

Before

UTTARAKHAND ELECTRICITY REGULATORY COMMISSION

In the matter of:

Petition no. 01/2007 dated 15.02.2007 filed by M/s Chamoli Hydro Power Private Limited.Petitioner

And

In the matter of:

Determination of Provisional Tariff for Debal Small Hydro Power Project u/s 62(1)(a) and 86 of the Electricity Act, 2003.

Coram

Shri V.K. Khanna	Member
Shri V.J. Talwar	Member

Date of Order: June 5, 2007

ORDER

This Petition has been filed by M/s Chamoli Hydro Power Private Limited (hereinafter referred to as "Petitioner") under sections 62 and 86 of the Electricity Act, 2003 (hereinafter referred to as "Act") read with relevant regulations and guidelines of the Commission for determination of provisional tariff of Petitioner's Small Hydro Power (SHP) Project on River Kaliganga, a tributary to Pinder river in District Chamoli, Uttarakhand with an installed capacity of 5 MW under the name Debal Small Hydro Power Project.

- (2) The Petitioner filed this Petition on 15.02.2007 for determination of provisional tariff stating that the Project was going to be commissioned in March 2007. After removal of deficiencies, the Petition was admitted on 24.04.2007 and a summary of its proposals was published by the Petitioner for response from stakeholders.

- (3) Only one objection by Uttaranchal Power Corporation Ltd. (UPCL) to the proposals made in this Petition was filed. UPCL's comments, which stress on restricting the Petitioner's claims to the limits prescribed in the relevant Regulations on the issues of depreciation, Capital Cost/MW, RoE, O&M expenses, Auxiliary Consumption etc., have been taken note of and suitably addressed wherever necessary.
- (4) The Petitioner having traced out the history of the project has in an unambiguous terms opted for the relaxed regulations spelt out in Order dated 10.11.05 for SHPs with capacity 1-25 MW issued by the Commission. It has, accordingly, worked out a provisional tariff of Rs. 3.63 per unit for sale of energy to UPCL and prayed for its approval.

1 Commission's Scrutiny & Analysis

- (5) The Petitioner, having once opted for relaxed regulations, is bound by the terms and conditions stipulated in the Order dated 10.11.2005 including sale of entire power to UPCL for at least 20 years. Accordingly, the Commission is determining the Provisional Tariff as per terms of the said Order on relaxed regulations read with original regulations viz. Uttaranchal Electricity Regulatory Commission (Terms & Conditions for Determination of Hydro Generation Tariff) Regulations, 2004 (Regulations).
- (6) Apart from the rate determined herein, taxes are allowed to be passed through in the Tariff and recovered separately from the beneficiaries as per the Regulations.

1.1 Capital Cost and Financing thereof

- (7) The Petitioner has taken the capital expenditure on the project as Rs. 24.35 Crore upto 21.12.2006, against the completed cost of Rs. 28.63 Crore taken in approved DPR, which has been supported by the certificate of the Chartered Accountant dated 13.01.2007. Since the capital cost claimed by the Petitioner works out to Rs. 4.87 Crore/MW, which is well within the ceiling of Rs. 5.5 Crore/MW specified in Order dated 10.11.2005, and the fact that the

Provisional Tariff has to be replaced by final tariff, the Commission has accepted the proposed capital cost of Rs. 24.35 Crore without any scrutiny.

- (8) The original financing plan approved by State Bank of India (SBI) envisaged a debt:equity ratio of 71.18% : 28.82% (SBI loans of Rs. 7.5 Crore @ 10.25% & Rs. 4 Crore @ 11%, SBH loans of Rs. 5.10 Crore @ 10.25% & Rs. 2.65 Crore @ 11%, Unsecured loan of Rs. 1.13 Crore and Equity of Rs. 8.25 Crore) in the total approved project cost of Rs. 28.63 Crore. However, the Petitioner has claimed the financing costs on the basis of actual financing used for the project, which is at variance with the approved financing. While the Petition indicates a loan of Rs. 15.42 Crore only from SBI, the Auditor's certificate shows that this amount of loan has been drawn from SBI and SBH without giving any inter-se break-up of loan source-wise or interest rate-wise. On prudence check, the Commission finds that original financing plan approved by the Financial Institution (SBI) is cost effective and should have been adhered to. Accordingly, for tariff purposes, the Commission has considered the capital expenditure to be incurred in the proportion of original financing as worked out in the following Table:

Table 1: Financing Plan of the Project

Particulars	Approved by SBI		As per Petitioner's submission	As per Auditor's Certificate	Considered (Based on approved Financing Plan)
	(Rs. Crore)	(%)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
1. Loans					
[A] Term Loans					
State Bank of India (I)	7.50	26.20%	15.42	15.42	6.38
State Bank of India (II)	4.00	13.97%			3.40
Sub-Total SBI	11.50	40.17%			9.78
State Bank of Hyderabad (I)	5.10	17.81%			4.34
State Bank of Hyderabad (II)	2.65	9.26%			2.25
Sub-Total SBH	7.75	27.07%			6.59
[B] Unsecured Loans	1.13	3.95%	0.68	0.68	0.96
Total Loans	20.38	71.18%	16.10	16.10	17.33
2. Equity	8.25	28.82%	8.25	8.25	7.02
Total	28.63	100.00%	*24.35	*24.35	24.35

**Actual capital expenditure upto 21.12.2006*

1.2 Interest on loans

- (9) The Petitioner has claimed an interest of Rs. 1.61 Crore. The opening loans

considered by the Commission have been discussed above in financing of the project cost. As per the approval of the lenders, the term loan has to be repaid in 120 equal instalments commencing from July 2007. The unsecured loan is also assumed to be on similar terms. Accordingly, the repayments due during 2007-08 work out to Rs. 1.30 Crore against a claim of Rs. 1.54 Crore. The interest rate of 10% given in the Petition has been accepted for unsecured loan. Rates of interest for Term Loans have been taken as per loan agreements rather than at claimed interest rate of 11%. Accordingly, the interest for 2007-08 works out to Rs. 1.75 Crore against claimed interest of Rs. 1.61 Crore. Any variation in interest liability due to change in interest rates shall be trued up during next tariff determination.

Table 2: Interest on Loans (Rs. Crore)

Loan Agency (Source of Loan)	Rate of Interest (%)	Balance at the beginning of the year	Principal due during the year	Balance at the end of the year	Approved Interest	Claimed Loan	Claimed Interest
State Bank of India (I)	10.25%	6.38	0.48	5.90	0.63	15.42	1.61
State Bank of India (II)	11%	3.40	0.26	3.15	0.36		
State Bank of Hyderabad (I)	10.25%	4.34	0.33	4.01	0.43		
State Bank of Hyderabad (II)	11%	2.25	0.17	2.09	0.24		
Un-Secured Loan	10%	0.96	0.07	0.89	0.09	0.68	0.00
Sub-Total (A)		17.33	1.30	16.03	1.75	16.10	1.61

1.3 Depreciation including Advance against Depreciation (AAD)

- (10) The Petitioner has claimed a depreciation of Rs. 0.89 Crore in addition to an AAD of Rs. 0.65 Crore.
- (11) As per the rates specified by the Commission in its Regulations, the depreciation to be taken into account for the year 2007-08 works out to Rs. 0.66 Crore and not Rs. 0.89 Crore as claimed by the Petitioner. Since the total repayment of Rs. 1.30 Crore is within the permissible limit of 10% of loan, the balance amount is being allowed through AAD of Rs. 0.64 Crore.

1.4 Return on Equity

- (12) The Petitioner has claimed return on equity as Rs. 1.73 crore @ 21% on the equity of Rs. 8.25 Crore. The Petitioner has stated that it has considered the

bench mark return expected in the capital market based on CAPM considering return on securities in the capital market during the years 2002 to 2005.

- (13) The Petitioner having opted Commission's Regulations cannot seek return on a totally different ground. Further, comparison of capital market with electricity sector is totally misplaced as risk and return profiles in the two sectors are totally different. Since the Commission is bound by the Regulations, return on the equity of Rs. 7.02 Crore has been calculated @ 14% post tax as stipulated in the Regulations, which works out to Rs. 0.98 Crore.

1.5 Operation & Maintenance (O&M) Expenses

- (14) Although Petitioner's reply to UPCL's objection in this behalf states that it has considered O&M expenses of Rs. 1.77 Crore at 4% on the approved project cost of Rs. 28.63 crores, the claimed O&M expenses work out to more than 6% of the total cost and more than 7% of the capital expenditure actually incurred. Against this, the O&M expenses considered in the approved DPR are 3% only. The Commission has worked out O&M expenses @ 4%, inclusive of insurance expenses of 1%, based on ceiling for actual expenses to be tried up later as specified in its order dated 10.11.2005, which work out to Rs. 0.97 Crore.

1.6 Interest on Working Capital

- (15) The interest on working capital for the year 2007-08 has been estimated as per Regulations, which comes to Rs. 0.13 Crore against a claim of Rs. 0.10 Crore.

1.7 Annual Fixed Charges (AFC)

- (16) Based on the above, the AFC for the Petitioner's generating station for the year 2007-08 works out to Rs. 5.13 Crore against a claim of Rs. 6.75 Crore.

2 Provisional Tariff for 2007-08

- (17) Full recovery of the Petitioner's AFC is being allowed from the saleable energy at 45% PLF (19.71 MUs) as stipulated in the Order dated 10.11.2005, which gives a rate of Rs. 2.60/kWh. Since the saleable energy is computed after

auxiliary consumption and transformation losses, Petitioner's claims and UPCL's objection in this regard are of no relevance.

- (18) Accordingly, the Commission approves a provisional tariff of Debal Small Hydro Power Plant of the Petitioner for 2007-08 as Rs. 2.60/kWh for energy sold upto 19.71 MUs and 26 p/kWh for sale beyond this limit. This tariff shall be replaced by final tariff as and when determined by this Commission. The rate of infirm energy for sale of power before commissioning shall also be taken as Rs. 2.60/kWh.
- (19) The Petition is disposed off accordingly.

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(V.J. Talwar)
Member

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(V.K. Khanna)
Member