

BEFORE THE DELHI ELECTRICITY REGULATORY COMMISSION

Filing No:

Case No. :

IN THE MATTER OF Filing of Multi Year Tariff Petition under section 62 of the Electricity Act, 2003 for determination of Generation Tariff for the Financial Year FY 2007-08 to FY 2010-11 & Truing-up for FY 06-07.

AND

IN THE MATTER OF Pragati Power Corporation Limited
"Himadri", Rajghat Power House Complex,
New Delhi - 110002
PETITIONER

THE APPLICANT ABOVE NAMED RESPECTFULLY SUBMITS

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Chapter 1 : Background

This Chapter gives the background giving cause to the filing of this Petition.

1.1 Introduction

1. The Govt. of India notified the Electricity Act, 2003 on 10th June, 2003 repealing the Indian Electricity Act-1910, the Electricity (Supply) Act 1948 and the E.R.C. Act, 1998. Among the tariff related provisions, the State Electricity Regulatory Commission (SERC) has to be guided by National Electricity Policy and National Tariff Policy. The generation, transmission and distribution tariff have to be determined separately. The Commission has framed Regulations specifying the terms and conditions for determination of tariff. With the expiry of Policy direction period (2002-2007), the petition for the First Control Period of four years is to be filed on MYT framework as per the regulations for MYT framed by Delhi Electricity Regulatory Commission.
2. To fulfill this statutory requirement, PPCL is submitting this application for approval of the Aggregate Revenue Requirement for the control period of four years i.e. from 2007-08 to 2010-11 and truing-up of tariff for FY06-07.
3. While submitting this Tariff Petition, PPCL has made efforts to adhere to the regulations framed by the Hon'ble Commission in most of the areas.

1.2 Brief Company Profile

1. "Pragati Power Corporation Ltd." (PPCL) is a Government Company engaged in Power generation within the meaning of Companies Act, 1956 and is wholly owned by the Government of National Capital Territory of Delhi. Pursuant to the applicable provisions of the Delhi Electricity Reforms 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 provided for reorganization of DVB including transfer of properties, assets, liabilities etc. The transfer scheme provided for unbundling of the erstwhile DVB into six companies. PPCL took over certain assets and liabilities relating to Pragati Power Station from erstwhile DVB on 01.07.2002.

2. To bridge the gap between demand and supply and to give reliable supply to the Capital City, Delhi Govt. had set up the 330 MW combined cycle gas based Pragati Power Project on fast track basis. Further it is a Generating Company as defined under Section 2(28) of The Electricity Act.

Chapter 2 : Submissions

1. This Chapter lays down the modality of making submissions to the Honorable Commission in support of the Prayers made out under Chapter 5.

2.1 Submission Plan

1. PPCL proposes to make submissions to the Honorable Commission in support of this Petition as under:
 - Operational Parameters for the Pragati Power Station
 - Financial Parameters for Paragti Power Station
 - Prayer

Detailed submissions on each of the subject matters are made in the Chapters to follow.

The petitioner would like to submit that all the projections/information given in this petition does not include any expenditure related to the upcoming projects which are likely to come by FY 09-10.

Chapter 3 : Estimation of Variable Cost

3.1 Norms for Operation

PPCL has taken into consideration the actual performance parameters of FY 06-07 and based on these it has estimated the parameters for FY 07-08 to FY 10-11.

3.1.1 Station Heat Rate

1. Table 1 indicates the SHR values for PPCL station as achieved during FY 05-06 & FY 06-07 and projected SHR for the Control Period.

Table 1: Station Heat Rates (Kcal/KWh) for PPCL Station

Description	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Station Heat Rate (Combined Cycle)	2019.00	2034.60	2050.00	2050.00	2050.00	2050.00
Station Heat rate (Open Cycle)	3123	3138	3150	3150	3150	3150

2. The petitioner would like to submit that it is not possible to achieve SHR of 2000 as indicated in the DERC Regulations for MYT. The guaranteed heat rate of these turbines as given by the manufacturers is 1939 kcal/kwh at 100% PLF which has been computed by CEA¹ as 1978 kCal/kwh. At 80% PLF Manufacturer guarantees 2039 kcal/kwh.
3. The actual Station Heat Rate (on GCV) was 2034 kCal/kWh during FY06-07. PPCL requests the Commission to allow a combined cycle heat rate of 2050 kCal/kWh on Gross Calorific Value (GCV) basis considering the

¹ Report of CEA on "Technical Standard On Operating Norms For Combined Cycle Gas Turbines Stations" Published in Dec 2004. (Copy Enclosed)

correction factor specified by the CEA² . It may be submitted that apart from factors considered by CEA, PPCL is also facing considerably higher number of grid trippings in Delhi compared to National Grid and cuts imposed by GAIL in supply of gas on day to day basis resulting in lower PLF and higher SHR. PPCL requests the Hon'ble Commission that these are uncontrollable factors and should be considered with leniency at the time of finalisation of MYT Order.

4. The actual Station Heat Rate on open cycle in FY 06-07 was 3138kcal/kwh against the manufactures guaranteed heat rate of 2986 kcal/kwh at 100% PLF. CEA has also considered the open cycle heat rate as 3075.3 kcal/kwh at 100% PLF on Page no. 24 of the above mentioned Report. PPCL requests the Hon'ble Commission to approve the open cycle heat rate of 3150 kCal/kwh for FY 07-08 to FY 10-11 and allow the actual SHR achieved for FY 06-07 during the time of truing up, considering the other degradation factors as mentioned above.

3.1.2 Plant Load Factor (PLF)

1. Table 2 indicates the achieved parameter for Plant Load Factor (PLF) for PPCL station for FY 05-06 & FY 06-07 and proposed parameters for the Control Period.

Table 2: Target PLF Consumption (%) for PPCL Station

Description (%)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Plant Load factor	79.53	77.99	80	80	80	80

2. The Actual PLF for PPCL was 79.53% in FY 05-06 and 77.99% in FY 06-07 and deemed PLF of ___%. The key reason for low PLF in FY 06-07 is that the

² Page No. 21 of the Report of CEA on "Technical Standard On Operating Norms For Combined Cycle Gas Turbines Stations" Published in Dec 2004 (Copy Enclosed)

supply of gas was affected due to floods in Hazira, Gujarat. As a result, there was a loss of generation of ~ 150Mus in FY 06-07. PPCL requests the Commission to consider this aspect at the time of truing-up for FY 06-07.

3. PPCL would make all out efforts to maintain the norm of 80% PLF during the First Control Period i.e from FY 07-08 to FY 10-11as indicated in the Regulations issued by the Hon'ble Commission on MYT.

3.1.3 Auxiliary Energy Consumption

1. Table 3 indicates the achieved parameter for Auxiliary consumption for PPCL station for FY 05-06 & FY 06-07 and proposed parameters for Control Period.

Table 3: Target Auxiliary Consumption (%) for PPCL Station

Description (%)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Auxiliary Consumption	3.14	2.85	3.00	3.00	3.00	3.00

2. The Actual Auxiliary consumption for PPCL was 3.14% in FY 05-06 and 2.85% in FY 06-07. PPCL would be able to maintain within the norm of 3% as auxiliary consumption during the First Control Period i.e from FY 07-08 to FY 10-11as indicated in the Regulation issued by the Hon'ble Commission.

3.2 Gross Generation and Net Generation

1. Gross generation of PPCL for FY 05-06 and FY 06-07 was 2299.09 MU and 2254.63 MU respectively. PPCL requests the Commission to approve a Gross generation of 2400MU for the entire Control Period.
2. On the basis of PLF as referred in the Table 2 and Auxiliary Consumption as referred above in Table 3, PPCL is estimating to have Gross and Net Generation from the power station as per the Table 4.

3. We shall endeavor to perform better than the proposed target of generation at 80% PLF and therefore propose higher generation as shown in Table 4. However, PPCL would claim incentives/disincentives according to the actual generation vis-à-vis target generation through 80% PLF.

Table 4: Gross and Net Generation during the Control Period

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Gross Generation (MU)	2299.09	2254.63	2400.00	2400.00	2400.00	2400.00
Auxiliary Consumption (%)	3.14	2.85	3.00	3.00	3.00	3.00
Net Generation (MU)	2226.97	2190.39	2328.00	2328.00	2328.00	2328.00

3.3 Variable Cost for PPCL Power station

Fuel Consumption:

1. Pragati Power Station has a long-term agreement with Gas Authority of India Limited (GAIL) for supply of Gas. Initially, PPCL was having an allocation of 1.75 MMSCMD of APM Gas per day. This gas was sufficient to run both the Gas Turbines on base load. Subsequently with the decontrol of the gas supplies from Panna Mukta Tapti field (PMT), the gas allocation to PPCL was reduced to 1.22 MMSCMD of APM gas and 0.33 MMSCMD of gas was allocated from gas supplies from Panna Mukta Tapti fields, termed as PMT gas, making the total allocation as 1.55 MMSCMD.
2. Due to depleting Gas reserves of ONGC, GAIL is imposing cuts on its supply on day to day basis to the extent of 10 -20%. . To make good this short fall in the gas availability, fall back agreement has been signed with GAIL for supply of R-LNG gas, procured under long term contracts. However, during the last one year even this R-LNG on fall back basis is not available to PPCL.
3. To meet the shortfall, PPCL has made best efforts and placed orders to procure R-LNG by spot purchases from markets through gas suppliers to

meet the shortfall on take and pay basis. The sale is subject to availability of gas.

4. The Consumption of APM/PMT Gas in FY 05-06 and FY 06-07 was 482.25 MMSCM and 482.36 MMSCM respectively. The consumption of Fallback R-LNG Gas was 17.9 MMSCM and 0.73 MMSCM in FY 05-06 and FY 06-07 respectively. PPCL has estimated the consumption of Gas during the Control Period as shown in the Table 5.
5. The Shortage of APM/PMT Gas supply is now met from Spot Regassified LNG (R-LNG) purchases as summarised in Table5. The petitioner would like to highlight that considering the cut of approx. 15% in APM/PMT gas supply in the future years, balance is projected to be met through spot R-LNG. The projected gas consumption shown in the Table 5 is for the combined cycle operation.

Table 5: Total Consumption of Gas

Particulars	Unit	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
APM/PMT Gas							
Gas Consumption	MMSCM	482.25	482.36	480	480	480	480
R-LNG	MMSCM	17.90	0.73				
Spot R-LNG Gas							
Gas Consumption	MMSCM	0	18.54	55.65	55.65	55.65	55.65

Projected Fuel Cost

1. The rate of APM/PMT Gas has been considered as Rs 41 64/1000 SCM for FY 07-08 and for Spot R-LNG has been considered at Rs 439/MMBTU for FY 07-08. These rates are based on the latest bills received from the GAIL.
2. The APM & PMT price for the FY 08-09 is estimated to increase by 5% over the FY 07-08 estimates and the same 5% escalation is factored for the subsequent years of the control period.

3. Spot prices of RLNG will be driven by market fundamentals in the LNG market worldwide. The key pricing determinants will be the movement in Henry-Hub prices and crude oil prices. Therefore 5% escalation has been factored in spot RLNG price during the control period. PPCL would like to submit that the difference between the actual cost and the projected cost will be adjusted/trued-up through the fuel price adjustment mechanism.

Variable Cost for PPCL Power Station

1. Based on above, PPCL has estimated the total Fuel cost and Variable Cost as shown in the following Table.

Table 6: Total Variable Cost

Particulars	Unit	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
APM/PMT Gas							
APM Gas Consumption	MMSCM	388.64	385.50	385.00	385.00	385.00	385.00
PMT Gas Consumption	MMSCM	93.62	96.86	95.00	95.00	95.00	95.00
Gas Price	Rs/1000 SCM	-	-	4164.00	4372.00	4591.00	4820.00
Cost	Rs Crore	-	-	199.87	209.86	220.37	231.36
Spot R-LNG Gas							
Gas Consumption	MMSCM	-	17.82	55.66	55.66	55.66	55.66
Gas Consumption	MMBTU	657646	681160	2044800	2044800	2044800	2044800
Gas Price	Rs/MMBTU	-	-	439.00	460.95	484.00	508.20
Cost	Rs Crore	-	-	89.77	94.26	98.97	103.92
Total Cost	Rs Crore	223.20	237.50	289.64	304.11	319.34	335.28
Net Generation	MUs	2226.97	2190.39	2328.00	2328.00	2328.00	2328.00
Variable Cost	Rs/kWh	1.00	1.08	1.24	1.31	1.37	1.44

Chapter 4 : Estimation of Fixed Cost

4.1 Parameters for Fixed Cost

1. Total fixed cost for PPCL station has been estimated considering actual cost incurred in FY 06-07 as per the provisional accounts and on the basis of certain assumptions as outlined in the subsequent paragraphs.

2. Fixed cost calculations have been done considering cost estimates on following items:
 - a. Operation & Maintenance Expenses
 - b. Interest on loan
 - c. Depreciation
 - d. Advance against Depreciation
 - e. Return on Equity
 - f. Interest on Working Capital
 - g. Fixed Fuel Cost

4.2 Operation and Maintenance Expenses

1. O & M expenses are based on the actual O&M expenses for FY 06-07 as per the provisional accounts and considering the escalation for further years. It comprises of Employees Expenses, Repairs and Maintenance, Administrative and General Expenses, Water Charges , etc.

4.2.1 Employees Expenses

1. Employee expenses comprise of salaries, dearness allowance, ex-gratia, terminal benefits in the form of pension & gratuity, leave encashment, staff welfare expenses, etc.
2. PPCL has taken the estimated employee expenses for FY 2006-07 as the basis for forecasting the employee expenses for the control period. The salary & DA component (provisional) of the employee expense for FY 06-07 has been escalated by 40% taking into consideration the likely impact due to 6th Pay Commission. The sixth Pay commission has already been set up and the Report is expected shortly. The expected revision of 40% has been worked out on the basis of average increase during the last 5th Pay Commission. The likely increase from 6th Pay Commission will be effective from January 1, 2006. Therefore, the arrears for the FY 06-07 have been claimed equally in the employee cost for FY 07-08 and FY 08-09 and the arrears for the three months (Jan 06- Mar 06) of FY 05-06 have been factored in the ARR for FY 07-08.
3. The estimated salary for the FY 06-07 including the impact due to 6th Pay Commission has been escalated by 4% for projecting the salary for FY 07-08. For FY 08-09, FY 09-10 and FY 10-11, salaries & Allowances are estimated to increase by 4 % p.a. This increase in salaries & allowances is mainly due to yearly increments allowed to the employees which results in an average increase of 4% per annum in the total basic pay, on which PPCL has no control as this forms part of the service conditions of the

employees. Due to increase in Basic, other allowances like HRA, which are linked to Basic, also increase in similar proportions.

4. The DA for FY 07-08 has been calculated at 6% of the total basic salary projected for FY 07-08. Thereafter, further 6% addition in DA is assumed every year for projecting the DA for subsequent years of control period.
5. Over the past many years, any increase in PPCL's dearness pay/allowance to its employees has been on par with the increase in Pay & allowances of Central Government employees. The Central Government allows two installments of DA generally an increase of 3 to 6% effective in July and January every financial year. PPCL submits to the Commission to recognize the fact that PPCL has to maintain this pay parity in order to honour the commitment made to the employees at the time of unbundling of DVB through tripartite agreement. This parity is also required to maintain industrial peace and to comply with provisions of EA 2003.
6. As depicted in Table 7, Medical Expenses Reimbursement, Traveling Allowance, Leave Travel Assistance and Staff Welfare Expenses for FY 08-09 to FY 10-11 have been projected to increase by 5.18% to cover the cost of inflation. The escalation rate is taken considering the CERC notification on escalation for various costs including for escalable fixed charges of 5.18%. The same is considered for projections.

Table 7: Employee Expenses

Particulars (Rs. Crores)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Prov.	Proj.	Proj.	Proj.	Proj.
Salaries	6.91	4.99	11.01	11.45	11.91	12.39
Dearness Allowance (DA) / Additional Pay		2.58	0.66	1.37	2.14	2.97
Other Allowances & Relief		1.58	1.66	1.75	1.84	1.93
Interim Relief / Wage Revision			0.00	0.00	0.00	0.00
Honorarium/Overtime	0.38	0.22	0.23	0.25	0.26	0.27
Statutory bonus/ ex-gratia	0.01	0.01	0.01	0.01	0.01	0.01
Sub Total	7.29	9.37	13.58	14.83	16.16	17.58
Other Costs						
Medical Expenses Reimbursement	0.56	0.71	0.75	0.79	0.83	0.87
Traveling Allowance(Conveyance Allowance)	0.06	0.05	0.06	0.06	0.06	0.06
Leave Travel Assistance	0.04	0.09	0.09	0.10	0.10	0.11

Earned Leave Encashment		0.32	0.34	0.36	0.37	0.39
Payment Under Workman'S Compensation And Gratuity			0.00	0.00	0.00	0.00
Subsidised Electricity To Employees			0.00	0.00	0.00	0.00
Any Other Item		0.05	0.05	0.05	0.05	0.06
Staff Welfare Expenses	0.23	0.28	0.29	0.30	0.32	0.34
Sub Total	0.90	1.49	1.57	1.65	1.74	1.83
Apprentice And Other Training Expenses			0.12	0.13	0.13	0.14
Contribution To Terminal Benefits	2.62	0.93	0.98	1.03	1.08	1.14
Provident Fund Contribution			0.00	0.00	0.00	0.00
Provision for PF Fund			0.00	0.00	0.00	0.00
Any Other Items			0.00	0.00	0.00	0.00
Provision for Arrears for FY 06-07			2.20	1.51		
Grand Total	10.81	11.80	18.45	19.15	19.11	20.68
Employee expenses capitalised						
Net Employee expenses	10.81	11.80	18.45	19.15	19.11	20.68

7. PPCL submits to the Commission that any disallowance of employee expenses by the Commission would affect the cash flows, which would result in significant burden on PPCL resources, in turn affecting its functioning and R&M activities resulting in low level of generation.

8. The petitioner would like to pray to the Hon'ble Commission that salaries/employee cost increase should be considered as uncontrollable factor specially factors like DA/Basic hike through Government, revision through 6th Pay Commission etc. The petitioner would not be in the position to not allow these increases as these are considered against the law/policy. The petitioner believes that DERC would also consider this factor and would adopt more liberal, acceptable and realistic approach.

9. PPCL requests the Commission to approve employee expenses as summarized in Table 7 after considering the ground realities of the situation.

4.2.2 Repair & Maintenance

1. These expenses include expenses on repairs and maintenance of Plant and Machinery, Building, Other Civil works, Vehicles, Furniture & Fixtures, Office equipment, etc.
2. PPCL has incurred Rs 46.24 Crores and Rs 25.02 Crores in FY 05-06 and FY 06-07 respectively towards Repair and Maintenance expenses.
3. Pragati Power Station is a unique station in sourcing its water requirement. The plant is being run on treated effluent water from sewage treatment plants and has to incur more cost to get raw water, as compared to other similar stations being operated elsewhere in the country by drawing water from river and paying nominal water cess. The company has taken over the sewage water treatment plants from Delhi Jal Board for treating the sewerage water from Delhi Gate Nala and Sen Nursing Home Nala. The treated water is being used in Pragati Power Plant. The estimated cost on this account is Rs.2.45 Cr. for the year 2005-06 and Rs.2.45 Cr. for year 2006-07 which mainly includes expenditure on operation, electricity, Chemicals etc.
4. PPCL has projected R&M expenses for FY 07-08 by applying 5.18% annual increase on the estimated costs for FY 06-07, except for plant & machinery and water charges. Since repair and maintenance expenditure for plant and machinery for FY 2006-07 is consolidated, the estimated expenditure on this account for FY 2007-08 has been taken as base for the remaining control period. For FY 08-09, FY 09-10 and FY 10-11, PPCL has projected expenses of Rs. 15.63 Crores, Rs.16.44 Crores and Rs. 17.29 Crores. The detailed assumption for working of R&M expenditure for the control period is provided below:
 - CERC has notified the annual escalation rates vide its notification dated 04th April 2007. The notification specifies the annual escalation of 5.18% for fixed charge component.

5. In the MYT petition, there is a separate provision kept for R&M of DLN burners for the FY 07-08 and FY 08-09. This is line with the Commission Order for FY 05-06 Sec 3.1.1 which states that:
- *“The Commission has examined the details submitted by the Petitioner and is of the opinion that the additional R&M expenses towards R&M of DLN burners and for critical components of Gas Turbines are required to be incurred by the PPCL for the smooth operations of the plant and to achieve the target level of generation. Therefore, the Commission has allowed Rs 15.80 Crore as additional R&M expenses for FY 2005-06”.*
6. Similarly, Commission in its Tariff Order for FY 06-07 has approved the Additional R&M of Rs. 10 Crores for FY 06-07. Where as, PPCL has incurred Rs 13 Crores towards DLN Burners out of a total expense of Rs 23.10 Crores towards Plant & Machinery. Keeping in view the Additional R&M expenses (shown under Table 8) allowed by the Hon'ble Commission for 2003-04 to 2008-09, the PPCL has estimated the Additional R&M of Rs. 24 Crores for FY 07-08 and Rs. 63 Crores for FY 08-09.

Table 8: Additional R&M Expenses Submitted By PPCL

Particulars (Rs Cr.)	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Additional R& M expenses	10.82	18.21	15.8	10	24	63

7. Since all the inspections are as per the manufactures recommendation and similar inspection cycle will repeat from FY 09-10 to FY 13-14, resulting into aforesaid expenditures. For projecting the additional R&M expenses for the FY 09-10 and FY 10-11, petitioner has considered the escalation factor of 5.18% on the approved cost shown under Table 8 for the FY 03-04 and FY 04-05. Therefore additional R&M expense of Rs 11.38 Crores and Rs 19.15 Crores is estimated for FY 09-10 and FY 10-11 respectively.
8. PPCL would like to bring to the notice of Hon'ble Commission that most of the contract work in R&M expenses are subject to service tax. The service tax has been rising continuously and it has been hiked by more than 4.5% in the last three years. Similarly the VAT which has replaced sales tax has

also resulted in additional liability. This increase in rate has resulted into substantial increase in O&M expenditure especially in R&M works.

9. PPCL submits to the Commission that it is important for PPCL to incur the R&M expenses as mentioned below for the smooth operations of the plant and to achieve the target level of generation.

10. Keeping in mind the above, PPCL submits to the Commission to approve these costs, without any disallowance.

Table 9: R&M Expenses for the FY 2005-06 to 2010-11

Particulars (Rs. Crores)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Plant and Machinery	39.90	21.58	10.82	11.38	11.97	12.59
Building	0.58	0.85	0.89	0.94	0.99	1.04
Civil Works	3.11	0.00	0.00	0.00	0.00	0.00
Hydraulic Works	0.00	0.00	0.00	0.00	0.00	0.00
Lines, Cables Net Works etc.	0.00	0.00	0.00	0.00	0.00	0.00
Vehicles	0.03	0.04	0.04	0.04	0.04	0.05
Furniture and Fixtures	0.02	0.00	0.00	0.00	0.00	0.00
Office Equipments	0.16	0.10	0.10	0.11	0.11	0.12
Total R&M Cost	43.79	22.57	11.86	12.47	13.12	13.80
Water Charges	2.45	2.45	3.00	3.16	3.32	3.49
Additional R&M expenses			24.00	63.00	11.38	19.15
Gross R&M Expenses	46.24	25.02	38.86	78.63	27.82	36.44
Any Other Item for Capitalisation	0.00	0.00	0.00	0.00	0.00	0.00
Net R&M Expenses	46.24	25.02	38.86	78.63	27.82	36.44

4.2.3 Administrative & General expenses

1. Administration expenses mainly comprise of rents, insurance, telephone and other communication expenses, professional charges, conveyance & traveling allowances, etc.
2. PPCL has taken the actual A&G expenses for FY 2006-07 as the basis for forecasting the A&G expenses for the control period. For FY 2007-08, FY 2008-09, FY 2009-10 and FY 10-11, PPCL has projected expenses of Rs. 9.64 Crores, Rs. 10.14 Crores, Rs. 10.66 Crores and Rs. 11.21 Crores. The assumption for working of A&G expenditure for the control period is provided below:
 - CERC has notified the annual escalation rates vide its notification dated 04th April 2007. The notification specifies the annual escalation of 5.18% for fixed charge component. Since increase in the A&G expenses will be subject to inflation, PPCL has adopted this rate as specified by CERC for projecting the A&G cost payable for the next four years.
3. A&G Cost is conservatively estimated to increase at around 5.18% p.a. during the control period, mainly due to inflationary effect (current inflation is ~ 5% p.a.) as well as increasing business requirements.
4. PPCL would like to submit that for FY 05-06 and FY 06-07 rates & taxes includes Property tax of Rs. 0.84 Crores and 0.53 Crores respectively. But for the control period projections for rates and taxes does not include the property tax. The plant of the PPCL is located at the prime location in Delhi hence subject to high property tax as compared to generating plants located in India. Similarly DPCC has billed water cess of Rs. 16.09 for the period July 1, 2002 to Mar 31, 2005 and Rs. 3.05 Lakhs for the FY 05-06. However PPCL has gone to appeal against the said claim. As per the CERC norms the taxes should be reimburse at actulas. Accordingly PPCL

requests the Hon'ble Commission to approve the property tax and water-cess as pass-through on actual basis besides the other O&M expenses.

5. PPCL requests the Hon'ble Commission to approve the net A&G expenses for the Control Period and truing up of A&G cost for FY 06-07 as indicated in Table 10.

Table 10: A&G Expenses

Particulars (Rs Crores)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
A&G Expenses	9.99	9.70	9.64	10.14	10.66	11.21

6. PPCL further submits to the Commission to approve the O&M costs estimated by PPCL herein without any disallowance, subject to truing up of these costs on actuals (based on audited accounts) at the end of the control period.

Table 11: O&M Cost

Description (Rs. Crores)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
O&M expenses	67.05	46.51	66.95	107.91	57.59	68.34
R&M expenses	46.24	25.02	38.86	78.63	27.82	36.44
A&G expenses	9.99	9.70	9.64	10.14	10.66	11.21
Employee expenses	10.81	11.80	18.45	19.15	19.11	20.68

7. If the Commission intends to consider a norm for O&M cost, the petitioner would request to include possible and additional requirement of R&M and legitimate increase in the employee costs. The Commission is requested to approve higher levels of O&M expenses keeping in view various uncontrollable factors, which are not possible to estimate accurately at this stage including revision through 6th Pay Commission and additional R&M expenses.

4.3 Interest on Loan

1. The interest expenditure on account of long-term loans depends on the outstanding loan, repayments and applicable interest rates.
2. PPCL has taken a term loan from PFC with interest rate varying from 6.25% to 12.00%. The tenure of the loan is 10 years. A part of the outstanding loan (1/3rd of outstanding loan) from PFC was restructured with cut off date of 15th May, 2005 with interest rate @ 6.25% p.a. A premium of Rs. 5.23 Crores towards interest rate restructuring was paid. **This rationalization measure has lead to reduction in the total interest liability for the future years.**
3. The total Interest charges including rebate to customers paid during the FY 05-06 is Rs. 65.02 Crores while the interest charges including rebate to customers estimated for the FY 06-07 are Rs. 39.66 Crores. The actual interest paid to PFC is Rs. 55.57 Crores and Rs.31.05 Crores for FY 05-06 and FY 06-07 respectively.
4. Interest expenses for FY 07-08 are proposed on the basis of interest liability for FY 07-08 on the loans outstanding as on 1st April 2007 at agreed rates and repayment schedule and the similar approach is used for the subsequent years of control period. There will be decrease in the interest charges during the control period as the principal amount of PFC loan is reducing.
5. The Company is allowing 2% rebate on timely payments to the customers. The financial impact on this account for FY 07-08 to FY 10-11 has been reflected in the Form No.8 on "Interest on loans" as there is no separate provision for reflection of this cost elsewhere. It is submitted that the company is accounting all its expenditures net of all discounts. Similarly its revenue may also be considered net of all rebates given to customers.
6. In the FY 05-06, PPCL has incurred Rs. 55.58 Crores towards interest charges paid to PFC which includes Rs. 5.23 Corers for restructuring of interest rate

on PFC loans. However, the Commission has allowed Rs. 52.12 Crores leaving a gap of Rs. 3.46 Crores. PPCL has raised the issue in the Review Petition filed against the Tariff Order for FY 06-07 and Hon'ble Commission has agreed to consider and approve the actual expenditure in the subsequent Tariff Order. Accordingly PPCL requests the Hon'ble Commission to consider and allow Rs. 3.46 Crores at the time of truing-up of interest cost for FY 05-06.

7. The Interest Charges for the Control period of four years has been shown in Table12. PPCL requests Hon'ble Commission to approve the Interest and finance charges in full without any disallowance.

Table 12: Interest Charges

Particulars (Rs Crores)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Interest Charges	65.02	39.66	49.03	43.61	35.78	30.02

4.4 Depreciation

1. Depreciation is charged on the basis of straight-line method, on the fixed assets in use at the beginning of the year. The depreciation is based on the original cost, estimated life and residual life.
2. For the four years of the first control period the depreciation amounts have been projected as per the Depreciation Rates specified under generation Tariff Regulations for MYT issued by DERC. The additions in the fixed assets during FY 06-07 are primarily on account of capital expenditure related to finalization of project cost. Therefore petitioner has considered the full depreciation on the additions shown during FY 06-07.
3. PPCL requests the Commission to approve the Depreciation for the Control Period. Details of depreciation are available in Form 7 of the MYT petition. The Hon'ble Commission is requested to approve the same as for each of three years of the control period.

Table 13: Depreciation (Rs Crore)

Particulars (Rs Crores)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Depreciation	58.90	59.98	59.98	59.98	59.98	59.98

3. Advance against depreciation has also been factored for FY 07-08 to FY 10-11 in the MYT petition for the purpose of repayment of debt amount. Advance against depreciation is the difference between actual debt repayment and depreciation recovered during the year. Advance against depreciation has been calculated as per the regulations issued by the Hon'ble Commission.

Table 14: Advance against Depreciation

Particulars (Rs. Crores)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Actual	Projected			
1/10th of the Loan(s)	67.53	67.53	67.53	67.53	67.53	67.53
Repayment of the Loan(s) as considered for working out Interest on Loan	67.53	67.53	67.53	67.53	67.53	67.53
Minimum of the Above	67.53	67.53	67.53	67.53	67.53	67.53
Less: Depreciation during the year	58.90	59.98	59.98	59.98	59.98	59.98
A	8.63	7.55	7.55	7.55	7.55	7.55
Cumulative Repayment of the Loan(s) as considered for working out Interest on Loan	200.89	268.42	335.95	403.47	471.00	538.53
Less: Cumulative Depreciation	166.70	226.68	286.65	346.63	406.61	466.59
B	34.19	41.74	49.29	56.84	64.39	71.94
Advance Against Depreciation	8.63	7.55	7.55	7.55	7.55	7.55

4.5 Return on Equity

1. The Return on equity for FY 05-06 is Rs. 45.25 Crores based on equity amount of Rs. 323.19 Crores and Rs. 45.32 Crores estimated for FY 06-07. PPCL has estimated the Return on Equity at 14% in line with the regulations issued by the Delhi Electricity Regulatory Commission.
2. An addition of Rs. One crore in equity has been proposed during the FY 2006-07 the return on equity for PPCL is computed as per the details given in table 15. PPCL requests the Hon. Commission to approve the Return on Equity as proposed in Table 15.

Table 15: Return on Equity

S No	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1	Equity (Opening Balance)	323.19	323.19	324.19	324.19	324.19	324.19
2	Net additions during the year	0.00	1.00	0.00	0.00	0.00	0.00
3	Equity (Closing Balance)	323.19	324.19	324.19	324.19	324.19	324.19
4	Average Equity	323.19	323.69	324.19	324.19	324.19	324.19
5	Rate of Return on Equity	14 %	14 %	14 %	14 %	14 %	14 %
	Return on Equity	45.25	45.32	45.39	45.39	45.39	45.39

4.6 Interest on Working Capital

1. PPCL has calculated the Interest on Working Capital as per the following norms:
 - Cost of fuel for 1 month
 - Cost of Liquid Fuel for 0.5 month
 - O&M expenses for 1 month
 - Receivables equivalent to 2 months average billing
 - Spares 1% of project cost

2. The petitioner would like to highlight that as per CERC Regulations Spares of 1% of total project cost is allowed with annual escalation of 6%. PPCL has included the same in the working capital computations and request the Hon'ble Commission to allow this as a pass-through.

Table 16: Total working Capital

Particulars (Rs Cr.)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Cost of Fuel for 1 month	18.60	19.79	24.14	25.34	26.61	27.94
Cost of Liquid Fuel for 0.5 month	0	0	0	0	0	0
O&M expenses for 1 month	5.59	3.88	5.58	8.99	4.80	5.69
Receivables equivalent to 2 months average billing	77.72	77.50	89.60	98.24	90.90	94.54
Spares	11.27	11.95	12.66	13.42	14.23	15.08
Total Working Capital	113.17	113.11	131.98	146.00	136.53	143.26

3. The Interest rate has been assumed at 12.75% which is the SBI PLR (as on 1.04. 2007) for calculating Interest on working Capital.

Table 17: Interest on Working Capital

Description	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Total Working Capital	113.17	113.11	131.98	146.00	136.53	143.26
Rate of Interest	10.75%	11.75%	12.75%	12.75%	12.75%	12.75%
Interest on Working capital	12.17	13.29	16.83	18.62	17.41	18.27

4.7 Fixed Fuel Cost

- As per the Fuel Supply Agreement entered into between PPCL and GAIL, PPCL is required to pay fixed monthly transmission and other service charges of Rs. 15,54,682 for base year FY 2002-03, which is escalated @3% p.a. Based on the above rates, the fixed cost towards fuel supply comes to Rs. 2.10 Crore for FY 2005-06 and Rs. 2.16 Crore for FY 2006-07. The same escalation rate has been adopted for projecting the fixed fuel cost during the Control period.

Table 18: Fixed Fuel Cost

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Fixed Fuel Cost (Rs Crore)	2.10	2.16	2.23	2.29	2.36	2.43

- The Honorable Commission is requested to approve Fixed Fuel Cost for the control period as indicated in Table 18.

4.8 Annual Fixed Cost of PPCL Power Station

1. The total Fixed Cost³ for FY05-06 & FY06-07 and projection for the Control period is summarised in Table 19.

Table 19: Total Annual Fixed Cost

Particulars (Rs. Crores)	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
O&M Charges	67.05	46.51	66.95	107.91	57.59	68.34
Depreciation	58.90	59.98	59.98	59.98	59.98	59.98
Advance against depreciation	8.63	7.55	7.55	7.55	7.55	7.55
Interest on Loans	65.02	39.66	49.03	43.61	35.78	30.02
Return on Equity	45.25	45.32	45.39	45.39	45.39	45.39
Interest on Working Capital	12.17	13.29	16.83	18.62	17.41	18.27
Fixed Fuel Cost	2.1	2.16	2.23	2.29	2.36	2.43
Total Fixed Cost	259.11	214.47	247.95	285.34	226.06	231.97
Net Generation (MU)	2226.97	2190.39	2328.00	2328.00	2328.00	2328.00
Fixed Cost Per Unit (Rs/Kwh)	1.16	0.98	1.07	1.23	0.97	1.00

2. On the basis of above explanations, PPCL requests the Hon'ble Commission to approve the total fixed cost for PPCL Power Station for the control period.

³ The taxes should be allowed as pass through on actual basis.

Chapter 5 Prayers

5.1 Prayer

PPCL respectfully prays to the Hon'ble Commission;

- To admit this petition.
- To true up the tariff for FY 06-07 and approve the tariff for the control period.
- To true up the actual interest cost incurred during FY 05-06.
- To approve the operational and financial parameters as proposed by PPCL and consider the same as normative level for recovery of full fixed cost.
- To approve O&M expenses keeping in view the additional and legitimate increase possible to have in the next four years of control period. Certain component of O&M could be considered uncontrollable with subject to implementation of 6th pay commission and necessary R&M.
- To approve the Station operating parameters viz. Auxiliary Consumption and Station Heat Rate for PPCL during Control Period for recovery of variable cost based on actual levels of performance in the FY 2005-06 and FY 2006-07.
- To allow taxes, property tax, cess, etc as pass through on actual basis.
- To approve the actual expenses on account of rebate given to customers for timely payment.
- To grant any other relief as Hon'ble Commission may consider appropriate. The petitioner craves leave of the Hon'ble Commission to allow further submissions, addition and alteration to this Petition as may be necessitating from time to time.
- Pass any other order as Hon'ble Commission may deem fit and appropriate under the circumstances of the case and in the interest of justice.

Declaration that the subject matter of the petition has not been raised by the petitioner before any other competent forum, and that no other competent forum is currently seized of the matter or has passed any orders in relation thereto

Viney Kumar

Director (Technical)

Pragati Power Corporation Limited

PETITIONER

New Delhi

DATED: