

Before
UTTARAKHAND ELECTRICITY REGULATORY COMMISSION

In the matter of:

Petition no. 02/2008 filed by M/s Uttarakhand Jal Vidyut Nigam Limited

.....Petitioner

And

In the matter of:

Determination of Provisional Tariff for Maneri Bhali Stage II Large Hydro Power Project u/s 62(1)(a) and 86 of the Electricity Act, 2003.

Coram

Shri V.J. Talwar	Chairman
Shri Anand Kumar	Member

Date of Order: 28.11.2008

ORDER

This Petition has been filed by M/s. Uttarakhand Jal Vidyut Nigam 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 large Hydro Power Project with an installed capacity of 304 MW under the name Maneri Bhali II Hydro Power Project.

2. The Petitioner, Uttarakhand Jal Vidyut Nigam Limited (hereinafter referred to as "UJVNL") is a company incorporated under the provisions of the Companies Act, 1956, having its registered office at UJJWAL, Maharani Bagh, GMS Road, Dehradun.

3. The Petitioner had submitted the Petition for determination of provisional tariff of its Maneri Bhali-II power station on 14.11.2006. The said Petition was returned by the Commission on the following grounds: -
 - The anticipated date for completion of the Project was not indicated.
 - The details of capital expenditure actually incurred, duly audited and certified by statutory auditors upto the date of making application or a date prior to this date had not been submitted.
 - The authorization as per the Board resolution did not cover authorisation for filing the Petitions pertaining to Maneri Bhali- II.
4. The Petition alongwith a Supplementary Petition was again filed before the Commission on 25.02.2008.
5. The Petitioner submitted that Maneri Bhali-II Hydro Generating Station was nearing completion with Unit Nos. - 1, 3 & 4 having already been synchronized with the grid and synchronization of Unit -2 expected to be synchronized with the grid shortly. In its additional submission later, the Petitioner has submitted that all the 4 units have been declared under commercial operation on 15.03.2008.
6. The Commission sought certain information gaps to be removed by the Petitioner. While the status of capital cost and financing were revised based on actual expenditure, the calculation of the expenses related to them and, hence, the tariff were not revised by the Petitioner. After removal of deficiencies, the Petition was admitted on 01.07.2008 and a summary of its proposals was published by the Petitioner for response from stakeholders. However, no response was received by the Commission from any stakeholder.
7. Meanwhile, the Petitioner approached the Commission seeking determination of interim tariff to enable the Petitioner to meet its financial commitments towards PFC and GoU. The Commission, for reasons given in interim order dated 07.07.2008 (Annexure 1) and pending determination of provisional tariff, allowed an interim tariff of Rs. 2.69/kWh which was to be adjusted on account of excess/short recovery on the basis of provisional tariff to be determined by the Commission.

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8. The Commission held a technical session with the Chairman and other senior functionaries of the Petitioner Company on 05.09.2008, seeking justification on the following issues:
- Taking 12% free power for calculating saleable primary energy
 - Claiming IDC of Rs. 310 Crore instead of Rs. 271 Crore due and paid upto to PFC upto 31.3.2008
 - Claiming O&M expenses in excess of 1.5% as provided in the Regulation
 - Treating Rs. 164 Crore, which was the opening CWIP, as equity
9. The issues discussed in the technical session have been dealt adequately later at relevant portions of this Order. The Petitioner was asked to correct the claims made in the Petition and submit the amended/modified Petition at the earliest, in accordance with the discussions held in the technical session after getting the Board's approval on the same.
10. However, the Petitioner in its reply dated 22.10.2008 submitted that one of the matters raised in the technical session was referred to Government of Uttarakhand by it, in accordance with the directives of its Board of Directors and the reply of the Government is awaited on the matter. The Petitioner further stated that it would submit the modified Petition on receipt of Government's directives, no timeline for submission of the same was, however, given.
11. Since no reply has been received from the Petitioner, so far, the Commission has decided that it could not wait indefinitely for the Petitioner to file the amendments and decided to proceed with the Petition on the basis of records/information available with it.

1. Commission's Scrutiny & Analysis

12. The Commission has to determine the Provisional Tariff of any Hydro Generating Station as per Uttaranchal Electricity Regulatory Commission (Terms & Conditions for Determination of Hydro Generation Tariff) Regulations, 2004 (herein after referred to as "Regulations"). The Petitioner's proposals are, therefore, being examined in this Order in light of these Regulations.

13. In terms of the Regulations, apart from the tariff determined herein, taxes are allowed to be passed through and recovered separately from the beneficiaries.
14. The Petitioner has claimed expenses and tariff for the entire year of 2007-08, while the Petitioner's project attained CoD (Date of Commercial Operation) only on 15.03.2008. The Commission has considered expenses for last 17 days of 2007-08 (i.e. from 15.03.2008 to 31.03.2008) as all the expenditure prior to CoD of the plant ought to have been capitalised and is not required to be considered as allowable component of Annual Fixed Charges for determination of tariff for 2007-08.
15. The proposals made by the Petitioner are discussed hereafter alongwith the Commission's analysis on the same while examining different elements of the Petitioner's annual fixed charges.

1.1. Capital Cost

16. The Petitioner has submitted that the projection of completed capital cost considered in the Petition filed on 14.11.06 for determination of provisional tariff of Maneri Bhali-II Power Station was Rs. 1807.89 Crore.
17. The Petitioner has now submitted the revised estimate of the completed cost of the project at Rs. 2131.01 Crore. The Petitioner further submitted that the financial implication of withdrawal of interest subsidy, which has been allowed to it by PFC under AG&SP, on account of non commencement of project during Xth plan period would lead to further addition to the capital cost by Rs. 72.53 Crore. Hence, the revised project cost after considering interest subsidy under AG&SP refundable to Power Finance Corporation would amount to Rs. 2203.54 Crore. It has further been submitted by the Petitioner that the Government of Uttarakhand has constituted a committee for approval of the above stated revised project cost.
18. The Petitioner has mentioned that Power Finance Corporation had approved the project cost as Rs. 1714.41 Crore which included an IDC of Rs. 154.50 Crore (i.e. the approved capital expenditure excluding IDC was Rs. 1559.91 Crore). However, the auditor's certificate furnished by the Petitioner shows the actual

capital expenditure incurred upto 31.05.2008 as Rs. 1,896.74 Crore which included interest during construction of Rs. 310.32 Crore. Thus, the Petitioner has prayed that Rs. 1969.27 Crore, i.e. Rs. 1896.74 Crore as capital expenditure as per auditor's certificate and Rs. 72.53 Crore, which is the financial implication of withdrawal of interest subsidy under AG&SP, be considered for determination of provisional tariff.

19. PFC first approved the capital cost of Rs. 1249.18 Crore in the year 2002 with loan component from PFC as Rs. 800 Crore. Thereafter, in 2005 due to cost over runs the project cost was approved by PFC to be Rs. 1714.41 Crore (capital expenditure of Rs. 1559.91 Crore and IDC of Rs. 154.50 Crore) with additional loan of Rs. 400 Crore. PFC in its terms and conditions of sanction had stipulated that:

"The borrower shall take all necessary steps to ensure that the project is completed as envisaged in the manner and according to the time schedule envisaged, i.e. by the end of March 2007."

20. Further, PFC also stipulated that the total IDC for the two loans will be restricted to Rs. 154 Crore.

21. However, the Petitioner contends that commissioning of the project was delayed due to the delay in Civil works carried out by department of irrigation (DoI) because of reasons such as weak geology, geological surprises/adverse geological conditions, continuous ingress of water at different locations, occurrence of loose-falls at different locations, non-availability of engineers and lack of proper infrastructure. It further states that since irrigation department is a separate Government department, it does not have any administrative control over it and, thus, the delay was beyond its control.

22. The claim of the Petitioner for cost over-run is not acceptable in light of its own MoU signed with the Department of Irrigation (DoI). The MoU dated 25.06.2002 entered into between UJVNL and DoI clearly stipulates that the irrigation department shall be responsible for timely completion of the project subject to exigencies beyond DoI's control. Further, the MoU also stipulates that DoI shall post and station at the project site, competent and experienced officers and staff for work related to the project. The MoU also states that:

“Timely execution of the project at the cost stated herein, will be the essence of this MoU. In the event of any exigencies claimed to be beyond the control of DoI, leading to time/cost over run, the same will be examined by a committee of experts to be appointed by GoU and further decision regarding any consequences will be taken by GoU.”

23. The Provisional tariff for the plant has to be determined on the basis of the actual expenditure incurred, irrespective of projected cost estimates. Hence, the estimated completed cost of Rs. 2203.54 Crore has no relevance for determination of provisional tariff. Actual completed cost subject to prudence check shall form the basis for determination of final tariff as and when determined by the Commission.
24. The actual expenditure reported by the Petitioner vis-à-vis approval granted by PFC increased on two counts - (i) capital expenditure, excluding IDC, increased marginally from Rs. 1559.91 Crore to Rs. 1586.42 Crore i.e. by Rs. 26.51 Crore and (ii) IDC, upto 31.5.2008, swelled to Rs. 310.32 Crore against approved level of Rs. 154.50 Crore.
25. The Commission is of the view that irrespective of the final cost approved by the Government and its decision on consequences, the Capital Cost and reasons for any increase in the same have to be scrutinized by the Commission for prudence check. Without such a check, the cost and financing of the incremental cost arising due to cost/time over runs cannot be passed on to consumers in tariff.
26. Since the Petitioner has not given any detail/break-up of capital cost where it has exceeded the approved limit or the supporting documents/reasons giving detailed justification for each increase, the Commission is unable to carry out the prudence check at this stage. At this point of time, the Commission has, therefore, no option but to restrict the capital expenditure, excluding IDC, to the limit approved by PFC. **The Petitioner is directed to provide complete details while filing the Petition for Final Tariff determination of this plant.** Thus, against a claimed capital expenditure, excluding IDC, of Rs. 1586.42 Crore, the Commission has considered the capital expenditure, excluding IDC, of Rs. 1559.91 Crore.

27. In the technical session held with the Petitioner Company, the Commission sought the justification of claiming an IDC of Rs. 310 Crore instead of Rs. 271 Crore due and paid to PFC. The Petitioner informed that IDC of Rs. 310 Crore due and paid to PFC was taken upto the period 31.05.2008. Since the project started commercial operation on 15.03.2008, there was no justification of taking IDC upto 31.05.2008 and, hence, the figure of IDC required correction. During the technical session, UJVNL agreed to do the correction and submit the amended Petition, but did not submit the same as stated earlier.

28. The IDC is normally considered for capitalization upto the date of commercial operation. However, in this case the CoD was delayed by almost an year beyond scheduled target date of 31.03.2007. Regulation 30 specifically provides in this regard that *"In case of delay in commissioning as set out in the first approval of the Central/State Government or the techno-economic clearance of the Authority, as applicable, interest during construction for the period of delay shall not be allowed to be capitalised for determination of tariff, unless the delay is on account of natural calamities or geological surprises."* As stated earlier, the detailed justifications for reasons of delay have not been provided by the Petitioner and the Commission is unable to carry out prudence check on the reasons of such delay. The Commission, therefore, has allowed the IDC that accrued only upto 31.3.2007.

29. The letter dated 13.08.2008 from PFC, submitted by the Petitioner, shows that the total interest due and paid upto 31.03.2007 is Rs. 158.64 Crore as shown in the Table below:

Table 1: Interest due and paid to PFC (Rs. in Crore)

Year	On Rs. 800 Crore	On Rs. 400 Crore	Total
2002-03	2.63	-	2.63
2003-04	15.16	-	15.16
2004-05	30.42	-	30.42
2005-06	46.48	-	46.48
2006-07	58.66	5.29	63.95
Total	153.35	5.29	158.64

30. As per the terms of sanction of the loan by PFC, the interest becomes due and payable only on 15th day of each quarter. Therefore, the interest shown by PFC

upto 31.3.2007 is the accrued interest upto 14.1.2007. The interest accrued for the period 15.1.2007 to 31.3.2007 (i.e. for 76 days) needs to be added to arrive at IDC upto 31.3.2007. In the absence of details of actual quarterly interest applied by PFC for this period, the Commission has worked out accrued interest for this period on pro-rata basis w.r.t. interest of Rs. 112.75 Crore shown by PFC for 2007-08, which relates to the period 15.1.2007 to 14.1.2008. The interest accrued for these 76 days, accordingly, works out to Rs. 23.17 Crore. Accordingly, the Commission has considered an IDC of Rs. 181.81 Crore upto 31.03.2007. Further, there is no reason why the interest subsidy already approved and granted by PFC should be refunded by consumers through tariff, which is solely because of delay in commissioning of the project. All out efforts should have been made by the Petitioner and concerned agencies for meeting the scheduled target dates not only for controlling the project cost but also for retention of this subsidy. Unless the reasons for delay are established to be beyond the control of the Petitioner/concerned agencies, the cost of the same cannot be allowed. The Commission has, therefore, not considered the impact of such withdrawal of subsidy in IDC.

31. Based on the above, the total capital cost approved by the Commission works out to Rs. 1,741.72 Crore against the Petitioner's claim of Rs. 1,969.27 Crore.

32. The Capital Cost at different stages and that considered by Commission is given in the Table below:

Table 2: Capital Cost (Rs. in Crore)

Particulars	Original DPR	IInd approval of PFC	Original Claim	Claimed (Revised)	Approved
<i>Capital expenditure excluding IDC</i>	<i>1,002.69</i>	<i>1,559.91</i>	<i>1,559.92</i>	<i>1,586.42</i>	<i>1,559.91</i>
Interest during Construction (IDC)					
Interest due/paid	246.49	154.50	248.00	310.32	181.81
Refund of interest Subsidy	-	-	-	72.53	-
Total IDC	246.49	154.50	248.00	382.85	181.81
Total Capital Cost	1,249.18	1,714.41	1,807.89	1969.27	1,741.72

1.2. Financing of Capital Cost

33. Regarding financing of the capital cost, Regulation 18 stipulates that:

“(1) In case of all generating stations, debt-equity ratio as on the date of commercial operation shall be 70:30 for determination of tariff. Where equity employed is more than 30%, the amount of equity for determination of tariff shall be limited to 30% and the balance amount shall be considered as the normative loan.

Provided that in case actual equity employed is less than 30%, the actual debt and equity shall be considered for determination of tariff.

(2) The debt and equity amounts arrived at in accordance with sub-regulation (1) shall be used for calculating interest on loan, return on equity, Advance Against Depreciation and Foreign Exchange Rate Variation.”

34. For the purpose of calculating interest on loans and the return on equity, the debt-equity ratio for the capitalised assets is required. Accordingly, detailed funding of these assets through loans, equity, etc. is required.

35. In its submission, the Petitioner has given a total financing of Rs. 1924.31 Crore as on 31.5.2008 for a capital expenditure of Rs. 1896.74 Crore and showing a sum of Rs. 27.57 Crore as lying unutilized, which has been given in the certificate dated 06.06.2008 of the Chartered Accountant.

36. In the Petition dated 14.11.2006, The Petitioner had submitted that LIC loan component of Rs. 31.12 Crore is attributable to the project. Further, the Petitioner has stated that the project specific allocation of the total LIC loan of Rs. 352.59 Crore taken for MB-II project transferred to it vide MoP's notification dated 02.09.2005 is not available with it. However, in the above mentioned certificate of the auditor, no financing through LIC loan has been shown. The Petitioner has requested the Commission to take an appropriate view in this regard.

37. In the technical session held with the Petitioner Company, the Commission sought the justification for treating Rs. 164 Crore, which was the opening CWIP, as equity. Since the opening transfer scheme was not finalised with UPJVNL, the Petitioner requested to consider the provisional financing of opening CWIP as equity, which is also reflected in auditor's certificate.

38. The Commission has relied on the auditor's certificate for finding out the financing of the approved cost of Rs. 1741.72 Crore which does not include LIC loan as a source of financing. The Government of Uttarakhand loan of Rs. 90 Crore (out of which Rs. 62.43 Crore has been utilized and balance Rs. 27.57 Crore was lying in cash as on 31.05.2008) claimed by the Petitioner has been drawn after commissioning of the project mainly to finance the cost over-runs in the project beyond the approved cost. Thus, the Commission has not considered this loan in the financing of this project.

39. Hence, out of the total capital cost of Rs. 1741.72 Crore approved by the Commission, Rs. 1200 Crore has been considered to be met through PFC loans and balance amount of Rs. 541.72 Crore is to be financed out of the equity. The Petitioner has stated that Rs. 164 Crore which is the CWIP inherited by it from UPJVNL are financed through equity. Pending finalization of the transfer scheme, the Commission is provisionally allowing this as equity. Further, Rs. 341.39 Crore has come by way of Government contribution from PDF. This leaves an amount of Rs. 36.33 Crore, in the project cost of Rs. 1741.72 Crore considered in this Order, to be financed out of total budgetary support of Rs. 128.92 Crore provided by the Government. Balance budgetary support of Rs. 92.59 Crore has been utilized to finance the cost overruns. The financing of the project cost approved by PFC and by the Commission against the Petitioner's claim is given in the Table below:

Table 3: Financing of the capital cost (Rs. in Crore)

Particulars	Original DPR	II nd approval of PFC	Claimed (As per Auditor's Certificate)	Approved
PFC Loan	1200.00	1,200.00	1,200.00	1200.00
Government Loan	31.12	0.00	*62.43	0.00
Total Loans	1231.12	1,200.00	1262.43	1200.00
Equity	403.68	514.41	634.31	541.72
PDF			341.39	341.39
GoU Budgetary support			128.92	36.33
Pre-2002 expense			164.00	164.00
Total (Debts+Equity)	1807.89	1714.41	1896.74	1741.72

* The Petitioner had claimed to have received a loan of Rs. 90 Crore from the Government out of

which Rs. 62.43 Crore has been shown above as utilized and balance Rs. 27.57 Crore was lying in cash as on 31.05.2008.

1.3. Interest and Financing Charges

40. The loan sanctioned and released by Power Finance Corporation was Rs. 1200 Crore. In its Petition filed on 14.11.06, the Petitioner had claimed total interest of Rs. 119.14 Crore for 2007-08 out of which an interest of Rs. 111 Crore for 2007-08 was shown as payable on PFC loans @ 9.25%. However, in its Supplementary Petition dated 23.02.2008, the Petitioner has submitted that it has worked out the quarterly interest @ 11.33% per annum on the loan amount of Rs. 1200 Crore payable to Power Finance Corporation. Accordingly, the Petitioner has calculated the interest payable to Power Finance Corporation during the financial year 2008-09 to Rs. 133.41 Crore. AFC originally claimed in the Petition filed on 14.11.2006 was never revised to reflect the above change in interest claimed.
41. PFC has already started levying interest on normal rates (excluding subsidy), hence, in order to ensure that the Petitioner company does not face any cash crunch in meeting its expenditure, the Commission has provisionally worked out the weighted average rate for each loan from PFC for the Financial Years 2007-08 and 2008-09 based on quarterly interest statements for quarter ending 15.01.2008 and 15.07.2008 respectively annexed with PFC's above mentioned letter dated 13.08.2008. However, **the Commission directs the Petitioner to pursue the matter with PFC/MoP to avail the benefit of AG&SP subsidy for the project after the date of CoD also and also for retention of the subsidy already granted by PFC.** Variation in interest liability, if any, due to change in interest rates shall be trued up subsequently. Thus, considering the repayments as envisaged in the PFC's schedule, the interest works out to Rs. 6.33 Crore for 2007-08 and Rs. 131.19 Crore for 2008-09 as shown in the Tables below:

Table 4: Interest for FY 08 (Rs. in Crore)

Particulars	Loan I	Loan II	Total
Loan as on 15.03.2008	800.00	400.00	1,200.00
Interest due on 15.01.2008 (For quarter beginning 15.10.2007)	22.80	11.45	34.25
Weighted avg. rate of interest	11.31%	11.36%	11.32%
Interest from 15.03.08 to 31.03.08 (17 days)	4.21	2.12	6.33

Table 5: Interest for FY 09 (Rs. in Crore)

Particulars	Loan I	Loan II	Total
Loan as on 01.04.2008	800.00	400.00	1,200.00
Interest due on 15.07.2008 (For quarter beginning 15.04.2008)	22.55	11.32	33.88
Weighted avg. rate of interest	11.31%	11.36%	11.32%
Quarterly repayment	20.00	10.00	30.00
Loan as on 15.07.2008	780.00	390.00	1,170.00
Loan as on 15.10.2008	760.00	380.00	1,140.00
Loan as on 15.01.2009	740.00	370.00	1,110.00
Interest from 01.04.2008 to 14.07.2008	26.02	13.07	39.09
Interest from 15.07.2008 to 14.10.2008	22.23	11.16	33.39
Interest from 15.10.2008 to 14.01.2009	21.66	10.88	32.54
Interest from 15.01.2009 to 31.03.2009	17.42	8.75	26.17
Total interest for FY 09	87.33	43.86	131.19

1.4. Depreciation including Advance Against Depreciation

42. The Petitioner in its Petition filed on 14.11.06 had submitted that it has calculated depreciation based on the asset classification and rates specified in the Regulations and had worked out the depreciation expense for 2007-08 as Rs. 54.96 Crore and had claimed an AAD of Rs. 71.59 Crore for 2007-08. These claims were never revised subsequently.
43. The Petitioner further in its Supplementary Petition has stated that the loan sanctioned and released by Power Finance Corporation was required to be repaid in ten years in equal installments with the first quarterly instalment falling due for repayment on 15th July 2008 amounting to Rs. 30 Crore. Thus, the Petitioner has wrongly claimed the AAD for 2007-08 when in fact no repayment was falling due during 2007-08. Further, the repayment falling due in FY 2008-09 is Rs. 90 Crore for 3 quarters.
44. In the absence of any detail on asset classification, the Commission provisionally accepts the categorization of assets submitted by the Petitioner. Based on this asset categorization, the Commission has done the *pro-rata* apportionment of the capital cost of Rs. 1741.72 Crore approved by it. Applying the claimed depreciation rates on the apportioned asset classes, the depreciation works out to Rs. 2.07 Crore for 2007-08 and Rs. 44.54 Crore for 2008-09. **The Petitioner must submit asset class-wise details of capital costs while making the application for final tariff determination.**

45. Advance Against Depreciation has been worked out on the basis of the repayment schedule of the Financial Institution and according to the Regulations and is given in the Table below. Thus, the total depreciation including Advance Against Depreciation allowable for 2008-09 works out to Rs. 87.93 Crore.

Table 6: Advance Against Depreciation (Rs. in Crore)

S. No.	Particulars	Claimed for 2007-08	Approved for 2007-08	Approved for 2008-09
a.	Depreciation	54.96	2.07	44.54
b.	Loan repayment during year	126.55	0.00	90.00
c.	1/10th of Loan	126.55	5.59	120.00
d.	Amount Admissible under AAD [Minimum of (b) and (c)]	126.55	0.00	90.00
e.	Advance Against Depreciation (AAD) [only if +ve]{(d) - (a)}	71.59	0.00	45.46
f.	Cumulative Depreciation		2.07	46.61
g.	Cumulative Repayment		0.00	90.00
h.	AAD restricted to {(g) - (f)}		0.00	43.39

1.5. Return on Equity

46. Regulations stipulate that Return on equity shall be computed on the equity base and shall be @ 14% per annum. The Petitioner has calculated a return of Rs. 75.93 Crore on the equity base of Rs. 542.37 Crore.

47. The Commission has approved the equity of Rs. 541.72 Crore in Table 2 above. Out of this, Rs. 341.39 Crore has come from PDF. The PDF is created out of cess collected by GoU on generation from hydel generating stations of UJVNL, which is passed on to consumers through tariff, and this fund is utilized for funding of generation and transmission assets. Thus, this amount, in a way, is consumer's money and allowing RoE on the same would amount to loading the consumers twice, once for financing this equity and then for servicing the same. Any investment from PDF is, therefore, consumers' contribution and would not qualify for RoE. Therefore, it would not be appropriate on the part of the Commission to allow return to Petitioner on funds provided by GoU out of money recovered from consumers. The Commission is, therefore, not allowing any return on equity utilized for creation of assets funded out of PDF.

48. Thus, only balance equity of Rs. 200.33 Crore qualifies for earning return. The Commission is allowing return @ 14% post tax as stipulated in the Regulations, which works out to Rs. 1.30 Crore for 2007-08 and Rs. 28.05 Crore for 2008-09.

1.6. Operation & Maintenance (O&M) Expenses

49. The Petitioner has claimed the total O&M expenses of Rs. 36.16 Crore for 2007-08.

This includes Rs. 27.12 Crore as 1.5% of the capital cost of Rs. 1807.89 Crore in accordance to the Regulations and Rs. 9.04 Crore towards insurance charges.

50. In the technical session held with the Petitioner Company, justification was sought by the Commission for claiming O&M expenses in excess of 1.5% as provided in the Regulation. The Petitioner submitted that for new plants, the Regulations do not include insurance expenses as part of O&M expenses, while for old plants, the Regulations specify the O&M expenses including insurance. It was clarified to UJVNL that Regulation 3(19) defines O&M expenses, which unambiguously includes insurance as one of the components. UJVNL agreed to carry out the correction in revised submission, which was not made.

51. The Regulations provide that in case of the hydro electric generating stations declared under commercial operation on or after 1.4.2004, the base operation and maintenance expenses shall be fixed at 1.5% of the actual capital cost, as admitted by the Commission, in the year of commissioning and shall be subject to an annual escalation of 4% per annum for the subsequent years. O&M expenses include insurance expenses as one of the components and cannot be allowed separately. Further, the insurance expense claim of Rs. 9.04 Crore is about 0.50% of the capital cost and appears to be on a higher side. The Commission is, therefore, not allowing any separate cost towards insurance charges. Being a new station, the Commission advises the Petitioner to exercise prudence while incurring the O&M expenditure. The Commission will take a view on the same when actual details of the insurance cover are available with the Petitioner. The Commission has admitted the capital cost of the station as Rs. 1741.72 Crore. Thus, the O&M expenses for 17 days in 2007-08 work out to Rs. 1.21 Crore and Rs. 27.17 Crore for 2008-09.

1.7. Interest on Working Capital

52. The Petitioner has claimed interest on working capital for the year 2007-08 as Rs. 9.05 Crore based on the norms specified under the Regulations. Cost of financing the working capital has been assumed at 11% p.a.

53. Regulations stipulate that the rate of interest on working capital shall be the short-term Prime Lending Rate of State Bank of India as on 1.4.2004 or on 1st April of the year in which the generating unit/station is declared under commercial operation, whichever is later. The short term PLR of SBI as on 01.04.2007 was 12.25%. Thus, the interest on working capital based on norms specified in the Regulations works out to Rs. 0.34 Crore for 2007-08 and Rs. 8.31 Crore for 2008-09.

1.8. Provisional Annual Fixed Charges (AFC)

54. Based on the above, the provisional AFC for the Petitioner's generating station for the year 2007-08 works out to Rs. 11.25 Crore for 17 days of its operation and Rs. 282.65 Crore for 2008-09 against the Petitioner's claim of Rs. 366.83 Crore for 2007-08 for full year. The details are given in the Table below:

Table 7: Provisional Annual Fixed Charges (Rs. in Crore)

S. No.	Particulars	Claimed for 2007-08	Approved	
			2007-08	2008-09
1	Interest on Loan	119.14	6.33	131.19
2	Depreciation	54.96	2.07	44.54
3	Advance Against Depreciation	71.59	-	43.39
4	Return on Equity	75.93	1.30	28.05
5	O&M Expenses incl. Insurance Charges	36.16	1.21	27.17
6	Interest on Working Capital	9.05	0.34	8.31
7	Gross Annual Fixed Charges	366.83	11.25	282.65
8	Less: Other Income	0.00	0.00	0.00
9	Net Annual Fixed Charges (7-8)	366.83	11.25	282.65

The AFC of the generator would be recovered through Primary energy charges and balance through capacity charges, subject to the condition that the generator maintains the normative capacity index.

1.9. Primary Energy

55. The design energy claimed by the Petitioner is 1566.10 MU which has been taken as per the DPR.
56. The Petitioner has reduced auxiliary consumption, transmission losses alongwith the home state share of 12% free power amounting to 186.053 MUs from the design energy to calculate the saleable primary energy.
57. In the technical session held with the Petitioner Company, justification was sought by the Commission for claiming the home state share, when UJVNL has already committed sale of entire capacity of 304 MW to UPCL through the PPA entered into between the two parties.
58. Subsequently, in its reply the Petitioner informed that the Petition in accordance with the discussions held during the Technical Validation Session was placed before its Board of Directors for approval. The Board of Directors observed that the issue relating to free power for the State was a policy issue and should be addressed only at the Government level and the Board directed to refer the issue to GoU for decision in this regard. UJVNL has submitted that the matter has been referred to the State Government in accordance with the directives of the Board and the response of GoU is still awaited. It would submit the Petition after receipt of directives of GoU in this regard.
59. Since entire recovery of AFC is permitted through two part tariff, i.e. primary energy charge and capacity charge, subject to achievement of normative capacity index, the decision of Government on disposal of free power shall only impact saleable primary energy and, hence, primary energy charge. The capacity charge would correspondingly increase leaving AFC recoverable as unchanged. The issue of free power has no implication for UJVNL. However, it will increase the power purchase cost of UPCL and, hence, retail supply tariff of consumers in case the Government decides to keep 12% free power from this State Sector Power Station and sell it to UPCL or elsewhere. The Commission would like to point out here that nowhere in the country, free power is being taken by Government from State Sector Projects. There also seems to be an after thought

on this issue as UJVNL has already signed a PPA with UPCL for sale of entire installed capacity of 304 MW from this plant.

60. The station is a surface hydro electric power generating station with static excitation system. Thus, 0.5% of energy generated would be allowed as Auxiliary consumption in accordance with the Regulation.
61. The Regulation also provides for 0.5% of energy generated as transformation losses to be allowed.
62. Thus, the saleable primary energy works out to 1550.44 MU's.

1.10. Primary Energy Rate

63. The primary energy rate for calculation of primary energy charge shall be based on lowest variable charges of the central sector thermal power generating station in Northern Region which was 85.15 paise/kWh for the year 2007-08 and 88.08 paise/kWh for 2008-09. The balance recovery of the Annual Fixed Charges will be through Capacity Charges in accordance with the Regulations 12, 20 and 28 and NOTE given in Regulation 12, which stipulates that:

"There shall be pro rata recovery of capacity charges in case the generating station achieves capacity index below the prescribed normative levels. At zero capacity index no capacity charges shall be payable to the generating station."

1.11. Procedure for Recovery of Tariff

64. The AFC and other charges for 2007-08 shall be recoverable in terms of the Regulations for the period 15.03.2008 to 31.03.2008. The AFC for 2008-09 shall be recoverable in 12 equal monthly instalments subject to achievement of normative capacity index for each month. Pro-rata recovery of monthly capacity charges for monthly capacity index being less than normative level shall be done subject to adjustment at the year end on the basis of annual capacity index. Incentives and secondary energy charges shall, however, be payable only at the year end on annual basis as stipulated in the Regulations.
65. The difference of the amount billed till 31.10.2008 at an interim tariff of Rs. 2.69 per unit and the amount payable as per the provisional tariffs approved in this

Order, shall be adjusted in five equal monthly instalments in the monthly bills for the period November 2008 to March 2009.

66. The annual fixed charges as approved herein are subject to fresh scrutiny at the time of final determination of tariff as regards the factual details like details of loan, capital expenditure, etc. The petitioner is directed to file appropriate petition for approval of final tariff in accordance with the terms and conditions notified by the Commission from time to time based on the actual audited accounts as applicable on the date of commercial operation and till then the provisional tariff approved in this order shall continue to apply.
67. The Petition is disposed off accordingly.

(Anand Kumar)
Member

(V.J. Talwar)
Chairman

Annexure 1: Interim order dated 07.07.2008 for Maneri Bhali Stage II

Before

UTTARAKHAND ELECTRICITY REGULATORY COMMISSION

In the matter of:

Petition no. 2/2008 dated 04.12.2006 filed by M/s Uttarakhand Jal Vidyut Nigam Limited
.....Petitioner

And

In the matter of:

Determination of Provisional Tariff for Maneri Bhali Stage II Large Hydro Power Project u/s
62(1)(a) and 86 of the Electricity Act, 2003.

Coram

Shri V.J. Talwar **Chairman**

Shri Anand Kumar **Member**

Date of Order: 07.07.2008

INTERIM ORDER

A Petition was filed on 25.02.2008 by Uttarakhand Jal Vidyut Nigam Limited for determination of Provisional Tariff for Maneri Bhali Stage II (MB-II) Large Hydro Power Project, of capacity 304 MW, which has started commercial operation from 15.03.2008. While the Petition was admitted on 01.07.2008 and is presently under process, the Petitioner has filed a representation before the Commission today submitting that Commission's directive, given in the Commission's order dated 18th March 2008 on ARR and tariff Petition of UPCL, stipulates that UJVNL shall bill the power supplied from MB-II based on provisional tariff approved by the Commission.



V.J. Talwar

Accordingly, it was unable to realise the payment from UPCL towards the power supplied from MB-II Project. Considering the financial commitments falling due on it towards repayment of loans alongwith interest of PFC and GoU, the Petitioner has prayed before the Commission to allow it an interim tariff of Rs. 2.69/kWh enabling it to honour its repayment obligations.

The Commission, considering the prayer of the Petitioner and as an interim measure, allows the Petitioner to raise the bills to UPCL towards supply of energy from MB-II Project at Rs. 2.69/kWh, which was considered as provisional tariff on ad-hoc basis in Commission's Tariff Order for UPCL dated 18.03.2008, pending determination of provisional tariff in these proceedings. To enable the Petitioner to ensure that its financial commitments are met, UPCL is also directed to release the payments against energy supplies from MB-II Project w.e.f. the CoD i.e. 15.03.2008 at the earliest. Any adjustment on account of excess/short recoveries shall be made by UPCL and UJVNL on the basis of the provisional tariff approved by the Commission.



(Anand Kumar)
Member



(V.J. Talwar)
Chairman