

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram:

1. **Shri A.K.Basu, Chairperson**
2. **Shri K.N. Sinha, Member**
3. **Shri Bhanu Bhushan, Member**
4. **Shri A.H.Jung, Member**

Petition No.109/2005

In the matter of

Approval of revised fixed charges on account of additional capital expenditure for the period 1.4.2001 to 31.3.2004 in respect of Gandhar GPS (657.39 MW)

And in the matter of

National Thermal Power Corporation Ltd.

... **Petitioner**

Vs

1. Madhya Pradesh State Electricity Board, Jabalpur
2. Maharashtra State Electricity Distribution Company Limited, Mumbai
3. Gujarat Urja Vikas Nigam Ltd, Vadodara
4. Chattisgarh State Electricity Board, Raipur
5. Electricity Department, Govt. of Goa, Panaji, Goa
6. Electricity Department, Administration of Daman & Diu, Daman
7. Electricity Department, Administration of Dadra and Nagar Haveli, Silvassa...**Respondents**

The following were present:

1. Shri V.B.K. Jain, NTPC
2. Shri N.N. Sadasivan, NTPC
3. Shri S.K. Sharma, NTPC
4. Shri A.S.Pandey, NTPC
5. Shri Alka Saigal, NTPC
6. Shri Gaurav Maheshwar, NTPC
7. Shri P.M.Matey, MSEDCL
8. Shri D.Khandelwal, MPSEB
9. Shri D.Srivastava, MPSEB.

**ORDER
(DATE OF HEARING: 22.11.2005)**

Through this petition, the petitioner seeks approval for the revised fixed charges in respect of Jhanor Gandhar Gas Power Station (657.39 MW) for the period

1.4.2001 to 31.3.2004, after considering the impact of additional capital expenditure incurred during the period.

2. Jhanor Gandhar GPS with a capacity of 657.39 MW comprises of three Gas Turbines (3 x 144.3 MW) and one Steam Turbine (1x 224.49 MW)The date of commercial operation (COD) of the three units and the station are as follows :

UNIT	Date of commercial operation
GT-I	1.3.1995
GT-2	1.10.1995
GT-3	1.3.1995
ST- I (station)	1.11.1995

The Central Government by its letter dated 13.2.1992 had accorded approval of capital Cost of Rs 186011 lakh towards the said project, comprising the Power station and associated transmission facilities. Further, the Central Government by its letter dated 23.1.1995 had accorded approval of Revised Cost Estimate (RCE-I) for Rs.244760 lakh including IDC of Rs.20032 lakh and excluding working capital margin of Rs.5240 lakh. Also, the Central Electricity Authority accorded approval for Rs. 658 lakh vide letter dated 4.7.2000 for installation of Effluent Disposal System. As such, the total approved cost (excluding working capital margin) works out to Rs. 245418 lakh.

3. The terms and conditions for determination of tariff for the period 1.4.2001 to 31.3.2004 were notified by the Commission on 26.3.2001 in terms of the Central Electricity Regulatory Commission (Terms & Conditions of Tariff) Regulations 2001 (hereinafter referred to as “the notification dated 26.3.2001”). A petition (No.33/2001) was filed by the petitioner for approval of tariff for the period from 1.4.2001 to 31.3.2004 in respect of, Jhanor Gandhar Gas Power Station, the basis for which was stated to be the notification dated 26.3.2001. In the tariff claimed, the petitioner had

considered the impact of additional capitalisation for the period from 1997-98 to 1999-2000 (petition 77/2000) and for 2000-01 (petition 94/2002) . The tariff was approved by the Commission by its order dated 1.4.2005. For the purpose of tariff, the capital cost of Rs.2425.05 crore as on 1.4.2001 was considered.

4. The year-wise details of additional capitalisation claimed with reference to the balance sheet are as follows:

(Rs.in lakh)				
	2001-02	2002-03	2003-04	Total
Opening gross block	232107.9	230257	232849	
Closing gross block	230257	232849	233299	
Additional capitalization as per book of accounts (A)	(-)1850.8	2592.3	449.8	1191.3
Exclusion for additional capitalisation vis – a-vis Books of account of inter unit transfer (B)	379.8	Nil	Nil	379.8
Additional capitalization claim of NTPC for the purpose of tariff (A-B)	(-)2230.6	2592.3	449.8	811.5
Total Additional Capitalisation (2001-04)				811.5

5. Based on the above, the petitioner has claimed the approval of revised fixed charges due to additional capitalization.

6. Clause 1.10 of CERC notification dated 26.3.2001, is as under :

“Tariff revisions during the tariff period on account of capital expenditure within the approved project cost incurred during the tariff period may be entertained by the Commission only if such expenditure exceeds 20% of the approved cost. In all cases, where such expenditure is less than 20%, tariff revision shall be considered in the next tariff period.”

7. The petitioner has claimed an additional capitalization of Rs 811 lakh which is about 0.33% of the admitted cost of Rs 242405 lakh as on 1.4.2001.

8. The respondents had objected to the above said claim of the petitioner for revised fixed charges due to additional capitalisation and had prayed that the same should not be entertained.

9. On the issue of revision of fixed charges for the period from 1.4.2001 to 31.3.2004, the Commission, in a similar petition of the petitioner (petition 139/2004), by an order dated 31.3.2005 had held that the additional capital expenditure incurred during the tariff period, not exceeding 20% of the approved capital cost ,does not qualify for retrospective revision of tariff. However the additional capital expenditure approved shall be added to the gross block as on 1.4.2001 to arrive at the gross block as on 1.4.2004 for the purpose of fixation of tariff for the period 2004-05 to 2008-09.

Additional Capitalisation:

10. In the first instance we consider the admissibility of additional capital expenditure claimed in the present petition:

11. It is observed that additional capitalization as per books of accounts is Rs.11913 lakh. Out of this, the cost of transfer of ICT transformer amounting to Rs 3798 lakh had been excluded. This expenditure of transfer of ICT transformer from NCTPP, Dadri has been excluded because the expenditure is being serviced at Dadri TPS. The exclusion of this ICT transformer is in order. There is no FERV component in the additional capital expenditure.

12. Now we consider the admissibility of additional capital expenditure claimed in the present petition. The year-wise and category-wise break up of the additional expenditure claimed by the petitioner is as follows-

(Rs. in lakh)				
Details of additional capitalization claim	2001-02	2002-03	2003-04	Total
(A) Within the Scope of approved Cost or Admitted works by GOI/CERC after the date of commercial operation				
a)Balance payment against works admitted by the Central Government/Commission (Category-10A)	-2375.737	0.799	0	-2374.938
b)New works within approved Revised Cost Estimates (Category-21A)	24.338	49.096	15.037	88.470
(c) Inter-unit transfer (11)	0	-0.740	0.551	-0.189
Sub-Total (A)	-2351.400	49.156	15.588	-2286.657
(B) Not within the Scope of approved Cost and works not admitted by the Commission				
(a)New works not in approved Revised Cost Estimates (Category-21B)	119.669	70.914	65.272	255.855
(b)Spares not in approved cost (Category-22B)	0.00	2472.211	369.262	2841.473
(c)Replacement (Category.-23)	1.080	0.000	-0.296	0.784
Sub Total (B)	120.750	2543.125	434.238	3098.113
Total of additional Capitalisation claimed (A)+(B)	-2230.650	2592.281	449.826	811.456

Additional capital expenditure within the scope of approved cost/ admitted works by the Central Government/Commission

13. (a) **Additional Capital Expenditure relating to balance payments against works admitted by the Central Government/Commission –**

The balance payments of Rs. 23749 lakh against works admitted by the Central Government/Commission is found to be in order and has been allowed. The major component of this de-capitalisation, is on account of refund of Government guarantee fees during the construction phase amounting to Rs 2372 lakh.

(b) Expenditure on new works within approved cost –

The petitioner has claimed capital expenditure of Rs. 88.47 lakh for the three years. This expenditure relates to fencing of plant, establishment of training centre for its employees, tools and tackles, PLE Microprocessor based 3 phased transmitter, CO2 cylinder etc. Since the expenditure relates to works under approved cost the same is allowed for capitalization for the purpose of tariff.

(c) Inter-unit Transfer.

An expenditure of Rs 0.740 lakh has been de-capitalised in 2002-03 due to transfer of certain hospital equipment and furniture which has been transferred to new station at Sipat. The transfer appears to be of permanent nature and hence de-capitalisation of amount is in order. An expenditure of Rs 0.551 lakh has been capitalised in 2003-04 due to transfer of furniture items from Kawas GPS to Gandhar GPS, for the new school. The capitalization is allowed as an employee welfare measure of providing educational facility at the station.

Additional capital expenditure not within the scope of approved cost and works admitted by the Central Government/Commission

14. (a) Expenditure on new works not within approved cost-

A capital expenditure of Rs 255.855 lakh has been claimed under this head. The petitioner has furnished asset -wise justifications for incurring this expenditure. On scrutiny of the items/assets procured under this head, it has been observed that these items can be broadly categorized as follows :

- (i) creation of IT infrastructure and modernization of communication system .

- (ii) purchase of recreational /musical equipments for the recreation club, expenditure relating to employee welfare measures on education facilities, health and hospital equipments and development of township infrastructure etc,
- (iii) purchase of furniture and car etc,
- (iv) purchase of tool and tackle of special nature for the gas turbine maintenance etc and new metering equipments .

The expenditure on creation of IT infrastructure and modernization of communication systems has been allowed under ABT regime to ensure high availability of machines. The expenditure on purchase of special tools and tackles and new metering equipments has also been allowed for reducing downtime and ensuring availability under ABT. The expenditure relating to employee welfare measure and on safety considerations are also allowed. The purchase of new furniture and other items are allowed with corresponding de-capitalisation. In respect of the new purchase for the township recreation facility ,the expenditure is allowed to be capitalized. However, for purchase of car, solar water heating, and replacement of obsolete system, the capitalisation, without corresponding decapitalisation , had been disallowed. for want of proper justification.

Accordingly the following additional capitalisation is allowed against the petitioners claim under the head as follows :

(Rs in lakh).

	Claimed	Disallowed	Allowed
2001-02	119.669	0.00	119.669
2002-03	70.914	6.265	64.648
2003-04	65.272	7.763	57.510
Total	255.855	14.028	241.827

(b) Expenditure on spares.

The petitioner has claimed an amount of Rs 2841.473 lakh during 2001-04 on spares, which are not a part of approved cost. The petitioner has submitted that these items are required for safety against break-down, which if not available in time could lead to loss of generation and aggravation of already power deficit condition. It was further submitted that these critical spares are required to be procured from the original equipment manufacturer and the lead time for procurement is one to one and half year and hence in order to avoid outage of units it is necessary to maintain sufficient stock of these spares in capital account of spares. The generating station is in operation for about 8 years and capitalization of additional spares is over and above the reasonable spares already capitalized as initial spares within the approved capital cost. The Commission while dealing with additional capitalization petitions of the generating stations belonging to the petitioner, for the period prior to 2001, has not allowed capitalization of additional spares in such cases. The Commission felt that consumption of such spares should form part of O&M. On the same considerations, capitalisation of spares as claimed has not been allowed.

In light of the above, the capitalization of the spares (Category-22-B) claimed above is not allowed.

(c) Expenditure on Replacement: -

An amount of Rs (-) 0.784 lakh for 2001-04 has been excluded under this head. The petitioner by way of negative entries in exclusions has sought to de-capitalise the asset like the washing machine, furniture and IT infrastructure, on the ground that they have become unusable and have been replaced. Since these are old

assets and not in use, the capitalization along with corresponding de-capitalisation (Category-23) is allowed.

15. The following additional capital expenditure has been allowed based on discussions in the above paragraphs:

(Rs. in lakh.)				
Details of additional capitalization claim	2001-02	2002-03	2003-04	Total
(A) Within the Scope of approved Cost or Admitted works by the Central Government/Commission after the date of commercial operation				
Balance payment against works admitted by the Central Government/Commission (Category-10A)	-2375.737	0.799	0	-2374.938
New works within approved Revised Cost Estimates (Category-21A)	24.338	49.096	15.037	88.470
Inter-unit transfer (11)	0.00	-0.740	0.551	-0.189
Sub-Total (A)	-2351.400	49.156	15.588	-2286.657
(B) Not within the Scope of approved Cost and works not admitted by the Commission				
New works not in approved Revised Cost Estimates (Category-21B)	119.669	64.648	57.510	241.827
Spares not in approved cost (Category-22B)	0.00	0.00	0.00	0.00
Replacement (Category-23)	1.080	0.000	-0.296	0.784
Sub Total (B)	120.750	64.648	57.214	242.612
Additional Capitalisation (A)+(B)	-2230.650	113.804	72.801	-2044.045

16. Next arises the question of revision of fixed charges for the period 1.4.2001 to 31.3.2004. In the order dated 31st March 2005 in Petition No. 139/2004, (National Thermal Power Corporation Ltd –Vs- Uttar Pradesh Power Corporation Ltd and others) the Commission has held that the additional capital expenditure incurred during the tariff period, not exceeding 20% of the approved capital cost, does not qualify for retrospective revision of tariff. In the present case, the additional capital expenditure approved is less than 20% of the approved cost. For the reasons given in the said order dated 31st March 2005, the retrospective revision of fixed charges for

the period 1.4.2001 to 31.3.2004 is not warranted. However, the additional capital expenditure approved shall be added to the gross block as on 1.4.2001 to arrive at the gross block as on 1.4.2004 for the purpose of fixation of tariff for the tariff period 2004-05 to 2008-09.

17. After taking into account additional capitalization allowed, the opening gross block as on 31.3.2004 works out as follows:

	(Rs. in lakh)		
	2001-02	2002-03	2003-04
Capital cost as on 1 st April	242505	240274	240388
Additional capitalisation	-2231	114	073
Capital cost as on 31 st March of respective financial year	240274	240388	240461

18. Further, for the reasons recorded in order dated 31.3.2005 in a similar petition (petition No.139/2004), the petitioner shall be entitled to earn return on equity @ 16% on the equity portion of additional capitalisation now approved by us. Similarly, the petitioner shall also be entitled to interest on loan at the rate, as applicable, during the relevant period. Return on equity and interest shall be worked out on the additional capitalisation from 1st April of the financial year following the financial year to which additional capital expenditure relates and up to 31.3.2004. The lump sum of the amount of return on equity and interest on loan so arrived shall be payable by the respondents along with the tariff for the period 2004-09 to be approved by the Commission. The exact entitlement of the petitioner on this account shall be considered by the Commission while approving tariff for the period 2004-09.

19. With the above, the present petition stands disposed of.

Sd/-
(A.H.JUNG)
MEMBER

Sd/-
(BHANU BHUSHAN)
MEMBER

Sd/-
(K.N.SINHA)
MEMBER

Sd/-
(ASHOK BASU)
CHAIRPERSON

New Delhi dated the 9th day of May 2006