

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram

1. **Shri Ashok Basu, Chairman,**
2. **Shri G.S. Rajamani, Member**
3. **Shri K.N.Sinha, Member**

Petition No.42/2002

In the matter of

Petition for approval of tariff for Special Energy Meters in Southern Region for the period from 1.4.2001 to 31.3.2004.

And in the matter of

Power Grid Corporation of India Ltd.

.... Petitioner

VS

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

The following were present:

1. Shri J Sridharan, ED (Fin), PGCIL
2. Shri Umesh Chander, ED, PGCIL
3. Shri S.S. Sharma, AGM, PGCIL
4. Shri C. Kannan, Chief Manager, PGCIL
5. Shri J.S. Gulati, CM (Fin),
6. Shri S Mehrotra, PGCIL
7. Shri A.K. Nagpal, PGCIL
8. Shri Maheshi, PGCIL
9. Shri K.J. Alva, KPTCL
10. Shri K. Gopalakrishna, Resident Engineer, KSEB
11. Shri R. Balachandran, KSEB

ORDER

(Date of Hearing: 21.2.2003)

In this petition, the petitioner, Power Grid Corporation of India Ltd seeks approval for tariff in respect of the Special Energy Meters in Southern Region for

the period from 1.4.2001 to 31.3.2004 based on the terms and conditions of tariff notified by the Commission vide notification dated 26.3.2001, hereinafter referred to as “the notification”:

2. The petitioner has installed the Special Energy Meters in the Southern Region as agreed to in the 110th SREB meeting held on 23.2.1994. The Special Energy Meters are under commercial operation since 1.4.1998. Total cost of installation is Rs.2.63 crore which has been funded entirely through internal resources by the petitioner. The petitioner has sought approval of transmission charges as under in accordance with the notification:

Period	Annual Tariff (Rs. in lakh)
2001-02	58.99
2002-03	58.99
2003-04	59.01

3. In addition, the petitioner has prayed for approval of other charges like Income Tax, Incentive, Development Surcharge, any statutory taxes, levies, duties, cess, filing fee, late payment surcharge, etc.

CAPITAL COST

4. It is prescribed in the notification that the capital expenditure of the transmission assets shall be financed as per the approved financial package set out in the techno-economic clearance of the Central Electricity Authority, hereinafter referred to as “the Authority” or as approved by an appropriate independent agency, as the case may be.

5. The installation of Special Energy Meters in the Southern Region was agreed to in 110th SREB meeting held on 23.2.1994. The assets have been commissioned at a total cost of Rs.2.63 Crore and have been funded entirely through internal resources by the petitioner. The respondents have raised a preliminary objection that the cost of these assets should be apportioned between debt and equity notionally in the ratio of 80:20.

6. The Authority has not approved the financial package for the Special Energy Meters as no techno-economic clearance was needed and sanction was within the competence of the Board of Directors of the petitioner company. The tariff for the period from 1.4.1998, that is, the date of commercial operation, to 31.3.2001 was approved by the Commission vide its order dated 26.7.2002 in petition No 78/2000. In the said order dated 26.7.2002, the Commission had allowed deployment of 100% equity for the purpose of tariff for the Special Energy Meters as the investment was small and the proposal had been agreed to by the regional constituents at SREB Forum. Thus, the questions of capital cost and the pattern of investment are settled and cannot be reviewed at this stage.

INTEREST ON LOAN

7. In accordance with the notification, interest on loan is to be worked out on outstanding loans, duly taking into account the schedule of repayment as per the financial package approved by the Authority or an independent agency. As has been noted above, the entire cost of the Special Energy Meters has been met by

the petitioner through its own internal resources, without any outside borrowings. Therefore, no interest on loan is being approved.

DEPRECIATION

8. In accordance with the notification, the petitioner is entitled to depreciation, calculated annually as per straight line method at the rates prescribed in the schedule attached thereto. The value base for the purpose of depreciation is the historical cost of the asset.

9. Based on these provisions, the petitioner has claimed depreciation @ Rs.15.78 lakh per annum during the tariff period, by considering the weighted average rate of depreciation of 6%. It has been contended by the respondents that depreciation should be adjusted towards the loan repayment. According to the petitioner, depreciation is a recognised cost element and it does not have any bearing on repayment of loan. In this context, the petitioner has relied upon the accounting principle of the Institute of Chartered Accounts of India. It is contended on behalf of the petitioner that depreciation is charged for the purpose of replacement of assets at the end of useful life of the assets and therefore, cannot be linked with loan repayment.

10. As the notification provides for charging of depreciation in the tariff, the same is being allowed in this petition. While approving depreciation component of tariff, the weighted average depreciation rate of 6% has been considered.

Depreciation has been worked out on the basis of actual capital expenditure of Rs. 2.63 crore as per auditor's certificate dated 14.6.2000 annexed to the petition. For working out cumulative depreciation, the depreciation as per the last tariff setting has been taken into account. The detailed calculations in support of weighted average rate of depreciation of 6% as also the amount of depreciation are appended hereinbelow:

Calculation of Depreciation

(Rupees in lakh)			
Capital Expenditure	Rate as per CERC Notification	Upto 2000-01 as per previous tariff setting	Depreciation
Land	0%	0.00	0.00
Building & other civil works	1.80%	0.00	0.00
Sub-station Equipments	3.60%	0.00	0.00
Transmission Line	2.57%	0.00	0.00
PLCC	6.00%	263.03	15.78
Weighted Average Rate of Depreciation	6.00%	263.03	15.78

ADVANCE AGAINST DEPRECIATION

11. In addition to allowable depreciation, the petitioner becomes entitled to Advance Against Depreciation wherever originally scheduled loan repayment exceeds the depreciation allowable as per schedule. However, as the entire cost of the Special Energy Meters has been through equity and there is no component of loan in the capital cost, the petitioner has not claimed Advance Against Depreciation. Accordingly, Advance Against Depreciation is not being allowed in tariff.

RETURN ON EQUITY

12. In accordance with the notification, the petitioner is entitled to return on equity at the rate of 16% per annum. The entire cost of Rs. 2.63 crore has been met through internal resources, considered as equity for the purpose of tariff. Accordingly, the petitioner shall be entitled to return on equity as given hereunder:

(Rupees in lakh)

Equity	Rate as per CERC Notification	Upto 2000-01 as per previous tariff setting	Depreciation	
Opening Balance (at DOCO)		263.03	263.03	263.03
Addition during the year		0.00	0.00	0.00
Closing Balance		263.03	263.03	263.03
Average		263.03	263.03	263.03
Return on equity	16%	42.08	42.08	42.08

OPERATION & MAINTENANCE EXPENSES

13. The petitioner has not claimed Operation and Maintenance Expenses in the present petition. As such, these are not being allowed.

INTEREST ON WORKING CAPITAL

14. As provided in the notification, the interest on working capital shall cover:

- (a) Operation and maintenance expenses (cash) for one month;
- (b) Maintenance spares at a normative rate of 1% of the capital cost, less 1/5th of the initial capitalised spares. Cost of maintenance spares for each subsequent year shall be revised at the rate applicable for revision of expenditure on O & M of the transmission system; and

(c) Receivables equivalent to two months' average billing calculated on normative availability level, which is 98%.

15. The normative value of maintenance spares at the rate of 1% of the capital cost during 2001-02, 2002-03 and 2003-04 works out to Rs. 3.10 lakh, Rs. 3.28 lakh and Rs. 3.48 lakh respectively considering Rs.2.92 lakh as base figure in the year 2000-01, and a 6% rate of escalation. The value of 1/5th of the initial capitalised spares is Rs. 3.38 lakh. The net value of the spares after adjusting the 1/5th of the initial capitalised spares during 2001-02 and 2002-03 works out to be negative as per table below:

Maintenance spares for Working Capital	1%				
Escalation	6%				
5 years from date of commercial operation		1.4.2003	2001-02	2002-03	2003-04
On opening Gross Block as on 1.4.2003		2.92	3.09	3.28	3.48
On Assets added during Year		0.00	0.00	0.00	0.00
Normative maintenance spare			3.09	3.28	3.48
Less 1/5 th initial capitalised spares			3.38	3.38	3.38
Maintenance spares for Working Capital			-0.29	-0.10	0.10

The above negative values have been considered for computation of working capital, though the petitioner has calculated working capital by taking maintenance spares of zero value.

16. The interest rate for the purpose of interest on working capital is to be the cash-credit rates prevailing at time of filing of the petition. The petitioner has claimed interest on working capital @ 11.5%, which corresponds to annual

average SBI PLR on 1.4.2001. In the petitions for approval of tariff for the period covered under the present petition filed by NHPC, the Commission has allowed the interest at the rate of 11.5% as has been claimed by the petitioner. Therefore, we allow the interest @ 11.5% on the working capital. In keeping with the above methodology, working capital and interest thereon work out as under:

(Rupees in lakh)			
Working Capital	2001-2002	2002-2003	2003-2004
O&M Expenses	0.00	0.00	0.00
Maintenance Spares	-0.29	-01.10	0.10
Receivables	9.83	9.83	9.83
Total	9.54	9.73	9.93
Rate of Interest	11.50%	11.50%	11.50%
Interest	1.10	1.12	1.14

17. In the light of above discussion, we approve the tariff for Special Energy Meters as per the table given hereunder:

Tariff	TABLE		
	(Rs. in Lakh)		
	2001-02	2002-03	2003-2004
i) Interest on Loan	0.00	0.00	0.00
ii) Depreciation	15.78	15.78	15.78
iii) Advance Against Depreciation	0.00	0.00	0.00
iv) O&M expenses	0.00	0.00	0.00
v) Return on Equity	42.08	42.08	42.08
vi) Interest on working capital	1.10	1.12	1.14
TOTAL	58.96	58.98	59.00
	=====	=====	=====

18. In addition to the transmission charges, the petitioner shall be entitled to other charges like Development Surcharge, income tax, incentive, surcharge and other cess and taxes in accordance with the notification, subject to orders of the superior courts, if any, on the appeals filed the the petitioner and the state utilities.

19. The petitioner is presently billing provisional tariff in respect of the the Special Energy Meters based on the Commission's notification No. L-7/25(2)/2001-CERC dated 4.4.2001, which has been extended from time to time. The tariff being presently billed on provisional basis shall be subject to adjustment in the light of final tariff now approved by us.

20. The transmission tariff approved by us shall be included in the regional transmission tariff for Southern Region and shall be shared by the regional beneficiaries in accordance with para 4.6 of the notification.

21. This order disposes of Petition No.42/2002.

Sd/-
(K.N. SINHA)
MEMBER

Sd/-
(G.S. RAJAMANI)
MEMBER

Sd/-
(ASHOK BASU)
CHAIRMAN

New Delhi dated the 12th June 2003