

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram:

1. Shri A.K.Basu, Chairperson
2. Shri Bhanu Bhushan, Member
3. Shri A.H. Jung, Member

**Petition No. 40/2005 &
IA No 4/2006 and IA No. 45/2006**

In the matter of

In-principle approval of capital cost for Nagarjuna Power project for the period 1.9.2008 onwards

And in the matter of

Nagarjuna Power Corporation Ltd

..Petitioner

Vs

1. The Karnataka Power Transmission Corporation Ltd, Bangalore
2. The Kerala State Electricity Board, Thiruvananthapuram

..Respondents

The following were present

Shri. Praveer Sinha NPCL

Shri. K. S. Balachandra

ORDER

(DATE OF HEARING: 20.7.2006)

The petitioner has filed this petition for in-principle approval of capital cost of Nagarjuna Power Project being established by it, for the period from 1.9.2008 onwards.

2. The Commission, vide its order dated 25.10.2005 accorded 'in principle' approval to the capital cost of US\$ 40.0 million+ Euro 66.0 million + Rs. 3745.86 crore including IDC and financing charges of Rs. 350.14 crore, which totals to Rs. 4299.12 crore at the exchange rate of Rs. 43.72 per US\$ and Rs. 57.33 per Euro. This 'in principle' approval was subject to the following conditions:

- a) For the purpose of tariff, the completed capital cost shall not exceed the above mentioned amount.
- b) The petitioner shall achieve the financial closure within 120 days from the date of the order
- c) The norms specified in the 2004 regulations are the ceiling norms and parties may agree to improved norms and where the improved norms are agreed to, such norms shall be the basis for determination of tariff
- d) No additional capital expenditure incurred on maintaining operational and performance parameters shall be admissible for tariff enhancement during the rated life of the generating station.

3. Subsequently, the petitioner vide its IA No. 4/2006 sought clarification on the order dated 25.10.2005 and also extension of time to achieve the financial closure. This IA was disposed off vide the Commission's order dated 9.3.2006 wherein the Commission allowed time up to 30.6.2006 to achieve financial closure. As regards the clarification, the Commission held " since at this stage we have not gone into the process of actual determination of tariff, we do not consider it appropriate to examine these issues in detail."

4. The petitioner has filed IA No. 45/2006 on 29 Jun 2006 praying for further extension of time by 120 days for achieving financial closure. In support of its prayer, the petitioner has given details of the progress made so far in concluding PPA agreements with the state utilities and procuring loans from Banks/financial institutions. The petitioner has also vide its letter dated 19.7.2006 forwarded Power Finance Corporation letter dated 19.7.2006, wherein the PFC has given approval for enhancement in the loan sanction amount from Rs. 75000 lakh to Rs. 95000 lakh.

5. In para 6 of the IA, the petitioner has mentioned that “the overall estimated project capital cost of Rs. 4299 crores as approved in-principle by the Hon’ble Commission shall be kept FIRM except for changes due to change in interest rate from Banks/Financial Institutions, changes in Taxes and Duties and Change in Law which is allowed by the Hon’ble Commission as per its norms/regulations”. This aspect was not pressed during the hearing. We, however, make it clear that any deviation from the maximum capital cost approved vide the Commission’s order dated 25.10.2005 shall be subject only to the conditions mentioned in the above order and the petitioner is not at liberty to make any assumption about the circumstances under which the cost may vary.

6. On going through the submissions and after hearing the petitioner, we allow extension of time for financial closure, up to 31.10.2006, as prayed for by the petitioner subject to the condition that the petitioner shall conclude PPA with both the State utilities before 30.9.2006.

7. In the mean time, the Commission has received information that LANCO group is going to acquire 74% of the equity stake in the project. The Commission has also taken cognisance of recent reports that LANCO group has quoted a levelised tariff of 1.56 paise/kWh for 25 years in respect of a similar capacity project at Anpara. In the light of these facts, we direct the petitioner to furnish the following information before 20.8.2006:

- a) Details of financial strength of the LANCO group who is to acquire the 74% equity stake in the project
- b) A copy of the equity transfer agreement with the LANCO group
- c) Details regarding the bid of Lanco Group in respect of Anpara project, to facilitate comparison of tariff between Anpara and Nagarjuna projects.
- d) Copies of the firm fuel supplies with supplier companies

Sd/-
(A.H. JUNG)
MEMBER

Sd/-
(BHANU BHUSHAN)
MEMBER

Sd/-
(ASHOK BASU)
CHAIRPERSON

New Delhi dated the 7th Aug, 2006