

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram:

1. **Shri K.N. Sinha, Member**
2. **Shri Bhanu Bhushan, Member**

Petition No.173/2004

In the matter of

Approval of revised fixed charges due to additional capitalisation for the period 1.4.2001 to 31.3.2004 in respect of Ramagundam STPS (2100MW)

And in the matter of

National Thermal Power Corporation Ltd.

.....Petitioner

Vs

1. Transmission Corporation of Andhra Pradesh Ltd., Hyderabad
2. Tamil Nadu Electricity Board, Chennai
3. Karnataka Power Transmission Corporation Ltd. Bangalore
4. Kerala State Electricity Board, Thiruvananthapuram
5. Electricity Department, Pondicherry
6. Goa Electricity Deptt, Panaji

.....Respondents

The following were present:

1. Shri A.K. Juneja, DGM(C), NTPC
2. Shri Manoj Mathur, DGM(C), NTPC
3. Shri C.S.Srinivas, NTPC
4. Shri A.Ravindra, NTPC
5. Ms Alka Saigal, NTPC
6. Shri Balaji Dubey, Dy.Manager, (Law), NTPC
7. Shri S.Naik, Manager (Commercial), NTPC
8. Shri P.B.Venkatesh, Dy. Manager, NTPC
9. Shri Surendra, NTPC
10. Shri A.Sardana, NTPC
11. Shri G.K. Dua, NTPC

**ORDER
(DATE OF HEARING : 13.1.2005)**

Through this petition, the petitioner seeks approval for the revised fixed charges in respect of Ramagundam Super Thermal Power Station Stage-I and

Stage-II (2100 MW) for the period 1.4.2001 to 31.3.2004 after considering the impact of additional capital expenditure incurred during the period.

2. Ramagundam S T P S Stage-I comprises of three units each of 200 MW and Stage-II of 500 MW each. The dates of commercial operation of the different Units are as follows :

Stage I- Unit I (1.3.1984), Unit II (1.11.1984), Unit III (1.5.1985)

Stage II- Unit IV (1.11.1988), Unit V (1.9.1989), Unit VI (1.4.1991)

3. The Central Government in Ministry of Power by its letter dated 10.11.1994 had accorded investment approval for Rs. 2033.52 Crore, including IDC of Rs. 64.36 Crore for the generating station. Subsequently, CEA accorded the approval for Rs. 46.60 Crore , including contingency and IDC, vide letter dated 4.7.1996 for R & M under Environment Action Plan and further approval for Rs. 80.28 Crore for R & M of the generating station vide letter of 12.2.2001. Thus, the total approved cost of the generating station is Rs. 2160.40 Crore.

4. The terms and conditions for determination of tariff for the period 1.4.2001 to 31.3.2004 were notified by the Commission on 26.3.2001 in terms of the Central Electricity Regulatory Commission (Terms & Conditions of Tariff) Regulations, 2001 (hereinafter referred to as “ the notification dated 26.3.2001). A petition (No. 34/2001) was filed by the petitioner for approval of tariff for the period from 1.4.2001 to 31.3.2004, the basis for which was stated to be the notification dated 26.3.2001. In the tariff claimed, the petitioner had considered the impact of additional capitalisation for the period 1.4.2001 to 31.3 2004. The tariff was approved by the Commission by

its order dated 24.8.2004. For the purposes of tariff, the capital cost of Rs. 2235.28 Crore, as on 1.4.2001, was considered. The additional capitalisation claimed by the petitioner was not considered since it was based on the estimated capital expenditure and was without the supporting auditor's certificate.

5. The year-wise details of additional capitalisation claimed with reference to the balance sheet are as follows:

(Rs. in lakh)				
	2001-02	2002-03	2003-04	Total
Total additional expenditure as per books of accounts including FERV & expenditure on Stage-III(A)	1712.59	5876.80	3520.81	11110.20
Exclusions(B)				
FERV capitalized	(-) 389.61	2529.18	1022.86	3162.43
Expenditure on Stage -III	136.00	177.14	1154.37	1467.51
Replacements	(-)14.30	(-)125.65	(-) 5.31	(-) 145.26
Balance payments	(-)1.45	(-)0.35	0	(-)1.8
Sub-total Exclusions (B)	(-)269.36	2580.32	2171.93	4482.88
Additional capitalization claimed (A)- (B)	1981.96	3296.48	1348.88	6627.32

6. Based on the above, the petitioner has claimed the revised fixed charges.

7. The petitioner's claim for additional capitalisation and the revised fixed charges is based on Clause 1.10. of the notification dated 26.3.2001, reproduced hereunder:

"1.10 Tariff revisions during the tariff period on account of capital expenditure within the approved project cost incurred during the tariff period may be entertained by the Commission only if such expenditure exceeds 20% of the approved cost. In all cases, where such expenditure is less than 20%, tariff revision shall be considered in the next tariff period."

Additional capitalisation

8. In the first instance we consider the admissibility of additional capital expenditure claimed in the present petition

9. Additional capitalisation as per books of accounts is Rs. 11110.2 lakh (Rs. 111.102 Crore) including FERV of Rs. 3162.43 lakh and expenditure of Rs.1467.51 lakh on Stage-III. As the impact of FERV is being claimed separately from the respondent beneficiaries, the total claim after excluding FERV and Stage-III expenditure should have been Rs. 6480.26 lakh. However, the petitioner has claimed additional capitalisation of Rs. 6627.32 lakh.

10. The year-wise and category-wise break up of additional expenditure claimed by the petitioner is as follows:

(Rs.in lakh)

Details of additional capitalization claim	2001-02	2002-03	2003-04	Total
(A) Within the Scope of approved Cost or Admitted works by the Central Government/Commission after the date of commercial operation				
Balance payments against works admitted by the Central Government/Commission (Category-10A)	85.31	(-)133.58	(-)78.22	(-)126.48
New works within approved Revised Cost Estimates (Category-21A)	440.17	(-)31.86	25.11	433.42
Spares within approved cost (Category-22A)	0.05	0.00	0.00	0.05
Sub-total (A)	525.53	(-)165.44	(-)53.11	306.99
(B) Not within the Scope of approved cost and works not admitted by the Commission				
Balance payment against works not admitted by the Commission (Category-10B)	1.46	2.30	0.54	4.29
New works not in approved Revised Cost Estimates (Category-21B)	610.50	138.28	197.09	945.87
Spares not in approved cost (Category-22B)	7.82	3320.92	1201.67	4530.41
Replacement (Category-23)	835.71	0.00	2.69	838.40
Inter-Unit Transfers (Category-11)	0.94	0.42	0.00	1.36
Sub-total (B)	1456.43	3461.92	1401.99	6320.33
Total of additional capitalisation claimed (A+B)	1981.96	3296.48	1348.88	6627.32

11. The difference in the amount of additional capitalization as per books of accounts vis-à-vis the claim preferred by the petitioner is mainly on account of reinclusion (negative entries in exclusion) of certain assets in capital base as discussed below:

- (a) An amount of Rs. 3162.43 lakh for 2001-04 on account of FERV has been excluded from the claim as the impact of FERV has been billed directly to the beneficiaries. This is in order and has been allowed
- (b) An amount of Rs. 1467.51 lakh for 2001-04 has been excluded towards expenditure on Stage- III. This has been allowed.
- (c) An amount of (-) Rs.1.8 lakh has been excluded on works not admitted by the Commission earlier. Accordingly, balance payments on these works need to be excluded and has been allowed.
- (d) The petitioner by way of negative entries in exclusions is including certain assets like unserviceable cars, jeeps, furniture, office equipment, construction equipments including crane, road roller, tractor trolley etc. on the grounds that the Commission while considering additional capitalisation for the years 1997- 2001 has not allowed capitalisation of such items and as such the de-capitalisation of these items should not be considered. As to the re-inclusion of construction equipment, the petitioner has averred that the equipment has become unserviceable. Hence these were de-capitalised from books of accounts as a requirement of Accounting Standard. The investment made in these equipments has not been returned and hence servicing of the same has to be continued. A total amount of (-) Rs.145.26 lakh for the period 2001-04 has been excluded.

12. The above items constituted part of the admitted capital cost for the purpose of tariff and have been de-capitalized on becoming unserviceable. The words “such items” mentioned by the petitioner has been used in general terms and do not refer specifically to cars, jeeps, older vehicles etc. which were in fact included in the capital cost for tariff purpose. This was clarified by the petitioner during hearing held on 13.1.2005. For this reason, re-inclusion of such items cannot be allowed as these assets are not in use. Hence, an amount of Rs. (-) 145.26 lakh for 2001- 04 has been de-capitalised.

13. The expenditure claimed for additional capitalisation and our decisions thereon have been discussed as under:

Additional capital expenditure within the scope of approved cost

- (a) **Balance payments against admitted works:** The balance payments of (-) Rs.126.48 lakh against admitted works has been allowed as the expenditure is within the scope of approved cost.
- (b) **New works within the approved cost:** The petitioner has claimed capital expenditure of Rs. 433.42 lakh on new works within the scope of approved cost. The majority of the items covered under this head have been approved by CEA under R&M. It is, however, observed that for certain items replaced, the corresponding decapitlisation of the replaced assets has not been effected. After this was brought to the notice of the petitioner during hearing, the petitioner vide its affidavit dated 7.3.2005 submitted the gross value of the assets replaced for the propose of de-capitalisation. Besides this, in some cases, the old assets were found

decapitalised in subsequent years. After prudence check of the assets capitalised under this category and after reducing the decapitalisation amount as submitted by the petitioner, the expenditure of Rs. 410.24 lakh out of Rs. 433.42 lakh has been found to be admissible for the purpose of tariff. The year-wise break of the expenditure claimed and that allowed to be capitalised under this head is as follows:

(In Rs.)

	Claimed	Allowed	Disallowed
2001-02	44016883	38110812	5906071
2002-03	(-)3186442	401628	(-)3588070
2003-04	2511160	2511160	0
Total	43341601	41023600	2318001

- (c) **Spares within the approved cost:** A small expenditure of Rs. 0.05 lakh purportedly incurred on procurement of electrical protection relay, after many years of the date of commercial operation, is not allowed.

Additional capital expenditure not within the scope of approved cost

- (a) **Expenditure on balance payments :** An amount of Rs. 4.29 lakh claimed onwards balance payments on the works not admitted by the Central Govt/Commission, is not allowed.
- (b) **Expenditure on new works not within approved cost:** An amount of Rs. 945.87 lakh has been claimed by the petitioner towards expenditure incurred on new works beyond the scope of approved cost. A scrutiny of the assets/ items procured reveals that these items can be broadly categorized as items related to safety, environment protection, statutory norms, IT equipment related to meet the requirements of ABT regime, technology upgradation etc. It was, however, noticed that for certain

replaced items, the corresponding decapitalisation of the replaced assets was not effected. The petitioner vide their affidavit dated 7.3.2005 submitted the gross value of the assets replaced for the purpose of decapitlisation. After a thorough check, the expenditure of Rs. 431.51 lakh out of the claimed amount of Rs. 945.87 lakh has been found to be admissible for capitalisation for the purpose of tariff. The break up of the claimed and admissible expenditure is as follows.

(In Rs.)

Year	Claimed	Allowed	Disallowed
2001-02	61049610	14397298	46652312
2002-03	13828325	11009830	2818496
2003-04	19709243	17743678	1965565
Total	94587178	43150805	51436373

- (c) **Expenditure on spares not within the approved cost:** An expenditure of Rs. 4530.41 lakh claimed for capitalisation relates to capitalisation of spares during 2001-04. Capitalisation of such spares is stated to be on account of revised accounting standards and is over and above the spares capitalised as initial spares. The Commission while dealing with additional capitalisation petitions for other generating stations belonging to the petitioner, for the period prior to 2001, did not allow capitalisation of such spares. Accordingly, capitalisation of spares not within the approved cost has not been permitted.
- (d) **Other expenditure**
- (i) **Expenditure on replacement of assets:** An amount of Rs. 838.40 lakh claimed under this head with proper decapitalisation of old assets, is allowed.

- (ii) **Inter-unit transfers:** An amount of Rs. 1.36 lakh has been claimed on inter-unit transfer of control valve components from Korba Thermal Power Station. The petitioner has submitted that these components were transferred from Korba as a replacement of defective/ failed control valves. However, corresponding decapitalisation of the replaced control valve or components has not been effected. This being the position, the claim for capitalisation is not allowed.

14. In light of above discussion, the following additional expenditure has been allowed:

(Rs. in lakh)				
Details of additional capitalization	2001-02	2002-03	2003-04	Total
(A) Within the Scope of approved Cost or Admitted works by the Central Government/Commission after the date of Commercial Operation				
Balance payments against works admitted by the Central Government/Commission (Category-10A)	85.31	(-)133.58	(-)78.22	(-)126.48
New works within approved Revised Estimates Cost (Category-21A)	381.11	4.02	25.11	410.24
Spares within approved cost (Category-22A)	0	0	0	0
Sub total (A)	466.42	(-)129.56	(-)53.11	283.76
(B) Not within the scope of approved cost and works not admitted by the Commission				
Balance payments against works not admitted by the Commission (Category-10B)	0	0	0	0
New works not in approved Revised Cost Estimates (Category-21B)	143.97	110.10	177.44	431.51
Spares not in approved cost (Category-22B)	0	0	0	0
Replacement (Category-23)	835.71	0.00	2.69	838.40
Inter-Unit Transfers (Category-24)	0	0	0	0
Sub-total (B)	979.68	110.1	180.13	1269.91
Allowable additional capitalisation (A+B)	1446.10	(-)19.46	127.02	1553.67
(c) Exclusions not permitted				
Replacements	(-)14.30	(-)125.65	(-)5.31	(-)145.26
Sub-total (C)	(-)14.30	(-)125.65	(-)5.31	(-)145.26
Total additional capitalisation allowed (A+B+C)	1431.80	(-)145.11	121.71	1408.41

15. Next arises the question of revision of fixed charges for the period 1.4.2001 to 31.3.2004. In the order dated 31.3.2005 in petition no. 139/2004, (NTPC V/s UPPCL & others), the Commission has held that the additional capital expenditure during the tariff period, not exceeding 20% of the approved capital cost does not qualify for revision of tariff for this period. In the present case, the additional capital expenditure is less than 20% of the approved cost. For the reasons given in the said order dated 31.3.2005, the revision of fixed charges for the period 1.4.2001 to 31.3.2004 is not warranted. However, the additional expenditure approved shall be added to the gross block as on 1.4.2001 to arrive at the gross block as on 1.4.2004 for the purpose of fixation of tariff for the period 2004-05 to 2008-09.

16. Further, for the reason recorded in order dated 31.3.2005 in petition no. 139/2004, the petitioner shall be entitled to earn return on equity at the rate of 16% on the equity portion of additional capitalisation now approved by us. Similarly, the petitioner shall also be entitled to interest on loan at the rate as applicable during the relevant period. Return on equity and interest shall be worked on the additional capitalization from 1st April of the financial year following the financial year to which additional capital expenditure relates to and up to 31.3.2004. The lump-sum of the amount of return on equity and interest on loan so arrived shall be payable by the respondents alongwith the tariff for the period 2004-09 to be approved by the Commission. The exact entitlement on this account shall be considered by the Commission while approving the tariff for the period 2004-09.

17. After taking into account additional capitalization allowed, the opening gross block as on 31.3.2004 is worked out as follows:

(Rs.in Crore)	
Capital cost as on 1.4.2001	2235.28
Additional capitalization for 2001-02	14.318
Capital cost as on 1.4.2002	2249.598
Additional capitalization for 2002-03	(-)1.451
Capital cost as on 1.4.2003	2248.147
Additional capitalization for 2003-04	1.217
Capital cost as on 31.3.2004	2249.364

18. As such the opening gross block for the purpose of tariff for the period 2004-09 as on 1.4.2004 shall be 2249.364 crore.

19. With the above observations the petition stands disposed of.

Sd/-
(BHANU BUHSAN)
MEMBER

Sd/-
(K.N. SINHA)
MEMBER

New Delhi, dated 3rd May 2005