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Shri Rajendra Kumar
Secretary (Power),
GNCTD, Delhi Secretariat,
I P Estate,
New Delhi-110002

Sub: Severe Cash Flow constraints affecting our ability to purchase power in 2010-11.

Dear Sir,

As you are kindly aware, all the Discoms in Delhi have submitted their ARR petitions to the Hon'ble DERC which is under review by them for an appropriate order. In pursuance of this, the Hon'ble DERC very recently had a detailed round of discussions wherein the individual constraints and problems relating to cash flows projected by the Discoms emanating from delay in true up of past Revenue Gaps were reviewed in detail. We apprehend that our critical financial position may not have been fully appreciated by the Hon'ble DERC when it passes its tariff order for FY 2010-11, and we would, therefore, like to apprise the Government of NCTD of our concerns in the matter.

Ability to Supply Power Contingent on Cost Reflective Tariff

We have contracted adequate power from bilateral sources to meet the power needs during the summer months as well as Common Wealth Games in line with the directive of the DERC so as to avoid load shedding. This is also as advised by the Govt. for procurement of sufficient power to ensure uninterrupted supply. In doing so we have

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taken into account the CEA's realistic assessment of likely commissioning of new power plants. However materialization of these contracts is contingent upon our ability to pay for the power. Unless the Retail Tariff's determined by the DERC for FY 2010-11 are cost reflective which shall enable us to arrange for sufficient funds on the strength of the Tariff Order, we apprehend that these contracts may go into default. In such an event the availability of power to our consumers may be impaired and we will be constrained to buy power to the limits of our capability only. Not only this, we also apprehend that the lenders will put a ban on fresh lending whilst reviewing existing arrangements.

Precarious Financial Position

Government Nominee Directors on our Board are very well aware of the precarious state of finances because of delay in true up of past Revenue Gaps, primarily increase in the uncontrollable Power Purchase costs, and the consequent increase in borrowings which cannot be stretched any further. Against a revenue gap of Rs. 1004 crores upto FY 2008-09, an additional revenue gap of Rs. 1326 crores for FY 2009-10 has arisen which have aggravated the cash flow situation.

Accumulation of Revenue Gaps beyond sustainable levels

The Revenue Gaps over the years have continued to accumulate without relief, which have now reached unsustainable levels. DERC in its Annual Tariff fixation, has projected year on year that the accumulated revenue gap will be set off through estimated surpluses in the year for which the tariff is determined as shown in the table below:

Particulars	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
Revenue Gap/(Surplus) determined by DERC in the Tariff Order (in Rs. Cr.)	16	31	(225)	(217)	(331)	(510)
Revenue Gap/(Surplus) determined by DERC while Truing up in the next Tariff Order. (in Rs. Cr.)	221	75	404	129	428 [#]	1,326 [#]
Gap between assumed surplus and Actual (in Rs. Cr.)	205	44	630	346	759	1,836

(Note # : as estimated in the ARR based on audited accounts)

These assumptions, as may kindly be seen, have gone totally awry year on year and in fact in the year 2009-10, the actual Revenue Gap is of the order of Rs. 1326 Cr. as against the estimated surplus of Rs. 510 Cr, which has been estimated by the DERC while fixing tariffs for FY 2009-10, leading to a total variation of Rs. 1836 Cr. Most of this is on account of variation in Power Purchase rates.

Continuation of the practice of assuming higher surplus for tariff fixation

Based on our recent deliberations with the DERC, we apprehend that notwithstanding the data and submissions to the DERC explaining the critical situation (submissions made on 29.04.2010 enclosed as Annexure 1), the DERC may ignore the actual Revenue Gap of FY 2009-10 and may take a view of extinguishing the accumulated revenue gaps through an assumption of surpluses here onwards while determining tariffs for FY 2010-11. This, as you shall appreciate, will further aggravate our liquidity position.

Power purchase Costs / Quantum

The extraordinary Revenue gap for FY 2009-10 has arisen primarily on account of rise in power purchase costs vis a vis the approved costs considered in fixing tariffs for FY 2009-10. The increase has been due to lower and delayed availability of power mainly from new Power Generating stations, thereby forcing us to procure expensive power on a day ahead/ bilateral basis which in turn has led to lower power surplus being available for sale to other states than what was estimated. Additionally, the power purchase cost has been adversely impacted due to unprecedented increase of Fuel costs of existing Power Stations. It is worthwhile to point out that the present retail tariffs are based on a Power Purchase Cost of Rs. 2.55/ unit against the actual cost of Rs. 3.68/ unit, thereby reflecting the huge deficit in recovery, solely on account of difference in actual vs. estimated Power Purchase Costs. For FY 2010-11, as you are kindly aware, the Power Purchase costs have already gone up significantly over FY 2009-10. Further the quantum of energy being supplied / estimated to be supplied in FY 2010-11 is showing a significant uptrend over FY 2009-10 as shown in Annexure 2 and Annexure 3.

