INDRAPRASTHA POWER GENRATION COMPANY LIMITED

(A Govt. of NCT of Delhi Undertaking)

Regd. Office: 'Himadri' Rajghat Power House Complex,

Rajghat, New Delhi – 110 002

Petition for Approval of
Annual Revenue Requirement
For the FY 2004-05

The Proposal

I N D E X

<u>The Petiton</u>

Before the Delhi Electricity Regulatory Commission

Filing No.___________
Case No.____________

IN THE MATTER OF

Petition for approval of Annual Revenue Requirement for the Financial Year 2004-05 and for determination of tariff to be charged from Delhi Transco Ltd. (DTL) for the power being supplied to them.

AND

IN THE MATTER OF

Indraprastha Power Generation Company Ltd. (hereinafter called "IPGCL") the Company incorporated under the provisions of Companies Act having its registered office at 'Himadri", Rajghat Power House Complex, Rajghat, New Delhi –110 002.

PETITIONER

PETITION UNDER SECTION 86 READ WITH SECTION 64 OF THE ELECTRICITY ACT, 2003

The Petitioner respectfully submits as under:-

1. The Petitioner herein called "Indraprastha Power Generation Company Ltd."(IPGCL) is a Government Company within the meaning of Companies Act,1956 and is wholly owned by the Government of National Capital Territory of Delhi. Further it is a Generating Company as defined under Section 2(28) of The Electricity Act, 2003.
2. That consequent to Section 86(1) (a) and other applicable provisions of The Electricity Act, 2003, the appropriate Commission shall determine the tariff for supply of electricity by a generating company. The Honourable Commission is vested with the jurisdiction to determine the tariff of IPGCL.
3. Pursuant to the applicable provisions of the Delhi Electricity Act, 2000, the Government of National Capital Territory of Delhi undertook the reform and restructuring of the erstwhile Delhi Vidyut Board (DVB), which was implemented through a statutory transfer scheme. The Transfer Scheme rules notified provides for reorganization of DVB including transfer of properties, assets, liabilities etc.

   The Transfer Scheme provides for unbundling of the erstwhile DVB into 6 (Six) Companies / entities. The Generation functions alongwith related assets have been transferred to Indraprastha Power Generation Company Ltd. (hereinafter referred to as "IPGCL").
4. IPGCL is to undertake the functions of generation of electricity from its three power stations viz (i) Indraprastha (ii) Rajghat and (iii) Gas Turbine Power Station.

5. It is submitted that the power generated from these power stations is being supplied to the transmission Company i.e. Delhi Transco Limited, which is also a Govt. of NCT of Delhi Undertaking. The IPGCL and DTL have mutually finalized the draft Power Purchase Agreement which was submitted to the approval of Honourable Commission.
6. In pursuance of understanding/agreement of earlier successive entities i.e. DESU & DVB with Haryana Government at the time of installation of 2,3 & 4 units of I.P. Station, the Company is transferring 1/3rd of power being generated from these three units of I.P. Station to Haryana Government.

7. Based on examination of the ARR filed by TRANSCO for the year 2002-03 (9 months) and for the year 2003-04 as well as considering various aspects of tariff determination, the Honourable Commission had passed an Order dated June 26, 2003, which fixed the tariffs for IPGCL for the year 2002-03 and 2003-04.

8. The Honourable Commission vide its order of 26th June,2003 has fixed the tariff of IPGCL. Further the Hon'ble Commission has issued orders on 17/19th December, 2003 against the review petition of IPGCL against the order of June, 2003. This petition of IPGCL is without prejudice to its right of other legal remedies available against the said orders of DERC.

9. IPGCL is filing herewith its revenue requirements for the FY 2004-05 for determination and fixing the Tariff to be charged from DTL.

10. The Honourable Commission has fixed lower tariff for the FY 2002-03 and 2003-04, which adversely affected the finances of IPGCL. The annual revenue requirements of the IPGCL could not be completely met due to the low tariff so fixed.

11. The present petition contains the following documents:

i. Summary of the petition
ii. Detailed formats with explanatory notes
iii. Copy of authorization by MD, IPGCL for filing ARR proposal for FY 2004-05.
iv. The affidavit verifying the petition duly notarized.

The petitioner submits that the above mentioned Annexures appended may please be read as integral part of the petition.

12. The petitioner respectfully submits the following:

i. The Transfer Scheme has been made effective from 1st July, 2002 as per the notification of the Government.
ii. The provisional Annual Accounts upto FY 2002-03 have been submitted to the statutory auditors for audit and the statutory audit is under progress. The petitioner has relied upon information contained in the said provisional accounts where relevant.
iii. Data pertaining to the previous year 2002-03(9 months) is taken at actual as per annual accounts submitted to the auditors for audit. The data for the period April to October, 2003 has also been taken as per the provisional accounts compiled for that period. The estimation for the FY 2003-04 as also for the year 2004-05 are projected, based on assumptions provided at appropriate place in this petition.

13. Having regard to the submission in Para-10 in which it has been mentioned that the previous tariff orders have not been adequate to meet the annual revenue requirement of IPGCL, the Petitioner pleads with the Honourable Commission to permit the appropriate tariff revision in the ensuing year within the overall

tariff framework. Since the plea is to be examined in the light of its impact on downstream network, no specific tariff has been proposed in the present ARR.

14. IPGCL is having 3 power plants namely Rajghat Power House, Indraprastha Power Station and Gas Turbine Power Station and all these power stations are 15 to 35 years old. It is submitted that these power stations are having higher heat-rate as compared to the newly set up bigger units elsewhere due to their age as well as of small capacities.

15. It is submitted that loan funds and Equity Funds of the Company are much less as compared to the new power plants of the similar capacity. Hence the amount of interest on loan and Return on equity are much less compared to the new power plants.

16. It is submitted that if new power plants of these capacities are established in the present scenario, it may cost many times more of our present value of our plants. Hence the depreciation amount claimed by the Company is much less as compared to the new similar power plants.

17. The company is now taking steps to renovate and modernize all its power plant to make them energy efficient and to meet the stringent standards of environmental norms. The whole process may take 4 to 5 years to come in line to meet the equivalent efficiency criteria of other similar plants.

18. The Hon'ble Commission is requested to allow our actual heat-rate and O&M expenditure etc. as submitted.

19. It is submitted that if the foregoing factors are not taken into consideration while determining the power tariff, the viability of our plants will have a major setback and defeat the purpose of the reforms taken by GNCTD.

20. It is submitted that the Company has entered into an agreement with GAIL for supply of LNG for meeting shortfall in CNG to its Gas Turbine Units. After the supply of this LNG, the Company will stop using liquid fuel. The cost of LNG will be much higher as compared to the CNG price. The supply for LNG may commence from end of March, 2004. The Hon'ble Commission is requested to take note of this development at the time of framing tariff.

21. It is submitted that as per the directions of Delhi Pollution Control Committee, it is proposed to use imported coal in coal based generating units i.e. Rajghat and I.P. Station initially on experimental basis by blending the same with the indegenious coal. If the same is found viable, the Company might use imported coal for blending purpose in its power plants. The Hon'ble Commission is requested to take note of this fact while fixing the tariff of the Company.

22. It is submitted that fuels used by the Company are subject to price variation from time to time. It is submitted that Hon'ble Commission approve appropriate Fuel Price Adjustment formula to compensate the variation in fuel cost.

23. It is submitted that the company has given Voluntary Retirement Scheme (VRS) to number of employees during the period of October, 2003. The Company proposes to give VRS to more employees during the FY 2003-04/ 2004-05. The Hon'ble Commission is requested to take view of these costs at the time of fixing tariffs of the Company.

24. The petitioner undertakes to submit any other information/document as and when directed/required by the Hon'ble Commission during the course of proceedings for taking just and proper decision in the matter.

25. The Petitioner reserves the right to amend this petition by reasons of any subsequent developments.

The petitioner respectfully prays the Honourable Commission to please:

a) Approve the tariff of IPGCL for FY 2004-05. The resultant shortfall in FY 2002-03 and 2003-04 be also permitted to be recovered in the ARR for FY 2004-05

b) Approve Fuel Price Adjustment Formula.

c) Pass any such further order (or) orders as the Honourable Commission may deem just and proper in the circumstances explained above.

PETITIONER: ________________

IPGCL

INDRAPRASTHA POWER GENERATION COMPANY LIMITED

EXPLANATORY NOTE

ASSUMPTIONS

Power Generation:

The Company has taken the quantity of power to be produced during the FY 2004-05 as per the targets fixed by the Central Electricity Authority (CEA).

	Gross Generation (M. Units)	Net Generation (M. Units)
I.P. Station	800	704
Rajghat Power Station	850	745
G.T.P. Station	1200	1164

Fixed Asset:

As per the Delhi Electricity Reforms (Transfer Scheme) Rules, 2001, the gross assets of the Company as per notified Balance Sheet is Rs.510 Crores as on 01.7.2002. The Company has appointed Chartered Accountants Firm M/s J.L. Garg & Company, for allocating the gross value of Fixed Assets to all assets of the Company. This process is likely to be completed shortly. The Company provisionally allocated the gross value of Rs.510 Crores as on 01-7-2002 as under which is subject to change after finalisation and confirmation of Fixed Asset Register.

I.P. Station	Rs. 57.44 Crores
R.P. Station	Rs.161.70 Crores
G.T.P. Station	Rs.290.86 Crores
Total	Rs.510.00 Crores

Loan from Holding Company:

As per Delhi Electricity Reform (Transfer Scheme) Rules 2001, the secured loan payable to holding company as on 01.7.2002 is Rs.210 Crores. There is moratorium on payment of interest and repayment of principal for 4 years. This loan of Rs.210 Crores has been bifurcated station wise as under based on gross fixed asset of the company on provisional basis:

I.P. Station	Rs. 22.47 Crores
R.P. Station	Rs. 63.27 Crores
G.T.P. Station	Rs.124.26 Crores
Total	Rs.210.00 Crores

LOAN FROM DELHI GOVERNMENT

During the FY 2002-03 Plan Funds Loan taken from Delhi Government were amounting to Rs.48.80 Crores which were taken @ interest 13%. In the FY 2003-04 the plan funds have been approved for Rs.75 Crores and the loan were taken @ 11%. A penal interest of 2% will be chargeable in case of default in timely payment of interest or principle amount. These plan funds from Delhi Govt. have been bifurcated as under:

	Year 2002-03	Year 2003-04
I.P. Station	3.00 Cr.	30.00 Cr.
Rajghat Power Station	7.50 Cr.	9.00 Cr.
G.T.P. Station	38.30 Cr.	35.00 Cr.
Consultancy for new Projects		1.00
Total	48.80 Cr.	75.00 Cr.

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Equity:

As per the transfer scheme, the subscribed and paid up capital of the company as on 01.7.2002 is Rs.140 Cr. The total equity is bifurcated plant wise as under on the basis of total gross fixed assets of the plant on provisional basis:

I.P. Station	14.99 Cr.
R.P. Station	42.18 Cr.
G.T.P. Station	82.83 Cr.

	140.00 Cr.

Return on Equity has been taken @ 16% on the paid up capital of Rs.140 Crores.

Working Capital Loan:

The rate of interest on the working capital has been taken 12.5% as allowed by DERC in his Tariff Order dated 26th June, 2003.

Depreciation

The Commission in the BST order for financial year 2001-02 has approved a weighted average rate of depreciation of 7.84%. Based on that the petitioner had estimated the same rate of depreciation in its petition for the FY 2002-03 and FY 2003-04 but the Commission allowed the depreciation @ 4% on straight line method on the gross value of the fixed assets stating that the low rate of depreciation is because the petitioner had no loan repayment liabilities during these financial years.

It may not be out of place to mention here that after enactment of Electricity Act 2003 and the repeal of the Electricity Supply Act, 1948, the Power Sector utilities may be required to follow the Companies Act, 1956 in matters of depreciation. The Ministry of Power in its draft Tariff policy has mentioned that for tariff determination, depreciation rate would be as per Schedule XIV of the Companies Act, 1956. All power sector entities will be treated as ‘continuous process plant’ for the purpose of determination of depreciation rate. If that is finally accepted by the MOP in the tariff policy, the uniform rate of depreciation for power entities would be 5.28%.

In view of above, Hon'ble Commission may kindly consider to allow depreciation @ 7.84% for Thermal Power Station and 8.24% on Gas Based Plant as approved in the Tariff Order for the year 2001-02 pending notification of Tariff Policy by the Govt. of India under the Electricity Act, 2003.

The depreciation for FY 2004-05 has been calculated @ 7.84% for Thermal Station and 8.24% for Gas Station. The Honourable Commission may kindly approve the same.

The depreciation on the additions during the financial year have been provided on the half of the amount assuming that the additions have been made evenly throughout the year.

O&M Expenses:

a) Corporate Office Expenses – The key Executive functionaries including Managing Director, Director (T), Director (F), Company Secretary etc. of both IPGCL and PPCL are common and the expenses of Corporate Office are also common. Besides this the activities of Administration, Finance, Stores, Medical Deptt., Civil etc. are also looked after by IPGCL. As per the Board of Directors, the corporate office expenses of IPGCL are to be shared between IPGCL and PPCL.

   The rest of the corporate office expenses of IPGCL have been allocated in three power stations on the basis of power generation amongst its three power stations i.e.

   (i) I.P. Station
   (ii) Rajghat Power Station
   (iii) G.T.P. Station

Water Charges:

The Cess is payable to Delhi Pollution Control Committee (DPCC) on the water withdrawn from the Yamuna River. Further amount is being paid to the Haryana Irrigation Deptt. for maintenance of the barrage maintained by them for IPGCL. These water charges have been divided among the three power stations equally.

Voluntary Retirement Scheme (VRS):

During the FY 2003-04, the Company has introduced the VRS for its employees in Category B, C & D in which 356 employees were given VRS in October, 2003. The company is most likely offer this scheme to its other employees in Category 'A' before the close of the FY 2003-04. The company has paid compensation of Rs.18.62 cr. on the VRS given to 356 employees. However, some more amount might also be payable on account of pension benefits etc. to the DVB Terminal Benefit Trust as demanded by them. Similarly the Company might offer further VRS in the near future also in phase manner to its employees. The Honourable Commission is requested to keep in view the liability arising on account of VRS already introduced and to be introduced by the Company, at the time of fixing of the tariff.

Manpower:

The company has created various executive posts in finance, administration and engineering wings during the FY 2003-04. These posts have been created for filling up of vacuum in the executive categories. The Company has started the recruitment drive in these Categories. Besides this, the Company also proposes to give extensive training to its employees in the near future and to prepare them for competitive environment and to face challenges of the future. Hence the expenses of the Company on account of trainings, seminars etc. are likely to rise and company has fixed up a budget of Rs.3 crores. The company is also planning to create in-house training facilities for its employees on the line of Power Management Institute of NTPC.

Repair & Maintenance:

The Indraprastha Power Station of the Company is more than 35 years old and Delhi Pollution Control Committee (DPCC) had earlier ordered for its closure earlier on the commissioning of the Pragati Power Plant. Now the DPCC has allowed to operate the I.P. Plant on the condition that the Company will install additional ESP at I.P. Station to bring down the pollution level to 50 mg/N cub m. In view of the closure ordered by DPCC in the earlier years, major repair and maintenance and renovation and modernization were not taken up in respect of I.P. Plant.

All the power plants of the company have been giving lower PLF during last many years. It is estimated that repair and maintenance expenses in all the three power plants will increase substantially.

Renovation & Modernization:

The company proposes to incur major amount on renovation and modernization of the power plants to achieve optimum level of performance and enhanced life span. It is proposed to incur the following capital expenditure in these power plants in the next 4-5 years:

I.P. Station	Rs.445.00 Crores
R.P.Station	Rs.103.67 Crores
G.T.P.Station	Rs.121.00 Crores

Fuel Cost:

a) As per directions of the DPCC, the Company is required to import coal for reducing pollution level. It is proposed to use imported coal by blending with the indegenious coal. The details are being worked out for the imported coal but no cost factor on this account has been accounted in the calculations submitted.

b) **Supply of LNG** – The Company has entered into an agreement of five years with Gas Authority (India) Ltd. (GAIL) for supply of LNG for meeting the shortfall in the CNG supply. This LNG supply is likely to be commence from end of March,2004. On commencement of supplies of LNG, the company will stop using liquid fuel in the Gas Turbine Units. The cost factor on account of LNG has been taken into consideration while making projections for the FY 2004-05.

c) **Heat Rate:**

The Heat Rate for the I.P. Station and R.P. Station has been taken on their actuals. It is hoped that after the R&M, the PLF and heat rate in these power stations will improve.

d) Escalation Factors

The Company has estimated a price escalation:

a) of 5% in the fuel price for FY 2004-05 as allowed by DERC.

b) of 10% in O&M expenses for the FY 2004-05 over the previous year.

<u>SALIENT FEATURES OF IPGCL PETITION</u>

PARTICULARS	**UNITS**	**IPGCL 2004-05**	**I.P. Station**	**R.P.H.**	**G.T.P.S.**
A. Gross Generation	**MU**	**2850**	800	850	1200
B. Net Generation	**MU**	**2613**	704	745	1164
C. Total Fixed Cost	**Rs.Cr.**	**271.04**	101.45	77.44	92.15
D. Total Variable Cost	**Rs.Cr.**	**482.74**	137.57	140.50	204.67
E. Total Cost	**Rs.Cr.**	**753.78**	239.02	217.94	296.82
F. Variable Cost per Unit (D x 10/B)	**Rs/Kwh**	**1.85**	1.95	1.89	1.76
G. Total Cost Per Unit (E x 10 /B)	**Rs/Kwh**	**2.88**	3.39	2.93	2.55