of interest on working capital are appended below:

Calculation of Interest on Working Capital

(Rs. in lakh)

	2004-05	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Fuel Cost	0	0	0	0	0
Lignite Stock- 1.1/2 months	5552	5552	5552	5552	5552
Oil stock -2 months	234.87	234.87	234.87	235.51	234.87
O & M expenses	760	791	822	855	889

Spares	537	569	603	639	678
Receivables	**10042.01**	**10076.17**	**10110.43**	**10169.33**	**10187.62**
Total Working Capital	17126	17223	17323	17466	17542
Rate of Interest	10.25%	10.25%	10.25%	10.25%	10.25%
Total Interest on Working capital	**1755**	**1765**	**1776**	**1790**	**1798**

ANNUAL FIXED CHARGES

47. A statement showing summary of the capital cost and other related matters is annexed to this order. The annual fixed charges for the period 1.4.2004 to 31.3.2009, allowed in this order are summed up as below:

(Rs. in lakh)

	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1	Interest on Loan	97	58	48	47	45
2	Interest on Working Capital	**1755**	**1765**	**1776**	**1790**	**1798**
3	Depreciation	1359	1359	1359	1359	1359
4	Advance Against Depreciation	0	0	0	0	0
5	Return on Equity	2093	1961	1789	1607	1428
6	O & M Expenses	9120	9486	9864	10260	10668
	TOTAL	**14425**	**14630**	**14835**	**15063**	**15299**

ENERGY /VARIABLE CHARGE

Lignite Transfer price.

48. The petitioner has stated that the energy charges of 145 paise/kWh claimed are subject to change in subsequent years based on the lignite transfer price to be decided by the petitioner every year. The lignite transfer price of Rs 876/MT considered by the petitioner, is based on supply of lignite from Mine-I, on stand alone basis and is not a pooled price.

49. The lignite transfer price of Rs 876/MT claimed by the petitioner, is not acceptable to the respondent. The 2004 regulations provide for considering weighted average fuel price and GCV for the three preceeding months of January 2004 to March 2004. The prevailing lignite transfer price during these three months was Rs 808/MT. This was also decided in the Board of the

petitioner company and endorsed by the Ministry of Coal, Government of India. As such, energy charges should have been computed by the petitioner based on lignite transfer price of Rs 808/MT.

50. The issue of lignite transfer price came up for consideration before the Commission in Petition No. 5/2002 on 20.10.2005.The Commission observed as follows :

> '… In the present petition, the petitioner has claimed energy charge @145 paise/kWh of the electricity sent out. In addition, the petitioner has also claimed capacity charge. The energy charge claimed by the petitioner is based on lignite price of Rs 876/MT approved by the Board of Directors of the petitioner company for the year 2004-05.The respondent has opposed the petitoner's claim of energy charge based on lignite transfer price of Rs 876/MT.The representative of the petitioner submitted that it may be allowed tariff based on lignite transfer price on provisional basis which may be adjusted after final determination of tariff. In the alternative, it was submitted by the petitioner that the lignite transfer price of Rs 797/MT presently being charged should be considered. The representative of the respondent disputed the correctness of the lignite price of Rs 797/MT indicated by the petitioner. He however could not give the exact price in this regard. The representative of the respondent undertook to furnish the details in this regard latest by 24.10.2005. The Commission will take a view on the transfer price to be considered for the purpose of provisional two-part tariff after 24.10.2005. Whatever decision is taken, it will be subject to review after transfer price is finally determined by the competent authority..'

51. The respondent has submitted that payment of energy charge is being made based on the transfer price of lignite of Rs 766.53/MT.The above rate is based on the rate as agreed to in the BPSA for the year 2001-02 at Rs 666/MT plus the increase due to addition of assets on ' as and when commissioned ' basis in Mines at Rs 50.53/MT and a royalty of Rs 50/MT. The petitioner in its affidavit dated 17.11.2005 has given the break-up of lignite transfer price as on 31.3.2002 as per BPSA conforming to a transfer price of Rs 797/MT. The

difference of Rs 30.47/MT is on account of the return on equity of 16% considered by the petitioner and return on equity of 12% considered by the respondent.

52. The lignite transfer price is an issue in all the tariff petitions filed by the petitioner and the Commission is separately looking into the matter. In the meanwhile, the Commission has to specify the capacity charge and the energy charge for the generating station to enable implementation of Availability Based Tariff.

53. We are not able to appreciate the unilateral reduction of lignite price by the respondent while releasing payments to the petitioner. The provisional energy charge is, therefore, allowed on lignite transfer price of Rs 797/MT, subject to adjustment after finalization of lignite transfer price by the Commission.

54. Accordingly, the base rate of energy charge works out to 132.11 paise/kWh as per the following computations based on fuel prices and GCVs.

Gross Station Heat Rate	kCal/kWh	3900.00
Specific Fuel Oil Consumption	ml/kWh	3.00
Aux. Energy Consumption	%	12.00
Weighted Average GCV of Oil	kCal/l	10000.00
Weighted Average GCV of Lignite	kCal/Kg	2737.33
Weighted Average Price of Oil	Rs./KL	11916.19
Weighted Average Price of Lignite	Rs./MT	797
Rate of Energy Charge ex-bus per kWh sent	**paise/kWh**	**132.11**

55. The petitioner has sought for reimbursement of filing fee of Rs.25 lakh paid. A final view on reimbursement of filing fee is yet to be taken by the Commission for which views of the stakeholder have been called for. The view

taken on consideration of the comments received shall apply in the present case as regards reimbursement of filing fee.

56. In addition to the charges approved above, the petitioner is entitled to recover other charges also like incentive, claim for reimbursement of Income-tax, other taxes, cess levied by a statutory authority, and other charges in accordance with the 2004 regulations, as applicable.

57. The petitioner is already billing the respondent on provisional basis in accordance with the Commission's interim directions. The provisional billing of tariff shall be adjusted in the light of final tariff now approved by us.

58. This order disposes of Petition No.186/2004.

Sd/-	**Sd/-**	**Sd/-**
(A.H. JUNG)	**(BHANU BHUSHAN)**	**(ASHOK BASU)**
MEMBER	MEMBER	CHAIRPERSON

New Delhi dated the 26th September,2006

SUMMARY SHEET						
Name of the Company				NEYVELI LIGNITE CORPN.		
Name of the Station				TPS-I (600 MW)		
Tarrif setting Period				2004-09		
Petition No.				186/2004		
						Rs.in lacs
1	**Capital Cost of the Project as on 31.3.2004**					**41970.00**
2	**Additional Capitalisation (works)**					**0**
3	**Additional Capitalisation (FERV)**					**0**
4	**Total Capital Cost as on 1.4.2004**					**41970**
5	**Net Fixed Assets at the beginning of the year i.e. 1-4-2004**					**18623**
6	**Means of Finance of Net Fixed Assets**					
	Debt	17.68%		3293.26		
	Equity	82.32%		15329.74		
	Total	100.00%		18623.00		
7	**Debt details-Notional Debt (Net) as on 1.4.2004**					**3293**
	Notional debt (Net) as on 1.4.2004					
	Actual Debt as on 31.3.2004			3293.26		
	Repayment upto 31.3.2004			0.00		
	Balance Debt			**3293.26**		
8	**Depreciation recovered upto 31.3.2004 :**					**23347**
					Total	
9	**Balance Depreciation to be recovered beyond 31.3.2009 :**					**6797**
	Capital cost for the purpose of Depreciation					**41970**
	ACE + FERV					**0**
	Capital cost as 1.4.2001					**41970**
	Less: Land Cost					**925**
						41045
	90% of Capital Cost as above					**36941**
	Cum. Depreciation to be recovered upto 31.3.2009					**30144**
	Balance					**6797**