

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Petition No. 473/GT/2014

Coram:

**Shri Jishnu Barua, Chairperson
Shri Ramesh Babu V., Member
Shri Harish Dudani, Member
Shri Ravinder Singh Dhillon, Member**

Date of Order: 27th March, 2026

In the matter of

Revision of tariff of NLC Thermal Power Station II Stage-I (630 MW) and Stage-II (840 MW) on account of additional capital expenditure incurred for the period from 1.4.2009 to 31.3.2014 - Truing- up of annual fixed charges determined by Order dated 27.6.2011 in Petition No. 231/2009 and Order dated 25.6.2013 in Petition No. 17/RP/2011 (on remand).

And

In the matter of:

Implementation of the APTEL judgment dated 17.7.2025 in Appeal No. 92/2017 (NLCIL vs CERC & ors.)

And

In the matter of:

Neyveli Lignite Corporation Limited
Neyveli House, 135, EVR Periyar Road,
Kilpauk, Chennai – 600010

...Petitioner

Vs

1. Tamil Nadu Generation and Distribution Company Ltd.
800- Anna Salai, Chennai – 600002
2. Power Company of Karnataka Ltd.
KPTCL Building, Kaveri Bhavan, K.G. Road, Bangalore – 560009
3. Bangalore Electricity Supply Co. Ltd.
KR Circle, Bangalore – 560001
4. Mangalore Electricity Supply Co. Ltd.
Paradigm Plaza, AB Shetty Circle, Mangalore-575001
5. Gulbarga Electricity Supply Co. Ltd.
Station Main Road, Gulbarga-585102



6. Hubli Electricity Supply Co. Ltd.
Corporate Office, Navanagar, PB Road, Hubli-580025
7. Chamundeshwari Electricity Supply Corporation Ltd.
Corporate Office, No.927, LJ Avenue,
New Kantaraja Urs Road, Saraswathipuram, Mysore-570009
8. Kerala State Electricity Board Ltd.
Thiruvananthapuram-695004
9. Puducherry Electricity Department
Puducherry – 605001
10. Transmission Corporation of Andhra Pradesh
Vidyut Soudha, Khairatabad, Hyderabad- 500082
11. Transmission Corporation of Telangana
Vidyut Soudha, Khairatabad, Hyderabad- 500082

...Respondent

Parties Present:

Ms. Swapna Seshadri, Advocate, NLCIL
Ms. Ritu Apurva, Advocate, NLCIL
Ms. Pragya Pushkar, Advocate, NLCIL
Ms. Anusha Nagrajan, Advocate, TANGEDCO
Shri Rahul Ranjan, Advocate, TANGEDCO

ORDER

Background

The tariff for NLC TPS-II, Stage-I (3x210 MW) & Stage-II (4x210 MW) for the period from 1.4.2009 to 31.3.2014 was determined by the Commission vide its order dated 27.6.2011 in Petition No. 231/2009, in accordance with the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009 (in short, “2009 Tariff Regulations”). Aggrieved by certain findings in the said order, the Petitioner, Neyveli Lignite Corporation Limited (in short ‘NLCIL’) filed Review Petition No. 17/RP/2011 seeking review on specific issues. The Commission disposed of the said Review Petition vide order dated 25.6.2013 and accordingly, revised the annual fixed charges of the generating station. Subsequently, Petition No. 473/GT/2014 was filed by NLCIL for revision of tariff in respect of NLC TPS-II Stage-I & II for the period 2009-14 in terms of Regulation 6(1) of the 2009



Tariff Regulations. The Commission, vide order dated 10.2.2017 in Petition No. 473/GT/2014, revised the tariff of NLC TPS-II Stage I & II after the truing-up exercise.

2. Aggrieved by the said order dated 10.2.2017, the NLCIL filed Appeal No. 92 of 2017 before APTEL on the following 4 (four) issues: -

- (a) Disallowance of Secondary Fuel Oil Consumption;
- (b) Disallowance of Life Extension Programme (LEP) assets in the capital cost;
- (c) Decapitalisation of balancing capital spares from the gross block;
- (d) Disallowance of Additional Capitalisation.

3. During the course of the hearing before APTEL, NLCIL chose not to press issue (d) relating to the disallowance of additional capitalisation. Accordingly, the appeal was confined to issues (a), (b) and (c) above.

4. Accordingly, APTEL, vide judgment dated 17.7.2025, remanded the matter to the Commission for reconsideration and directed as under:

“a) The Central Commission’s refusal to allow the Appellant’s claim for adjustment of Energy Charges on account of actual Secondary Fuel Oil Consumption is set aside. The Commission is directed to recompute ECR in accordance with the methodology recognized in this Tribunal’s Judgment dated 28.05.2020 in Appeal Nos. 291 and 344 of 2016.

b) The exclusion of Rs. 290.63 crores towards LEP assets and the corresponding depreciation adjustment of Rs. 261.63 crores are set aside. The issue is remanded to the Central Commission for reconsideration with direction to verify whether the Appellant had opted for Special Allowance under Regulation 10(4) and whether the assets in question were operational or actually deleted.

c) The de-capitalisation of Rs. 6.1953 crores towards capital spares for FY 2012-13 is set aside. The Central Commission shall segregate actual capital asset entries from non-capital tariff allowances and recompute the Gross Block and related tariff components accordingly.”

5. Pursuant to the judgment dated 17.7.2025 of APTEL, the Petition was taken up for hearing on 23.9.2025. The Commission, vide the ROP (record of proceedings) of the hearing dated 23.9.2025, directed NLCIL to furnish additional information. NLCIL, vide an affidavit dated 14.10.2025, submitted the information in compliance with the Commission’s directions. The matter was thereafter heard on 18.11.2025 and on 2.1.2026. The Commission, after hearing the parties on 2.1.2026, reserved the order after permitting the parties to file their written note of submissions. NLCIL has placed its written submission on record.



6. Based on the submissions of the parties and the material available on record, we now proceed to examine the remand directions issued by APTEL and issues raised by NLCIL in respect of the issues (a), (b) and (c), as mentioned in para 4 above.

Issue (a): Disallowance of Secondary Fuel Oil Consumption

7. In Petition No. 473/GT/2014, NLCIL sought substitution of the actual Secondary Fuel Cost in lieu of normative Secondary Fuel Cost for determination of the ECR under Regulation 21(6) of the 2009 Tariff Regulations for the period 2009-2014, along with the recovery of the consequential differential amount, in terms of Order dated 10.7.2015 passed in Petition No. 285/MP/2013, wherein the Commission, in the case of another generating company, i.e., NTPC Limited, had allowed the adoption of the said methodology.

Submissions of NLCIL

8. NLCIL, in compliance with the ROP of the hearing dated 23.9.2025, submitted the following information, vide affidavit dated 14.10.2025:

(i) The normative Station Heat Rate (SHR) for the generating station, as specified under Regulation 26(ii) of the 2009 Tariff Regulations, is 2900 kcal/kWh, and the normative Secondary Fuel Oil Consumption (SFC) as per Regulation 26(iii)(b)(i) is 2 ml/kWh.

(ii) The normative SHR of 2900 kcal/kWh is intended to be achieved primarily through the use of lignite as the main fuel and secondary fuel oil, which is costlier and is used to bring the heat rate in the boiler to an optimum level. The efficiency in operation is reflected when the generator uses less secondary fuel oil and substitutes it with lignite while still achieving the same normative SHR. Hence, if 2 ml/kWh of secondary fuel oil contributes 20 kcal/kWh, the balance 2880 kcal/kWh corresponds to lignite. Thus, any reduction in secondary oil consumption below the normative consumption necessitates proportionally higher consumption of lignite to maintain the same SHR.

(iii) If the actual SFC is lower than the normative value and the normative SFC is used in the Energy Charge Rate (ECR) formula, the resultant ECR becomes lower because the term $(SFC \times CVSF)$ is deducted from the Gross Station Heat Rate (GSHR). This leads to under-recovery of actual energy charges, as the generator is compelled to use more lignite to compensate for reduced oil use. Therefore, actual SFC should be adopted in such cases to ensure full cost recovery.



(iv) Any saving in SFC (for example, using 1 ml/kWh instead of 2 ml/kWh) has already been shared with beneficiaries as per Regulation 25(3) of the 2009 Tariff Regulations.

(v) The Commission, in its order dated 21.6.2021 in Petition Nos. 472/GT/2014 and 474/GT/2014 pertaining to NLC TPS-I and TPS-I Expansion have recognised and upheld this principle. The Commission held that if the actual SFC is lower than the normative value, the generator should be compensated using the actual SFC to maintain the same GSHR, since a lower SFC implies greater lignite consumption for the same generation level.

(vi) The illustrative calculation submitted demonstrates that when the actual SFC (0.65 ml/kWh) is lower than the normative SFC (2 ml/kWh), the lignite consumption per kWh increases from 1.1077 kg/kWh to 1.1129 kg/kWh, leading to an incremental cost of ₹0.0104/kWh in primary fuel cost. The cumulative impact of such additional lignite consumption due to lower actual SFC for the period FY 2009–10 to FY 2025–26 (up to September 2025) has been computed and also submitted by the Petitioner.

Reply filed by the Respondent, TANGEDCO

9. In response to the submissions of NLCIL, the Respondent, TANGEDCO vide affidavit dated 17.11.2025 has submitted as under:

(i) APTEL, vide judgment dated 17.7.2025 in Appeal No. 92 of 2017, has categorically held that the benefit of adoption of actual SFC is required to be allowed, subject to verification of savings and compliance with Regulation 25 of the 2009 Tariff Regulations. APTEL, while following its earlier judgment dated 28.5.2020 in Appeal Nos. 291 and 344 of 2016, has proceeded on the settled principle that the additional expenditure incurred on primary fuel (lignite) due to reduced secondary fuel oil consumption cannot be left unrecovered, and must necessarily be compensated through appropriate tariff adjustment. Thus, NLCIL is required to demonstrate that:

a) Firstly, the additional expenditure claimed to have been incurred on lignite is attributable to reduced consumption of actual secondary fuel oil, i.e., the additional lignite procured indeed substitutes the use of secondary fuel oil for the purposes of achieving the actual station heat rate.

b) Secondly, in terms of Regulation 14 of the 2009 Tariff Regulations, the cost of secondary fuel oil is factored into the Annual Fixed Cost. Regulation 20 of the 2009 Tariff Regulations provides that the expenses on secondary fuel oil are to be computed corresponding to normative specific fuel oil consumption, for which the norm is specified in Regulation 26 of the 2009 Tariff Regulations, which is 2 ml/kwh. In terms of Regulation 25 of the 2009 Tariff Regulations, only 50% of the savings arising from lower secondary fuel oil consumption is passed on to the



beneficiaries. Therefore, while claiming actual expenditure towards additional lignite consumption if any, on account of lower secondary fuel oil consumption, NLCIL would also have to factor in the balance 50% savings retained by it in the actual oil consumption, made in the Annual Fixed Cost granted to it and make any claim for additional expenditure, if at all, only after adjusting the same, else it would amount to NLCIL making a double claim.

c) Thirdly, while ascertaining the impact, if any, on account of lower consumption of secondary fuel oil, the requirement of the additional lignite consumption has to be tested against the actual SHR achieved. Thus, NLCIL can only seek to be compensated for any actual loss incurred, and it is not open to the petitioner to compute the additional lignite by presuming the normative SHR.

(ii) It is submitted that the purpose of secondary fuel oil is not to substitute the use of lignite, and that a mere reduction in the use of secondary fuel oil does not necessarily lead to additional lignite consumption in thermal power plants. Coal- and lignite-based generating stations are primarily designed to operate on coal or lignite as the main fuel, while oil is used only as a secondary or support fuel. Such oil support is utilised during start-up, shutdown, and low-load operations to maintain flame stability and safe boiler operation, and is withdrawn once the plant attains sufficient load so that the unit operates entirely on the primary fuel. Each plant is designed to operate at rated parameters for SHR and coal/lignite consumption. Therefore, reduced oil consumption or the absence of oil support cannot be treated as a substitute for increased coal or lignite consumption to claim higher variable charges, and the adoption of actual SFC in place of normative SFC for tariff purposes is not permissible.

(iii) Oil is not interchangeable with Coal/lignite. It merely ensures stable ignition and combustion during start-up/low load operations. Any reduction in oil consumption due to efficient operation or fewer start-ups/low load cycles cannot justify increased lignite consumption for the same output. Substituting oil savings with additional lignite would distort the plant's thermal balance and invalidate its designed efficiency parameters, such as SHR. Therefore, if a generator has procured additional lignite, then it is not attributable to lesser secondary fuel oil consumption but due to other inefficiencies, the burden of which ought not to be passed on to the beneficiaries.

(iv) NLCIL has submitted its calculations of lignite consumption that would arise if the actual SFC is taken into account for achieving the normative SHR of 2900 kcal/kWh. However, while NLCIL relies on the normative SHR to claim the cost of additional lignite consumption, the operational data submitted by it for the relevant period indicate that the normative SHR of 2900 kcal/kWh was not, in fact, achieved. The operational parameters for the period 2013–14 and 2014–15, as available with TANGEDCO, show that the actual SHR achieved was approximately 2871 kcal/kWh and 2852 kcal/kWh for TPS-II Stage-I and Stage-II, respectively. Accordingly,



TANGEDCO has submitted its computation depicting the actual lignite consumption for operation at the actual SHR with actual SFC.

(v) The actual lignite consumed is 1,01,77,333 Tonnes as against NLCIL's statement, the lignite consumption worked out based on actual SFC and normative SHR works out to 1,03,25,223 Tonnes, whereas the billed lignite quantity is 1,02,65,428 Tonnes. Excess lignite quantity billed accounts for 88,095 Tonnes for the period 2013-14. NLCIL has thus already been enriched by INR 16.96 Crores due to excess lignite quantity already billed with respect to normative SHR and normative SFC for the period 2013-14.

(vi) NLCIL has recovered Rs. 41,27,30,357/- towards secondary oil consumption for the period 2013-14. Whereas, the actual cost incurred towards secondary fuel amounts to Rs. 14,94,07,713 /-, leading to excess enrichment of Rs. 26,33,22,644/-.

(vii) Therefore, it is untenable for NLCIL to selectively rely upon normative parameters for the purposes of considering the SHR and reverse calculate the lignite consumption on that basis, while alleging that on actuals, NLCIL has allegedly suffered a loss on account of additional lignite consumption.

(viii) NLCIL has failed to demonstrate that it has, in fact, incurred additional expenditure towards lignite, and further failed to demonstrate that such additional cost has been incurred on account of a reduction in secondary fuel oil consumption. Further, as submitted above, NLCIL would also have to offset the savings on account of actual consumption of lesser secondary fuel oil from the claimed additional expenditure towards lignite.

Impact on Fixed Charges:

(ix) The cost of SFC has been factored at 2ml on a normative basis in the Annual Fixed Charges (AFC). In the event that the Commission allows the adoption of the actual SFC, the actual SFC consumption has to be considered in AFC, with the resultant reduction in tariff being passed on to the beneficiaries. Failing such adjustment would amount to double recovery and result in unjust enrichment to NLCIL.

Impact on Interest on Working Capital (IoWC):

(x) NLCIL has claimed IoWC by considering the SFC and lignite consumption as per norms and factored into AFC. Consequently, the beneficiaries will be paying IoWC on a normative basis, which is unjust enrichment, since the incentive has been reimbursed to the extent of 50%, resulting in a double claim.

Written Submissions of NLCIL

10. NLCIL, vide its written submissions dated 12.1.2026 and 14.1.2026, has submitted the following:



- (i) Once APTEL has set aside the earlier order of the Commission and laid down binding interpretations of Regulations 20, 21(6), 25 and 10(4) of the 2009 Tariff Regulations as applicable, directing the Commission to recompute ECR on the basis of actual SFC, it is not open to TANGEDCO, at the remand stage, to re-assert that only normative SFC can be used in ECR or that the NTPC methodology was merely a deviation and re-question the correlation between actual SFC reduction and lignite consumption contrary to the recognition of actual SFC as the relevant parameter for ECR. These issues have already been adjudicated by APTEL in explicit terms. On remand, the function of the Commission is to apply those binding findings to the facts and data, verify the savings and compliance (where so directed), and pass a fresh order, but not to entertain a collateral attempt by TANGEDCO to re-litigate the same legal objections that were rejected by APTEL.
- (ii) Any attempt by TANGEDCO to argue, at this stage, that normative SFC must be rigidly applied, or that the NTPC methodology cannot be followed, amounts to a direct challenge to APTEL's binding directions and is therefore not maintainable. TANGEDCO cannot, consistently with APTEL's Judgment, seek to revive the earlier wholesale exclusion approach that has already been set aside.

Analysis and Decision

11. We have considered the submissions made by NLCIL and TANGEDCO and documents available on record, withstanding APTEL order dated 17.7.2025 in Appeal No. 92 of 2017. The issue involved relates to the interpretation and application of Regulation 21(6)(a) of the 2009 Tariff Regulations dealing with the norms of SFC and sharing of savings, if any, on SFC. The main contention of NLCIL is the substitution of the actual SFC in lieu of normative SFC in the determination of energy charges under Regulation 21(6) for the period 2009-14 and to recover from the beneficiaries, along with interest, the additional expenditure incurred on primary fuel (lignite) on account of reduced SFC.

12. In the truing-up Petition for the tariff period 2009–14 (Petition No. 473/GT/2014), NLCIL, with regard to the Energy Charges, had prayed that it may be permitted to revise the Energy Charges by considering the actual SFC in place of the normative SFC, and had made the following submissions in support of its claim:

“(a) NLC had computed ECR for the tariff period 2009-14 in accordance with Regulation 21(6) of CERC 2009-14 Tariff Regulations adopting the normative Secondary Fuel Oil Consumption (SFC) as specified in Regulation 26(iii) of the 2009 Tariff Regulations and recovered the same from the beneficiaries.



(b) The petitioner seeks permission of the Commission for substitution of the actual SFC in lieu of normative SFC, hitherto applied by NLC in the ECR determination under Regulation 21(6) for the period 2009-14, in accordance with the Para12 of the order in Petition No. 285/MP/2013 and to recover from the beneficiaries along with interest, the differential amount due to revision of ECR consequent to application of actual SFC in lieu of Normative SFC in the algorithm.”

13. The Commission, vide order dated 10.2.2017 in Petition No. 473/GT/2014, disposed of the contention of NLCIL for substitution of actual SFC in lieu of normative SFC with the following observations:

“73. The petitioner in this petition has also sought for substitution of the actual SFC in lieu of normative SFC, in the ECR determination under Regulation 21(6) for the period 2009-14, in terms of the order dated 10.7.2015. The Commission in its order dated 10.7.2015 while holding that the methodology adopted by NTPC was not in conformity to the Regulation 26(a) of the 2009 Tariff Regulations had observed that NTPC was charging less by applying the said methodology. Accordingly, the decision in the case of NTPC cannot be made applicable to the instant case of the petitioner. The petitioner has also prayed for recovery from the beneficiaries along with interest, the differential amount due to revision of ECR consequent to application of actual SFC in lieu of normative SFC. It is noticed that the Commission in the said order had clarified that the said decision cannot be used to reopen settled cases. In the light of the above discussions, the submissions of the petitioner are not acceptable and the prayer of the petitioner for substitution of the actual SFC in lieu of normative SFC in the ECR determination is accordingly rejected.”

14. Aggrieved by the order dated 10.2.2017, NLCIL filed Appeal No. 92 of 2017 before APTEL. APTEL, vide its order dated 17.7.2025, with regard to the adjustment of Energy Charges on account of actual SFC, observed that an identical issue has been adjudicated in Appeal Nos. 291 & 344 of 2016, involving the very same parties and the same tariff period. In the said order, APTEL, after a detailed examination of the provisions of Regulation 21(6), held that there was no justification for the Commission to deny NLCIL the benefit of actual SFC, especially when such methodology had already been allowed to another generator, i.e., NTPC Limited. Accordingly, APTEL held that the Commission has erred in rejecting NLCIL's claim and that the benefits of actual SFC must be allowed, subject to verification of savings and compliance with Regulation 25, in terms of the directions contained in its earlier judgment dated 28.5.2020 in Appeal Nos. 291 and 344 of 2016. Consequently, APTEL directed the Commission to recompute ECR in accordance with the methodology recognised in the Judgment dated 28.5.2020 in Appeal Nos. 291 & 344 of 2016.



15. Regulation 26(iii)(b)(i) of the 2009 Tariff Regulations provides that the normative SFC for lignite-fired generating stations shall be 2.0 ml/kWh. Further, Regulation 21(5) of the said Regulations deals with the computation of Energy Charge, which is extracted as under:

“21(5) The energy charge shall cover the primary fuel cost and limestone consumption cost (where applicable), and shall be payable by every beneficiary for the total energy scheduled to be supplied to such beneficiary during the calendar month on ex-power plant basis, at the energy charge rate of the month (with fuel and limestone price adjustment). Total Energy charge payable to the generating company for a month shall be: (Energy charge rate in Rs./kWh) x {Scheduled energy (ex-bus) for the month in kWh.}”

16. The 2009 Tariff Regulations provide that the energy charge covers the cost of primary fuel used for generation and the cost of limestone consumption, wherever applicable. The said provision ensures that the generating company is reimbursed for the actual variable generation costs corresponding to the scheduled supply of energy to beneficiaries. The methodology for computation of the Energy Charge Rate (ECR) has been specified under Regulation 21(6)(a) of the said Tariff Regulations, which is extracted as under:

“21(6) Energy charge rate (ECR) in Rupees per kWh on ex-power plant basis shall be determined to three decimal places in accordance with the following formulae:

(a) For coal based and lignite fired stations

$ECR = \{(GHR - SFC \times CVSF) \times LPPF / CVPF + LC \times LPL\} \times 100 / (100 - AUX)$

Where, AUX = Normative auxiliary energy consumption in percentage

CVPF = Gross calorific value of primary fuel as fired, in kCal per kg, per litre or per standard cubic metre, as applicable.

CVSF = Calorific value of secondary fuel, in kCal per ml.

ECR = Energy charge rate, in Rupees per kWh sent out.

GHR = Gross station heat rate, in kCal per kWh.

LC = Normative limestone consumption in kg per kWh.

LPL = Weighted average landed price of limestone in Rupees per kg.

LPPF = Weighted average landed price of primary fuel, in Rupees per kg, per litre or per standard cubic metre, as applicable, during the month.

SFC = Specific fuel oil consumption, in ml per kWh.”

17. However, from the formula for computation of ECR as provided above, it is observed that the SFC has not been specifically indicated as either normative or actual. It can be inferred from the formula that the role of secondary fuel oil is to determine the quantum of heat contribution from such fuel, which is required to be deducted from the Gross Normative SHR for the purpose of arriving at the fuel requirement. The Commission, vide its order dated 10.7.2015 in Petition No. 285/MP/2013 in the case of NTPC Limited, had concluded



that the Energy Charge is to be adjusted after the end of the year based on the actual consumption of secondary fuel oil.

18. Further, under the Annual Fixed Cost (AFC), payment towards normative secondary fuel oil expenses is given to generating station at year end, based on the actual SFC, any savings arising therefrom are shared between the generating company and the beneficiaries in terms of as per Regulation 25(3) of the 2009 Tariff Regulations, which provides as under:

“25(3) The savings on account of secondary fuel oil consumption in relation to norms shall be shared with beneficiaries in the ratio of 50:50, in accordance with the following formula at the end of the year:

$$(SFC \times NPAF \times 24 \times NDY \times IC \times 10 - ACsfoy) \times LPSFy \times 0.5$$

Where,

ACsfoy = Actual consumption of secondary fuel oil during the year in ml”

19. On perusal of the formulae for computation of Energy Charges as per Regulation 21(6) of 2009 Tariff Regulations, it is observed that the ECR is calculated considering the landed price of primary fuel (lignite), i.e., LPPF, and is therefore directly proportional to the cost of lignite. It is further observed that the price of secondary fuel oil is not factored into the computation of ECR. However, the product of the SFC (in ml/kWh) and its calorific value (CVSF) (in kCal/ml) is taken into account for the purpose of determining the heat contribution of secondary fuel oil, which is deducted from the Gross Normative SHR. Accordingly, in cases where the actual consumption of secondary fuel oil is lower than the normative value, the corresponding heat contribution from such fuel would be lower, and in order to achieve the same normative SHR, a higher quantity of lignite would be required to be consumed.

20. In view of the above, if the actual value of SFC is lower than the normative value, the generating station would still be required to maintain the same, even after providing the same Gross SHR by consuming additional lignite. However, if the normative value of SFC is considered in the ECR formula instead of the actual SFC, the resulting ECR would be lower due to a higher deduction on account of $SFC \times CVSF$ from the Gross Heat Rate. In such circumstances, the generating station would not be fully compensated for the additional



lignite consumption required to maintain the normative heat rate. Accordingly, in such cases, the use of actual SFC in the computation of ECR becomes necessary to appropriately reflect the fuel consumption required for achieving the same Gross Station Heat Rate.

21. In the present case, the SHR for the generating station, as per the 2009 Tariff Regulations, is 2900 kCal/kWh, and the normative SFC is 2ml/kWh. NLCIL has submitted that the savings in secondary fuel oil consumption do not result in any reduction in the normative SHR allowed for the generating station, and lower consumption of secondary fuel oil implies that the generating station has achieved the same normative Station Heat Rate by using a higher quantity of lignite, within the overall normative ceiling of heat rate. For instance, where the actual specific oil consumption is 1 ml/kWh against the normative value of 2 ml/kWh, the quantity of lignite consumed per kWh would be higher than what would have been consumed if 2 ml/kWh oil had been used. Since the cost of lignite consumption per kWh generated forms the ECR, failure to revise the ECR based on the actual SFC would result in additional cost of lignite consumption arising from reduced consumption of secondary fuel oil remaining unrecovered. The above example illustrates the situation where the same end result is achieved through substituting more lignite (relatively cheaper fuel) in place of secondary fuel oil (costlier fuel).

22. The Commission, in its order dated 10.7.2015 in Petition No. 285/MP/2013, has explained the rationale of considering the actual SFC in the computation of ECR. The relevant extract of the order is reproduced as under:

“15. Since the energy charge in 2009 Tariff Regulations comprises only the coal cost, the amount of specific oil consumption has bearing on the energy charge. For example, if the actual specific oil consumption is 0.12 ml/kWh against the normative specific oil consumption of 1.00 ml/ kWh, then the quantity of coal consumed per kwh i.e. specific coal consumption (kg/kwh) would be higher in case of secondary oil consumption of 0.12 ml/kWh. The cost of specific coal consumption is energy charge rate. If ECR is not revised based on the actual SFC, the additional specific coal consumption cost due to less consumption of SFC would remain un-recovered.”



23. The normative SFC applicable to NLCIL's generating stations under Regulation 26(iii)(b)(i) of the 2009 Tariff Regulations is 2.0 ml/kWh. The actual SFC, as submitted by NLCIL and also placed before the APTEL, is as under:

Normative Specific Fuel Oil Consumption	Actual Specific Fuel Oil Consumption (ml/kWh)				
	2009-10	2010-11	2011-12	2012-13	2013-14
2.0 ml/kWh	0.901	0.797	0.665	0.498	0.390

24. NLCIL has also submitted that such savings arising on account of lower consumption of secondary fuel oil have been duly shared with the Respondents/beneficiaries in accordance with Regulation 25(3) of the 2009 Tariff Regulations.

25. NLCIL, vide additional submission filed vide affidavit dated 14.10.2025, has furnished the month-wise details of normative SFC, ECR computed on the basis of normative SFC, actual SFC, revised ECR based on actual SFC, the difference in ECR proposed to be recovered, the scheduled energy, and the corresponding month-wise amounts claimed to be recovered from the beneficiaries for the period 2009–14.

26. Based on details furnished by NLCIL, the year-wise amounts claimed to be recovered from beneficiaries, including interest, are as under:

Year	Amount in Rs		
	Principal	Interest	Total
2009-10	62277151	3807095	66084246
2010-11	73761439	10804886	84566325
2011-12	88544629	19993749	108538378
2012-13	97297986	35210134	132508120
2013-14	116500756	50117144	166617900

27. APTEL, in its judgment dated 17.7.2025, while remanding the matter to the Commission, observed that the issue is no longer *res integra*. APTEL noted that in its earlier Judgment dated 28.5.2020 in Appeal Nos. 291 & 344 of 2016, involving the same parties and the same tariff period 2009–2014, though pertaining to a different generating station, it had already examined the issue in detail. APTEL further observed that the Commission's



reasoning in its Order dated 10.7.2015 in Petition No. 285/MP/2013, to the effect that the decision in the case pertaining to NTPC Limited could not be applied to reopen settled cases, was incorrect. APTEL also clarified that once a particular methodology or formula has been accepted as valid in one case, the same should be applied uniformly in similar cases. Accordingly, APTEL set aside the Commission's decision rejecting NLCIL's claim for adjustment of Energy Charges based on actual SFC and directed the Commission to recalculate ECR in accordance with the methodology recognised in its earlier judgment dated 28.5.2020 in Appeal Nos. 291 and 344 of 2016.

28. In terms of the above directions of the APTEL, NLCIL is permitted to substitute the actual SFC in place of the normative SFC in the formula for determination of energy charges under Regulation 21(6) for the period 2009-14 for its Thermal Power Station-II, Stage-I (630 MW) and Stage-II (840 MW).

29. TANGEDCO has requested that NLCIL be directed to furnish the details of the actual increase in consumption on account of the lower consumption of secondary fuel oil. In our view, savings in one component of fuel would correspondingly result in higher consumption of the other components of fuel in order to achieve the same total heat output of the fuel mix. We are inclined to agree with the submissions of NLCIL that once APTEL has set aside the earlier order of the Commission and has given binding interpretations of Regulations 20, 21(6), 25 and 10(4), with a specific direction to recompute ECR on the basis of actual SFC, it is no longer open to the TANGEDCO, at the remand stage, to contend that only normative SFC should be applied or to characterize the methodology adopted in the NTPC case as a deviation. Accordingly, we do not find merit in the contention of TANGEDCO.

30. In view of the above, NLCIL is permitted to recover the differential amount in ECR arising out of the substitution of actual SFC in lieu of normative SFC from the beneficiaries after reconciliation of the computation in respect of actual SFC and scheduled energy. With respect to the prayer of NLCIL qua the permission to recover the said amount with interest,



it is observed that the beneficiaries did not have any role in the non-payment/delayed payment of the said amount, as there was no order of the Commission permitting such recovery earlier, nor were any invoices raised by NLCIL in this regard. At the same time, the time value of money cannot be ignored, and NLCIL would be entitled to the same under the 2009 Tariff Regulations. Regulation 6(4) of the 2009 Tariff Regulations, relating to the truing-up of capital expenditure and tariff, provides as under:

“Where after the truing-up of tariff recovered exceeds the tariff approved by the Commission under these regulations, the generating company or the transmission licensee, as the case may be, shall refund to the beneficiaries or the transmission customers, as the case may be, the excess amount so recovered along with simple interest at the rate equal to short-term Prime Lending rate of State Bank of India as on 1st April of respective year.”

31. In view of the above and in order to balance the interests of both parties, we are of the view that the interest arising out of the differential ECR should be payable from 6.2.2016, being the date when the claim was first raised by NLCIL, and not from the beginning of the tariff period 2009-14. The interest shall be payable at the rate specified under Regulation 6(4) of the 2009 Tariff Regulations, i.e., at a rate equal to the short-term Prime Lending Rate of State Bank of India as on 1st April of the respective year. Accordingly, the principal amount payable on account of the differential in ECR due to the substitution of actual SFC in lieu of normative SFC, along with applicable interest w.e.f. 6.2.2016, after due reconciliation of actual SFC and scheduled energy, shall be paid to NLCIL by the Respondents within 60 days of invoices raised by NLCIL in terms of this order.

Issue (b): Disallowance of Life Extension Programme (LEP) assets in the capital cost

32. The order dated 10.2.2017 in Petition No. 473/GT/2014 had considered the deletion of ₹29,131.98 lakh during the year 2013-14 and adjusted the same in the capital cost. Thereafter, vide SM order dated 12.6.2017, the Commission allowed the closing capital cost of ₹32,023.21 lakh as on 31.3.2014, after accounting for the aforesaid deletion of ₹29,131.98 lakh.



Submissions of NLCIL

33. NLCIL, in compliance of ROP of the hearing dated 23.9.2025, submitted the information, vide affidavit dated 14.10.2025, as under:

(i) Regulation 10 of the 2009 Tariff Regulations permits a generating company to undertake Renovation and Modernisation (R&M) works for the extension of life beyond the useful life of the generating station or unit. In the case of coal/lignite-based thermal generating stations, the generating company may alternatively opt for Special Allowance in lieu of undertaking capital expenditure towards R&M, in which event the capital cost of the generating station is not subject to revision, either upward or downward.

(ii) Accordingly, NLCIL had opted to avail the Special Allowance under the said Regulations for meeting the expenditure requirements, including those relating to renovation and modernisation works undertaken for the purpose of life extension of the generating station beyond its useful life.

(iii) During the tariff period 2009–14, NLCIL received an amount of ₹38.64 crore towards Special Allowance in accordance with the applicable Tariff Regulations, which was utilised for carrying out life-extension works in a phased manner, primarily during the scheduled overhauls of the units. Since the expenditure incurred under the Special Allowance is required to be maintained separately to distinguish life-extension assets from the generating station's regular assets, the management approved specific accounting guidelines submitted by NLCIL for such works. As per the said guidelines, (a) the original assets identified for life-extension are removed from the gross block of the production centre; (b) the residual value (10%) of such assets, together with the value additions incurred out of the Special Allowance, is recognised as a new asset under a separate profit centre with a useful life of 15 years; and (c) any subsequent expenditure incurred is treated as value addition to such assets, with depreciation charged accordingly.

(iv) In terms of the above accounting treatment, the residual value of the original assets continues to be reflected in the books of accounts along with the value additions representing improvements undertaken out of the Special Allowance. Thus, as per NLCIL, the Commission erred in not considering the value of LEP assets as part of capital assets.

Reply of TANGEDCO

34. In response to the submissions of NLCIL, the Respondent, TANGEDCO vide affidavit dated 17.11.2025 has submitted as under:



(i) The justification advanced by NLCIL for the inclusion of the residual value of Life Extension Programme (LEP) assets along with the value additions thereto as part of the capital cost is untenable and contrary to the applicable regulatory framework. The accounting treatment adopted by NLCIL for LEP assets, whereby 10% residual value of the withdrawn fixed assets is retained along with value additions and recognised as a new asset in the capital cost, is neither in accordance with the applicable accounting standards nor consistent with the Generally Accepted Accounting Principles (GAAP).

(ii) Regulation 7 of the 2009 Tariff Regulations specifies the components that may be included in the capital cost of a project. In terms of the said Regulations, capital cost includes expenditure incurred or projected to be incurred up to the date of commercial operation of the project, capitalised initial spares within the specified ceiling, and additional capital expenditure determined under the relevant provisions of the Regulations. TANGEDCO has also referred to the proviso to Regulation 7(1) of the 2009 Tariff Regulations, which stipulates that assets forming part of the project but not in use shall be taken out of the capital cost.

(iii) Based on the above provisions, any asset withdrawn from the original project cost capitalised must necessarily be deducted from the capital cost. Thus, Regulation 7(1) of the 2009 Tariff Regulations read with its proviso clearly requires that assets forming part of the project but no longer in use must be excluded from the project cost. Further, the residual value of an asset that no longer serves its intended purpose cannot be retained in the capital cost and must be excluded in accordance with the proviso to Regulation 7(1) of the 2009 Tariff Regulations.

(iv) NLCIL's contention that value addition carried out through life-extension works results in the creation of a new asset and therefore should be included in the capital cost is also disputed. In this regard, NLCIL itself has admitted that the life extension works have been undertaken by availing the Special Allowance. As per the proviso to Regulation 10(1) of the 2009 Tariff Regulations, in case of coal-based or lignite-fired generating stations, the generating company may opt for Special Allowance as compensation for meeting the expenditure requirements including those towards renovation and modernisation beyond the useful life of the generating station or unit, and in such cases revision of the capital cost shall not be considered.

(v) Hence, under the regulatory framework, any expenditure incurred towards life-extension works by availing the Special Allowance cannot be included in the capital cost of the generating station. Accordingly, the inclusion of LEP assets as part of the gross block of assets and their consideration for the determination of capital cost are misconceived, untenable, and contrary to the express provisions of the 2009 Tariff Regulations.



Written Submissions of NLCIL

35. NLCIL, vide its written submissions dated 12.1.2026 and 14.1.2026, has submitted the following:

(i) APTEL, in its judgment, held that the Commission had erred in de-capitalising the LEP assets solely on the basis of the reconciliation statement without verifying the actual operational status of the assets. Further, APTEL remanded the matter to the Commission for fresh examination, observing that the Commission had prematurely treated LEP assets amounting to ₹290.63 crore as deleted assets based only on the reconciliation statement, without verifying whether the assets were actually removed from service or whether the Special Allowance route had been availed. APTEL also noted that such treatment resulted in the unwarranted exclusion of ₹261.63 crore in cumulative depreciation. Accordingly, APTEL directed the Commission to examine (a) whether the Petitioner had opted for Special Allowance under Regulation 10(4) for Stage-I, and (b) whether the LEP assets shown as deletions in the reconciliation statement were physically removed from service or continued to remain in use.

(ii) In terms of Regulation 10 of the 2009 Tariff Regulations, once the Special Allowance is exercised, the capital cost of the generating station or unit is not subject to revision either upward or downward. However, during the truing-up exercise, the Commission reduced the residual value of Stage-I assets from equity, which is inconsistent with the regulatory framework governing the Special Allowance.

(iii) The contention of TANGEDCO that the accounting treatment adopted for Life Extension assets has resulted in the revision of capital cost or the inclusion of such expenditure in the gross block is incorrect and denied. It is clarified that the deletion of original assets from the Production Profit Centre and the recognition of Life Extension assets under a separate Profit Centre is merely an accounting segregation exercise undertaken to distinguish Life Extension assets from regular capital assets, in line with the regulatory requirement that the capital cost of the generating station remains frozen once the Special Allowance is exercised.

(iv) Further, under the said methodology, the residual value (10%) of the original assets selected for Life Extension, together with the value additions funded from the Special Allowance, is recognised as new Life Extension assets with a normative useful life of 15 years. Such treatment does not amount to the capitalisation of Life Extension expenditure for tariff purposes and does not result in a revision of the capital cost, which is expressly prohibited under Regulation 10 of the 2009 Tariff Regulations.

(v) The contention of TANGEDCO that Life Extension expenditure should not be recognised as assets is based on an incorrect interpretation of the regulatory provisions. Regulation 10 of the 2009 Tariff Regulations only bars revision of capital



cost for tariff determination and does not prohibit recognition of such expenditure as assets for financial reporting and depreciation purposes. The tariff capital cost of the generating station remains unchanged, and Life Extension expenditure has not been claimed for tariff recovery.

(vi) The allegation of TANGEDCO that Life Extension expenditure has resulted in revision of capital cost or its inclusion in the tariff gross block is factually incorrect. The removal of original assets from the Production Profit Centre and the recognition of Life Extension assets under a separate Profit Centre is only an accounting segregation exercise to reflect replacement of components and reassessment of useful life, and does not amount to capitalisation for tariff purposes. Thus, the accounting treatment adopted by it is consistent with the provisions of Ind AS 16 – Property, Plant and Equipment governing recognition, derecognition and subsequent expenditure relating to property, plant and equipment.

(vii) Paragraph 7 of Ind AS-16 provides that expenditure shall be recognised as property, plant and equipment when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Life Extension expenditure satisfies these criteria, as such expenditure enhances the useful life and operational capability of the generating units beyond their original useful life of 25 years.

(viii) Further, Ind AS-16 requires component accounting and replacement treatment. In this regard, reference is made to paragraph 13 of the standard, which provides that when a significant component of an asset is replaced, the carrying amount of the replaced part shall be de-recognised and the cost of the new component shall be recognised in the asset's carrying amount. Reference has also been made to paragraph 14 of the standard, which provides that major inspection costs shall be capitalised and the carrying amount of any previous inspection shall be derecognised. Life Extension activities involve replacing significant components and, therefore, appropriately result in derecognition of the original assets selected for Life Extension and recognition of the new components.

(ix) In addition to this, paragraph 43 of Ind AS-16 requires that each part of an asset with a different useful life should be depreciated separately. After completion of the original useful life of 25 years, the Life Extension assets were recognised with a separate useful life of 15 years. Further, paragraph 51 of Ind AS-16 provides that the useful life of property, plant and equipment shall be reviewed periodically and revised where expectations differ from previous estimates. Accordingly, recognition of Life Extension assets with a revised useful life of 15 years is stated to be consistent with this principle.

(x) Paragraphs 67 to 70 of Ind AS-16 provide for derecognition of assets when they are replaced or when no future economic benefits are expected from their use. In particular, paragraph 67 provides that an asset shall be derecognised when it is



replaced, and paragraph 70 stipulates that the carrying amount of a replaced part shall be derecognised. Therefore, the original assets, which had completed their useful lived , were derecognised and the residual value (10%), together with value additions funded from Special Allowance, was recognised as new Life Extension assets.

(xi) Thus, the deletions reflected in the audit certificate for FY 2013-14 arise solely due to the accounting methodology adopted for segregating LEP assets from regular assets and the related accounting treatment in the books of accounts, and do not in any manner imply a revision of capital cost.

(xii) Further, the book entries arising from the derecognition-recognition componentisation model reflect compliance with the requirements of Ind AS-16 and do not amount to upward revision of capital cost for tariff purposes. The expenditure incurred out of Special Allowance is normative in nature and is not capitalised for tariff determination, and the capital cost of the generating station remains frozen in terms of Regulation 10 of the 2009 Tariff Regulations. Thus, TANGEDCO's objection arises from conflating the financial reporting requirements under Ind AS with tariff determination under the Tariff Regulations, which operate independently.

Analysis and Decision

36. APTEL order dated 17.7.2025, observed that the controversy in the present case arises from whether the Commission was justified in treating the LEP assets of Stage-I as de-capitalised or deleted assets, solely on the basis of the accounting presentation reflected in the reconciliation statement furnished by NLCIL. APTEL noted that although the reconciliation statement for FY 2013-14 reflected the deletion/sale of an asset amounting to Rs. 291.31 crore, NLCIL had clarified that the said entry represented only an internal accounting adjustment and not the actual removal or retirement of assets from operation or from the capital cost. APTEL further observed that there is a clear distinction between accounting reclassification and actual de-capitalisation of assets, and unless the assets are physically retired, sold, or otherwise taken out of service, they cannot be treated as deleted from the capital cost.

37. However, APTEL also took note of the submissions of TANGEDCO that the NLCIL had opted for the Special Allowance under Regulation 10(4) of the 2009 Tariff Regulations,



which precludes simultaneous capitalisation of expenditure towards renovation and modernisation (R&M) or life-extension works. APTEL observed that the records available before it did not clearly establish whether NLCIL had actually availed the Special Allowance during the relevant tariff period for Stage-I units or whether the same was only recorded in the books of accounts. In view of this uncertainty, APTEL held that the issue required factual verification.

38. APTEL further observed that the Commission had acted prematurely in treating LEP assets amounting to ₹290.63 crore as deleted assets solely on the basis of the reconciliation statement, without examining whether such assets were physically removed from service or whether the Special Allowance had actually been availed. APTEL also noted that such treatment had resulted in exclusion of cumulative depreciation amounting to ₹261.63 crore, thereby impacting the tariff determination. Accordingly, APTEL directed that the matter be examined afresh by the Commission after verification of the relevant facts.

39. In compliance with the directions of APTEL, the Commission, vide Record of Proceedings of the hearing dated 23.9.2025, directed the Petitioner to furnish clarifications on the following issues:

- (a) Whether the Appellant had actually opted for Special Allowance under Regulation 10(4) for Stage-I, and*
- (b) Whether the LEP assets shown as deletions in the reconciliation statement were physically removed from service or continued in use.*

40. The Petitioner, vide affidavit dated 14.10.2025, in compliance with the query (a) above, has submitted that the units of TPS II have completed their useful life of 25 years on the dates indicated below:

	Date of Commissioning	Completion of the useful life of 25 years
Stage -I		
Unit I	29.9.1986	29.9.2011



Unit II	08.5.1987	8.5.2012
Unit III	23.4.1988	23.4.2013
Stage-II		
Unit IV	25.1.1992	25.1.2017
Unit V	2.6.1992	2.6.2017
Unit VI	17.3.1993	17.3.2018
Unit VII	9.4.1994	9.4.2019

41. NLCIL has further submitted that in terms of Regulation 10 of the 2009 Tariff Regulations, it opted to avail the Special Allowance for meeting the expenses related to renovation and modernisation (R&M) for the life extension of the generating station beyond its useful life.

42. With regard to the second query, NLCIL has submitted that, in order to ensure transparency and maintain a clear distinction between life-extension assets and regular capital assets, the management approved specific accounting guidelines for recording the expenditure incurred out of the Special Allowance. In accordance with these guidelines:

- (a) *Original assets selected for life extension are removed from the Gross Block of the Production Centre;*
- (b) *Residual value (10%) of such assets, together with value additions made using Special Allowance, is recognized as a new asset under a separate Profit Centre with 15 years useful life; and*
- (c) *Subsequent expenditure is treated as value addition, with depreciation charged accordingly.*

43. Thus, NLCIL clarified that, under this accounting methodology, the residual value of the original assets continues to remain in the books of accounts along with the value additions undertaken for improvements using the Special Allowance funds. It is further submitted under Regulation 10 of the 2009 Tariff Regulations that once the Special Allowance option is exercised, the capital cost of the generating station cannot be revised either upward or downward. However, while truing up, the Commission wrongly reduced the residual value of Stage-I assets from equity, which goes against the intent of the Special



Allowance scheme. As per the approved accounting treatment, assets that have been taken up for life extension works funded through the Special Allowance are removed from the Gross Block of the main production centre, and their residual value (10%), along with value additions made using the Special Allowance, is recorded as a new asset with a 15-year useful life. Therefore, the deletions shown in the audit certificate for FY 2013–14 only reflect this accounting segregation of LEP assets from regular assets and do not indicate any revision to capital cost.

44. NLCIL has also submitted the Asset Master for FY 2013-14, duly reconciled with the audit certificate, indicating the list of original assets that had completed their useful life of 25 years and the corresponding creation of new assets by transferring 10% of their residual value. According to NLCIL, this treatment is consistent with the management-approved accounting methodology adopted for assets that have completed their useful life and have been taken up for life-extension works funded through the Special Allowance.

45. We have considered the submissions of the Petitioner and the documents placed on record. As per Regulation 10 of the 2009 Tariff Regulations, once a generating company opts for the Special Allowance in lieu of undertaking R&M expenditure, the capital cost of the generating station or unit shall not be subject to revision either upward or downward.

46. In the present case, it is evident from the records that NLCIL had opted for the Special Allowance for Stage-I units of TPS-II, and had received ₹38.64 crore during 2009–14 towards meeting life extension-related expenditure. The accounting treatment adopted by NLCIL, whereby the original assets were removed from the Gross Block of the Production Centre and the residual value (10%) along with value additions funded through the Special Allowance was recognized under a separate Profit Centre with a revised useful life of 15 years, represents an internal accounting segregation undertaken for the purpose of distinguishing life-extension assets from the regular assets of the generating station and is not an actual physical decapitalization of assets. It is thus clarified that these do not



represent the physical removal of assets from service, but only an accounting segregation undertaken for transparency and to properly distinguish between regular assets and life extension assets funded through Special Allowance. The residual value and new additions created under the LEP scheme remain part of the asset base in operation.

47. At the same time, it is pertinent to note that once NLCIL has exercised the Special Allowance option, the capital cost of Stage-I assets cannot be reopened or revised, even to reinclude the residual value of life-extended assets. Thus, the earlier reduced residual value from equity was not in line with the spirit of Regulation 10. Therefore, while the LEP assets cannot be treated as deleted or de-capitalised assets merely on the basis of accounting presentation, no additional capitalisation on account of life-extension works undertaken through the Special Allowance is admissible under the provisions of the 2009 Tariff Regulations.

48. In view of the above, and in light of the findings of APTEL, we hold that the deletion entry of ₹291.31 crore in FY 2013–14 represents only an accounting segregation of LEP assets under the Special Allowance scheme and does not amount to actual de-capitalisation. Accordingly, the earlier adjustment made by treating such accounting deletions as a reduction in capital cost is not sustainable and is hereby set aside.

Issue : Decapitalisation of balancing capital spares from the gross block.

49. In compliance with the directions of the Commission vide ROP of the hearing dated 5.1.2016, NLCIL, vide affidavit dated 6.2.2016, submitted the station-wise reconciliation statement of additional capital expenditure for the period 2009-14. In the said reconciliation statement, certain assets were reflected under the heads “Deletion/Sold” for each year in the period 2009-14. NLCIL also furnished the details of additional capitalisation as per the books of accounts in respect of TPS-II Stage-I, as set out below:-



(Rs. in Lakh)

Sl.No	Unit TPS-II (Stage-I)	2009-10	2010-11	2011-12	2012-13	2013-14
3	Total Additional Capital (A)	3986.39	429.09	1825.25	1570.98	5474.14
i	Additional Asset claimed as per Petition (B)	2891.14	1.64	595.74	676.83	1514.05
ii	Additional Asset claimed as Compensation Allowance (C)	409.50	409.50	409.50	273.00	136.50
iii	Additional Asset claimed as Special Allowance (D)	-	-	-	1240.68	2623.30
iv	Balance (Capital Spares) (E)= (A)-(B)-(C)-(D)	685.75	17.95	820.01	-	1200.29

50. The Commission, in its order dated 10.2.2017 in Petition No. 473/GT/2014, had observed a variation of Rs (-)619.53 lakh in the FY 2012-13 in the reconciliation statement submitted. Since NLCIL had not indicated any value for capital spares for FY 2012–13 in the said statement, the Commission considered that the amount of ₹619.53 lakh pertained to the balance capital spares. Accordingly, the said amount was treated as decapitalisation of capital spares during FY 2012–13 and was deducted from the Gross Block for the purpose of tariff determination.

51. However, APTEL order dated 17.7.2025, observed that Compensation Allowance and Special Allowance are regulatory tariff constructs under the 2009 Tariff Regulations and do not represent physical assets recorded in the books of accounts. APTEL noted that these allowances are intended to compensate generating companies for certain capital or maintenance expenditures in lieu of actual capitalisation and therefore do not correspond to assets capable of being capitalised or de-capitalised in the conventional sense. Accordingly, APTEL held that inclusion of such entries in the computation of capital decapitalisation,



without proper segregation or adjustment, constituted an error on the part of the Commission.

52. APTEL further observed that the error was both arithmetical and conceptual in nature. While the Commission had relied upon the data submitted by NLCIL, it failed to appreciate the nature and character of the financial entries reflected in the reconciliation statement and their relevance to capital asset accounting. APTEL emphasised that regulatory prudence requires not only mathematical accuracy but also a correct understanding of the financial entries that form the basis for tariff determination.

53. In view of the above findings, APTEL set aside the deduction of ₹6.1953 crore from the Gross Block on account of decapitalisation of capital spares and the consequential reduction in Return on Equity and Depreciation. The matter was remanded to the Commission with a direction to recompute the capital cost after excluding the impact of Compensation Allowance and Special Allowance entries and to revise the tariff elements accordingly.

Submissions of NLCIL

54. NLCIL, in compliance with the ROP of the hearing dated 23.9.2025, submitted the information, vide affidavit dated 14.10.2025, as under:

(i) In terms of Regulation 19(e) of the 2009 Tariff Regulations, in respect of coal-based or lignite-fired thermal generating stations, a Compensation Allowance is admissible on a unit-wise basis from the year following the completion of 10, 15 or 20 years of useful life of the generating unit. The said allowance is intended to meet expenditure towards the procurement of new assets of a capital nature, including assets of a minor nature. The Commission allows a fixed normative Compensation Allowance per MW, similar in nature to the Special Allowance, to enable generating companies to meet such capital or minor asset expenditure. The said allowance is normative in nature, is not linked to the actual expenditure incurred, and forms part of the Annual Fixed Cost (AFC) of the generating station or unit. Once the Compensation Allowance is availed, revision of the capital cost towards procurement of capital or minor assets, including capital spares, is not permissible, as the said allowance itself normatively covers such expenditure.



(ii) In line with the above regulatory framework, no separate claim towards capitalisation of capital spares was made during the period 2009–14. Accordingly, the column relating to “balance capital spares” in the reconciliation statement for FY 2012–13 was left blank. The reconciliation statement furnished vide affidavit dated 6.2.2016 was provided only to present the overall position of capital expenditure, namely: (i) the total expenditure incurred as per books of account; (ii) the portion of such expenditure claimed under the applicable Tariff Regulations; and (iii) the residual expenditure pertaining to other assets, which also included certain capital spares. The reconciliation statement was furnished solely for the purpose of transparency and was not intended as a claim for additional capitalisation.

(iii) Further, NLCIL had already reconciled the additional capital expenditure as per books vis-à-vis the claims made under the Tariff Regulations for Stage-I of the generating station vide affidavit dated 6.2.2016. The summary of the reconciliation has been submitted as under:

STAGE I & Stage II (Rs. Lakhs)							
Year	Total Additions as per Audit certificate (A)			Additional Asset claimed as per Petition (B)			Difference (A-B)
	Stage I	Stage II	Total	Stage I	Stage II	Total	Station
2009-10	3,986	115	4,101	2,898	7	2,905	1,196
2010-11	429	-	429	4	2	6	423
2011-12	1,825	100	1,925	1,389	793	2,181	-256
2012-13	1,571	-	1,571	940	263	1,202	369
2013-14	5,474	-	5,474	1,562	48	1,610	3,864
Total	13,286	215	13,500	6,792	1,112	7,904	5,596

(iv) As also clarified in the said affidavit, against the total actual additional capital expenditure of ₹13,500 lakh incurred during the control period 2009–14, only ₹7,904 lakh was claimed under the applicable tariff provisions. The balance expenditure, including certain book additions and spares, was not claimed for tariff purposes.

(v) The Commission, after due consideration of the submissions and records, vide paragraph 51 of the order dated 10.2.2017 in Petition No. 473/GT/2014, allowed an amount of ₹131 lakh towards admissible capitalisation for the control period 2009–14. However, in terms of the consistent regulatory framework under the 2009 and 2014 Tariff Regulations, once the normative Compensation Allowance is granted, a separate adjustment to capital cost towards capital spares is neither warranted nor consistent with the regulatory scheme.

(vi) Accordingly, it was submitted that the balancing figure reflected in the reconciliation statement does not represent unclaimed capital spares but merely reflects the overall reconciliation between the actual expenditure as per the books of account and the portion of such expenditure claimed under the applicable Tariff Regulations.



Reply of TANGEDCO

55. In response to the submissions of NLCIL, the Respondent, TANGEDCO vide affidavit dated 17.11.2025 has submitted as under:

(i) NLCIL is claiming Additional Capitalisation in the books in respect of assets funded by the beneficiaries through Special allowance / R& M allowance, which is not in line with the accepted accounting principles and Tariff Regulations. Any asset funded by a third party (beneficiaries) should go on to reduce the capital cost of the asset.

(ii) In the present case, the entire asset is claimed through the Special allowance/ R& M allowance. Hence, NLCIL shall not capitalise even as per the books of accounts. It is tantamount to a double claim: first, as an allowance, and second, as an additional capitalisation of an asset.

Written Submissions of NLCIL

56. NLCIL, vide its written submissions dated 12.1.2026 and 14.1.2026, has submitted the following:

(i) APTEL, vide its judgment dated 17.7.2025, held that the decapitalisation of capital spares based on certain negative entries reflected in the reconciliation statement, without proper segregation or adjustment, constituted an error on the part of this Commission.

(ii) Further, with regard to the decapitalisation of ₹6.1953 crore towards capital spares for FY 2012–13, APTEL observed that Compensation Allowance and Special Allowance are tariff-based regulatory mechanisms and do not represent capital assets. Accordingly, APTEL held that the inclusion of such entries in the computation of decapitalisation was erroneous. In view of the above findings, TANGEDCO cannot now seek to persuade this Commission to sustain the earlier approach of decapitalisation in its entirety, as the same would be contrary to the express findings of APTEL.

Analysis and Decision

57. After considering the submissions of the parties and the documents available on record, the Commission observes that the Compensation Allowance is a normative provision intended to meet expenditure towards procurement of new or minor capital assets, including spares, and is not linked to actual capitalisation in the books of account. The reconciliation statement furnished vide affidavit dated 6.2.2016 was only intended to present the overall



position of capital expenditure for transparency and did not constitute a claim for additional capitalisation. Further, APTEL order dated 17.7.2025, has also held that Compensation Allowance and Special Allowance are regulatory tariff constructs and do not represent physical assets capable of being capitalised or de-capitalised. In view of the above, we are of the view that the earlier deduction of ₹619.53 lakh on account of de-capitalisation of capital spares was based on a misinterpretation of accounting data and regulatory treatment. Accordingly, the decapitalisation of ₹619.53 lakh from the gross block, hereby, stands withdrawn.

58. Accordingly, we hold that the reconciliation statement furnished by NLCIL was submitted only as a disclosure measure for transparency and cannot be construed as a basis for any separate adjustment or revision of capital cost towards capital spares. This is particularly so since the normative Compensation Allowance under the applicable regulations has already been availed and the admissible capitalisation for the relevant period has duly been examined and allowed.

59. It is observed that in the impugned order dated 10.2.2017 in Petition No. 473/GT/2014, the closing gross block for the period 2009-14 was arrived at by factoring in the Compensation Allowance and Special Allowance for the purpose of reconciliation. However, in light of the APTEL findings and considering that the Compensation Allowance and Special Allowance are normative tariff constructs and not physical assets capable of being capitalised or de-capitalised, we hold that the inclusion of these entries in the computation of gross block in the impugned order dated 10.2.2017 was not in accordance with the regulatory framework. Accordingly, the deduction of ₹619.53 lakh during FY 2012-13 on account of decapitalisation of capital spares is set aside and stands withdrawn.

60. In view of the above, the closing capital cost allowed for Stage-I of the generating station for the period 2009-14 vide para 51 of the order dated 10.2.2017 and vide Suo Moto



Review order dated 12.6.2017 in Petition No. 473/GT/2014, for the period 2009-14 stands revised as under:

(Rs in Lakhs)

Stage-I	2009-10	2010-11	2011-12	2012-13	2013-14
Opening capital cost	61735.60	61740.40	61740.40	61774.72	61774.72
Additional capital expenditure allowed	4.80	0.00	34.32	0.00	0.00
Deletion/ sold assets	-	-	-	-	0.0
Capital spares decapitalised but not furnished	-	-	-	0.0	-
Closing capital cost	61740.40	61740.40	61774.72	61774.72	61774.72

61. The table under Paragraph 43 of the order dated 28.2.2023 in Petition No. 368/GT/2020 relating to truing up of tariff of NLC Thermal Power Station-II (1470 MW) [TPS-II Stage-I (630 MW) and Stage-II (840 MW)], for the determination of capital cost of the generating station, for the period 2014-19, stands revised as under:

Capital Cost for Stage-I

(Rs. in lakhs)

	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Capital Cost	61774.72	61774.72	61774.72	61774.72	61774.72
Add: Additional Capital Expenditure	0.00	0.00	0.00	0.00	0.00
Less: Decapitalization	0.00	0.00	0.00	0.00	0.00
Less: Assumed Deletion	0.00	0.00	0.00	0.00	0.00
Closing Capital Cost	61774.72	61774.72	61774.72	61774.72	61774.72
Average Capital Cost	61774.72	61774.72	61774.72	61774.72	61774.72

62. Accordingly, Tariff for the period 2009-14 and 2014-19 for TPS-II Stage-I, has been revised as follows:

Tariff for the period 2009-14

(Rs. in lakh)

	2009-10	2010-11	2011-12	2012-13	2013-14
Return on Equity	2771.54	2423.91	2086.55	1774.44	1643.15
Interest on Loan	0.00	0.00	0.00	0.00	0.00
Depreciation	1362.01	1362.71	1370.20	1384.73	87.26
Interest on Working Capital	2517.50	2547.14	2584.13	2637.55	2677.35
O&M Expenses	11466.00	12121.20	12814.20	13551.30	14326.20



Cost of secondary fuel oil (for coal-based & lignite fired generating stations only)	1514.91	1514.91	1519.06	1514.91	1514.91
Separate compensation allowance	409.50	409.50	409.50	273.00	136.50
Special allowance in lieu of R&M	0.00	0.00	0.00	1240.68	2623.30
Total	20041.46	20379.37	20783.64	22376.61	23008.67

Note: All figures under each head have been rounded. The figure in the total column in each year is also rounded. As such, the sum of individual items may not be equal to the arithmetic total of the column.

Tariff for the period 2014-19

	(Rs. in lakh)				
	2014-15	2015-16	2016-17	2017-18	2018-19
Depreciation	0.00	0.00	0.00	0.00	0.00
Interest on Loan	0.00	0.00	0.00	0.00	0.00
Return on Equity	1632.91	1370.32	1370.32	1370.32	1374.00
Interest on Working Capital	4125.97	4184.89	4248.11	4306.94	4371.69
O&M Expenses	15492.28	16454.62	17554.84	18501.35	19541.94
Compensation Allowance	-	-	-	-	-
Special allowance	4364.88	4642.05	4936.82	5250.31	5583.69
Total	25616.04	26651.88	28110.09	29428.92	30871.33

Note: All figures under each head have been rounded. The figure in the total column in each year is also rounded. As such, the sum of individual items may not be equal to the arithmetic total of the column.

63. In light of the above, NLCIL is directed as under:

- (a) Reconcile the revised computation of ECR based on the actual SFC and scheduled energy for the relevant period. Upon such reconciliation, NLCIL shall revise the energy charges and raise supplementary bills/invoices for recovery of the differential amounts arising out of the recomputed ECR. Any excess or short recovery shall be duly adjusted beneficiary-wise in accordance with the applicable Tariff Regulations.
- (b) For the tariff period 2019-24, NLCIL shall revise the opening capital cost accordingly. Further, since the order on truing-up of tariff for the period 2019-24 in respect of the instant generating station is yet to be reserved, NLCIL is directed to furnish the requisite additional information by revising all the details and relevant forms, duly reflecting the revised opening capital cost in terms of this order.



(c) NLCIL is further directed to reconcile the revised capital cost and the consequential tariff revisions with the beneficiaries. Such reconciliation shall include unit-wise and year-wise adjustments to capacity and energy charges already billed and recovered during the tariff periods 2009–14 and 2014–19, based on the revised tariff parameters. Any excess or short recovery arising out of such revision shall be suitably adjusted through supplementary bills, as the case may be, in accordance with the applicable Tariff Regulations.

64. With the above directions, the directions of the APTEL in judgment dated 17.7.2025 in Appeal No. 92 of 2017 stand implemented. Petition No. 473/GT/2014 is disposed of in terms of the above findings and discussions.

Sd/-
(Ravinder Singh Dhillon)
Member

Sd/-
(Harish Dudani)
Member

Sd/-
(Ramesh Babu V.)
Member

Sd/-
(Jishnu Barua)
Chairperson

