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**Sunil Wadhwa**  
CEO & Executive Director

NDPL/CEO&ED/2010/  
May 1, 2010

Dear *Shri Rajendra Kumar,*

**Severe Cash Flow constraints due to non true up of past Power Purchase costs  
thereby affecting our ability to raise working Capital Loans for Purchase  
Power in 2010-11**

As you are kindly aware, all the Discoms in Delhi have submitted their ARR petitions to the DERC which is under review by them for an appropriate order. In pursuance of this, the 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. While discussing the matter with the DERC, we gained an impression that the DERC may ignore the FY 2009-10 Revenue Gap in determining the tariffs for FY 2010-11, which shall have an extremely deleterious impact on our already precarious liquidity situation; we would, therefore, like to apprise the Government of NCTD of our concerns in the matter.

**Ability to buy expensive power contingent upon corresponding Cost Reflective  
Consumer Tariffs / Ability to raise Finance**

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 any load shedding. This is also as advised by the Govt. for procurement of sufficient power to ensure uninterrupted supply. In doing so we have taken into account the CEA's realistic assessment of likely commissioning of new power plants. It is worthwhile to point out here that a 22% increase in demand even over the last year's unprecedentedly hot summer has been experienced in April 2010. **Actual purchase of power under these bilateral 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 which may mean huge quantum of load shedding. 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. **In the past three years, the Power Purchase costs requiring true-up has been in the range of Rs. 40-110 Cr. annually. However, the gap for FY 2009-10 on account of this (Power Purchase Cost differential) is Rs. 721 Cr. which has aggravated the cash flow situation.**

**North Delhi Power Limited**

(A Government Joint Venture)

*Pr. Secy (Power)  
5/2/10  
13/5/10  
3/5/10*



**NDPL**

### **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. However, these assumptions 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. 670 Cr. (Rs. 721 Cr. Revenue Gap on account of increased Power Purchase Cost which is reduced by Rs. 59 Cr. on account of additional revenues due to over-achievement of loss reduction targets) as against the estimated surplus of Rs. 231 Cr, which was estimated by the DERC while fixing tariffs for FY 2009-10, leading to a total variation of Rs. 901 Cr.

### **Continuation of the practice of assuming higher surplus for tariff fixation**

As stated above, 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), the DERC may ignore the actual Revenue Gap of FY 2009-10 and to the contrary may assume that we have a surplus from FY 2009-10 available for procuring power for FY 2010-11. This, as you shall appreciate, will further aggravate our adverse 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. 2.63/ unit against the actual cost of Rs. 3.67/ unit, thereby reflecting the huge deficit in recovery, solely on account of difference in actual vs. estimated Power Purchase Costs.**

At the current retail tariffs and at an estimated average Power Purchase Cost (PPC) of Rs. 3.60/ unit for FY 2010-11, a Revenue Gap of Rs. 768 Cr. is estimated for FY 2010-11 on account of Power Purchase Costs difference. It may be pointed out here that while the full year (FY 2010-11) Average Power Purchase Cost is estimated at 3.60/unit, the PPC for first half is estimated at Rs. 3.95/unit.



**NDPL**

### **Continuous recourse to additional debt to finance operations**

**Financing of this deficit is becoming increasing difficult as the Company has inadequate net worth (from the lenders' perspective) which cannot be leveraged any further.** This is so because Net worth/ Shareholder Funds have been heavily used for power purchase due to inadequate tariffs. The Borrowing Limits are over stretched and there is no further possibility of borrowings unless banks are able to see a suitable way forward in recovering/ reducing the mounting for Revenue Gap thereby assuring recovery of their outstandings.

It is worthwhile to point out here that pending recovery of Revenue Gaps (largely due to increase in the uncontrollable Power Purchase Costs) through tariffs, we have been forced to finance these Power Purchase Costs from our eligible Return on Equity which should have actually been available to payout as dividend to our shareholders; with the variation / gap on this account becoming inordinately large, the same can not be any further supported or financed from retained earnings as the same have been exhausted.

### **Critical need for additional financing**

In order to help us in tiding over the present crises which may result in default to the lenders and lead to a consequential inability to source power (leading to forced outages), the GoNCTD is requested to provide us a bridge loan of Rs. 1000 crores at nominal interest rate immediately, particularly as funding requirement is higher in the first half of the year. This requirement can however be obviated and financing can be raised from commercial lenders if the Tariff Order for FY 2010-11 addresses the above concerns while taking cognizance of the FY 2009-10 Revenue Gap.

### **Prayer made to DERC**

We have prayed to DERC for the following:

- Given the extraordinarily large **Revenue Gap for FY 2009-10**, primarily on account of large variation in Power Purchase Costs, **the same be taken cognizance in tariff setting for FY 2010-11 and a provisional / part true up be carried out based on nine months Audited Accounts for FY 2009-10.** The final/ balance true up be carried out in the next financial year FY 2010-11. We wish to bring to your notice that as per the existing MYT Regulations, the DERC is fully empowered to carry out the above mentioned true-up in the Tariff Order for FY 2010-11, which is under finalization by the DERC.
- **Due cognizance be taken of the CEA's realistic assessment of likely commissioning dates of new power plants**, and availability of same be considered at practical and not theoretical levels.
- A suitable formula to mitigate power purchase costs over a much shorter timeframe, as prevalent in many other states, should be incorporated in the Tariff Order. We, in our Tariff Petitions as well as subsequent deliberations, have already proposed a **quarterly Power Purchase Price Adjustment formula to address this issue together with a realistic base line Tariff.**

