

**CENTRAL ELECTRICITY REGULATORY COMMISSION
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Press Release

CERC announces regulated tariff for DVC

With Central Electricity Regulatory Commission (CERC) announcing generation and transmission tariff for Damodar Valley Corporation (DVC) for the period 2004-09, the Corporation, for the first time, has come under the ambit of regulatory tariff mechanism provided under the Electricity Act, 2003.

2. Prior to the advent of Electricity Act, 2003, the Corporation had autonomy to determine its own rates for bulk supply as well as retail distribution under Section 20 of the DVC Act, 1948.

3. The generation and transmission tariff having been determined by CERC, it would now be possible for the State Regulators to determine the retail distribution tariff for the consumers of DVC falling within their respective jurisdiction.

4. The Commission has approved annual fixed charges for generation and transmission of DVC at Rs.1107 crore, Rs.1095 crore and Rs.1089 crore against the claim of Rs.1316 crore, Rs.1337 crore and Rs.1360 crore for the years 2006-07, 2007-08 and 2008-09 respectively.

5. In order to facilitate smooth transition to regulatory regime and in view of the consideration that it would not be possible for DVC to rationalize its expenses from back date, the Commission has allowed the prevailing DVC tariff up to the year 2005-06.

6. The performance norms have been progressively raised in the years 2006-07, 2007-08 and 2008-09 after detailed analysis and consultation with the petitioner and the stakeholders. Accordingly, the energy charges for the four thermal power stations of DVC namely, Bokaro, Chandrapur, Durgapur and Mejia, when compared to the charges claimed in the petition, would be rationalized to the tune of 29%, 6.5%, 26% and 21% respectively by the year 2008-09 at the constant fuel prices.

7. DVC as a statutory body was established by the Central Government under DVC Act, 1948 for the development of Damodar Valley with the participation of Central Government and the State Governments of West Bengal, Bihar and Jharkhand.

8. The DVC Act provides for promotion and operation of scheme for generation, transmission and distribution of electricity, both hydro-electric and thermal. It also provides for promotion and operation of scheme for irrigation, water supply, flood control, tourism and navigation, soil conservation and afforestation, public health and sanitation and socio-economic development of DVC area.

9. While determining the bulk supply Tariff, the Commission has allowed recovery of depreciation on capital investment on soil conservation, public health and sanitation and socio-economic development, while disallowing depreciation on capital investment on tourism and navigation. Similar treatment has been accorded to Operation and Maintenance (O&M) expenses in these activities.

10. In line with the terms and conditions of tariff, the Commission has judiciously prescribed normative performance parameters for tariff regulations. The norms for performance, efficiency and O&M expenses set by the Commission could result in reduced cost of supply depending on cost of fuel, while providing ample scope for DVC to increase its profitability by performing better than the pre-set norms.

11. The DVC filed its tariff petition for determination of tariff in June, 2005 on the direction of the Commission. Since the DVC is an integrated utility and it had been maintaining accounts and records of expenses in a particular manner, it required considerable ground work to compile and submit information and data in the tariff filing formats prescribed by the Commission, separately for generation and transmission activities.

12. Since the tariff petition raised several complicated issues, which include determination of norms for O&M expenses and operational norms, the Commission had to set up Single Member Bench under Shri K.N. Sinha, Member in October, 2005 to submit report and recommendations to the Commission for its consideration and further appropriate action.

13. While approving the tariff, the Commission has generally accepted the recommendations of the Single Member Bench, particularly with regard to capital servicing approach, the capital base, the debt-equity ratio, interest on loan and depreciation.

14. The other highlights of the tariff order of the Commission are as follows:

- The Commission has allowed capital base for generation and transmission assets of Rs.3146 crore as on 1.4.2004 against DVC claim of Rs.3466 crore. This is mainly on account of disallowing servicing of the non-performing assets at Durgapur, Bokaro, Chandrapur TPS and Maithon GPS.
- Against the DVC claim for debt-equity ratio of 15:85, the Commission has allowed tariff at the normative debt-equity ratio of 70:30.
- Return on Equity (ROE) has been provided @ 14% and interest on loan has been serviced on the basis of weighted average rate of interest on year to year basis.

- Depreciation has been provided @ 3.6% for thermal power stations, @ 2.57% for hydro power stations and 3.0% for transmission schemes.
- The Commission has approved the proposal of petitioner for creation of Pension and Gratuity Fund required as per instructions of C&AG and accepted by the Central Government. Under this head, the Commission has allowed a net amount of Rs.1534 crore related to generation and transmission employees, out of which Rs.614 crore (40%) shall be borne by DVC and the balance Rs.920 crore (60%) shall be recovered through tariff in three annual installments. The above has been taken into account, while approving the year-wise O&M expenses for each power station.

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