

REPORT OF THE EXPERT

PART III

SUMMARY

In this Part of the Report Recommendations have been summarised on each Issue given in the Terms of Reference. These Recommendations are submitted for consideration of the Hon'ble Commission to take a final view on each Issue. For full appreciation of the Recommendations Part I and Part II of the Report are recommended to be referred. The support and assistance of the Hon,ble Commission, A&N Administration and SPCL is thankfully acknowledged without which it would not have been possible to accomplish this task in a short time.

ISSUE 1 CAPITAL COST OF THE PROJECT INCLUDING FOREIGN EXCHANGE RATE VARIATION:

Recommendation:

The increase in the US Dollar rate of Rs.11.0445 per USD is recommended to be considered as the foreign exchange variation and applied to the actual foreign currency loan drawal of 7.96 million USD. The increase in cost due to foreign exchange variation on the loan availed works out to Rs.8.79 crores (approx.) as against the increase allowed by CEA of Rs. 11.63 crores. However, it has to be ensured that the inward Foreign Currency remittances were actually made through Banking channels and documentary evidence produced thereafter.

In view of the analyses of the Expert and the fact that the issue has been examined in depth with documentary evidence by TANGEDCO-a State Government entity, it is recommended that Citibank loan to the extent of Rs.2.8915 Crs. (Rs.3.865Crores allowed by TANGEDCO MINUS Rs.57.20 lakhs towards extra expenditure on construction of Jetty and Rs.39.85 lakhs towards the cost of Centrifugal separator not approved by the 5 member committee of A&N) and unsecured loan of Rs. 0.65 Crs. may be considered as funds tied-up along with Rs.77.595 crores

already considered by CEA. However, total project cost will be limited to Rs. 80.38 Crs as decided by CEA.

ISSUE 2 RELATING TO LIQUIDATED DAMAGES ...Recoverability ,if any,from the Petitioner by the Respondent

Recommendation:

TANGEDCO has concluded that' *Thus imposition of liquidated damages as per clause 3.10 (Page No. 28) of Power Purchase Agreement (PPA) on M/s SPCL for delay in achieving COD is not justifiable.*' As SPCL achieved the COD on 2.4.2003, which is within the period of 120 days of availability of new transmission lines and within 30 days of opening of LOC, one tends to agree with the recommendation of the consultant appointed by the Administration. Agreeing with the recommendations of TANGEDCO, recommended that the imposition of Liquidated Damages is not justified.

ISSUE 3 Foreign Exchange Variation

This issue has been covered under Issue 1 itself.

ISSUE 4 ALL TARIFF PARAMETERS WHICH FLOW FROM THE CAPITAL COST OF THE PROJECT

4.1 Tariff for Diesel generators has the following components:

Fixed Cost and Variable cost

Fixed cost comprises of: Return on Equity, Interest on Loan, Depreciation, Interest on Working Capital, O&M expenditure and Incentive.

Variable Charges include cost of Fuel and adjustment on account of variation in price or heat value of fuels.

All the aforementioned parameters are well defined in the PPA ,once the project Capital Cost is finalized, the Tariff parameters will be based on the provisions of the PPA.

Issue of Incentive is another issue raised by the Petitioner which is discussed below:

4.2 INCENTIVE

From a conjoint reading of the aforesaid clause of the PPA and the Government notification which inter alia states that *‘the additional incentive payable shall not exceed 0.7 per cent of paid up and subscribed capital ‘* it is clear that the incentive of 0.65% is applicable on equity as defined and not on the ‘return on equity’ as pleaded by the respondent.

ISSUE 5 INTERST RATE FOR DEBT SERVICING AND INTEREST RATE ON WORKING CAPITAL

5.1 INTEREST ON DEBT

As per provision of the PPA (Appendix D), Interest on Debt is defined as:

Quote

“Interest on Debt “shall mean the interest, bank commissions actually payable on Debt borne by the Company, arising after the Commercial Operation Date of each unit in commercial operation after taking into account the actual repayment liability with respect to Debt, under the terms thereof and includes the actual Rupee equivalent of such liability on Foreign Debt, at the then Current Foreign Exchange Rate applicable thereto, and shall cease as soon as Debt is fully paid.

Unquote

Thus it is clear beyond doubt from a plain reading of the above provision of the PPA that the interest on Debt is reimbursable in the monthly tariff billing, on the basis of actual interest amount paid by the Petitioner. It is seen from the Petitioner's submission that the loan agreements with the lenders provide for floating rate of interest. Along with each monthly invoice, the Petitioner is required to provide necessary documentary evidence in support of its claim to the Administration, from the respective lenders, for the: prevailing rate of interest ,repayment of loan ,interest amount due on the reduced balance of loan after repayment and the interest amount actually paid by the Petitioner.

5.2 INTERST ON WORKING CAPITAL

Appendix D to the PPA provides that;" Working Capital may be referred to as Clause 3.0 of CEA norms dated 14.12.1995". As per the estimate of cost of generation given in Annexure IV to PPA, Working Capital consists of:

1. Thirty days Primary Fuel cost.
2. Sixty days Lube Oil cost;
3. O&M for one month;
4. Maintenance Spares at actual but not exceeding one year's requirement less value of 1/5th of initial spares already capitalised and;
5. Receivables equivalent to two months average sale of electricity.

It is seen from the Written Submissions of both the parties that the Administration had started supplying HSD and Lube oil at the request of the Petitioner from July 2008 and January 2009 onwards respectively. Since the respondent is providing HSD and Lube Oil, while calculating the Working Capital requirements, these elements are not to be included.

As per the documents and Written Submissions provided by the Petitioner, SPCL has taken a WC loan from SBI on floating interest rate basis. The interest on WC is payable on actual basis on furnishing documentary proof of payment to the Bank.

ISSUE 6 OPERATIONAL PARAMETERS AS PER PPA/ADDENDUM TO PPA/CEA DECISION WHICH FORMS PART OF TARIFF

Recommendations:

HEAT RATE:Heat Rate beyond 2010 kcal/ kWh is presently not recommended. However, in future the aforementioned suggestion of the CEA regarding the major overhauling and subsequent determination of Heat Rate and its consideration by the Regulatory Commission may be pursued.

LUBE OIL CONSUMPTION : No change in the specific lube oil consumption is recommended as of now as norms are decided over the life of the plant. While initially the lube oil consumption may be less than the normative value, over the years it may exceed the norm value but as norms are decided based on the average over the life of the plant, on the whole it would average out.

DENSITY OF HIGH SPEED DIESEL :The principle of ambient temperature related to density for determination of quantum of fuel has been agreed. The same has also been applied since April, 2007. In case of reliable verifiable authentic data giving from ambient temperature at the time and dates of respective despatches from April, 2003 to April 2007 may be made available by the Petitioner to the satisfaction of the Administration, there seems no reason why correction should not be applied retrospectively. Recommended accordingly.

ISSUE 7 PAYMENT/RECOVERY OF AMOUNTS DUE , BUT NOT PAID,WITHHELD,DENIED,IF ANY FROM THE DATE THEY BECAME DUE

7.1 The Capital Cost now recommended and other recommendations , if approved ,will become the basis for tariff determination w.e.f. the COD. The amount thus worked out month wise will be the Tariff due as per PPA. Actual payments made when compared with the benchmark month wise due tariff will determine the amount of Arrears/Recoveries .

7.2 The payment of arrears to the Petitioner will be made along with the interest on delayed payments as per terms of the PPA . Similarly, recoveries from the Petitioner by the Administration will also be made along with interest as per terms of the PPA.

ISSUE 8 ADMISSIBILITY OF INTEREST ON DELAYED PAYMANTS

This has been covered under Issue 7 above.

ISSUE 9 ANY OTHER ISSUE CONNECTED WITH FINALIZATION OF PROJECT COST AND DETERMINATION OF TARIFF PAYABLE TO THE PETITIONER

9.1 REFURBISHMENT OF THE PLANT

Recommendation:

It is recommended that the plant having completed 10 years of operation, it is the right time for renovation of the plant after carrying out R&M study and Cost benefit analysis and proposal submitted to the Hon'ble Commission for taking prior in principle approval before proceeding with the actual works. For this purpose the Petitioner should make a Detailed Project Report giving complete scope, justification, cost-benefit analysis, estimated life extension, financial package, phasing of expenditure, schedule of completion, estimated completion cost and any other information considered to be relevant and file a petition before the Hon'ble Commission.

9.2 JETTY and Plant Drainage, Boundary Wall

Recommendation:

It has been seen that the PPA scope of work includes construction of Jetty, land development, plot drainage etc. In view of this it is recommended that no additional payment is admissible to the Petitioner on account of construction of Jetty, drainage, boundary wall.

9.3 O&M Expenditure

Recommendation:

As per provisions of the PPA ,it is evident that the following charges being claimed as extra by the Petitioner are not admissible

Water Charges,

Octroi Charges: (Administration may, however provide support to the Petitioner for exemption of Octroi charges as the plant is outside the bounds of Municipal Committee.)

Port management Board

Increase in O&M expenses other than the escalation provided in the PPA.

9.4 REBATE

Recommendation:

In view of the fact that the Capital cost was not finalised, both parties have been working with various figures of the Capital Cost , as also other tariff related parameters, therefore, the Invoices raised were being paid by the Administration on the basis of DUE PAYMENT as decided by the

Administration. It is recommended that the REBATE may be applicable retrospectively since COD, on *all Tariff Invoice amounts released* within the PPA stipulated time for availing the Rebate.

9.5 ISSUE REGARDING THE PETITIONER'S CLAIM OF LOSS OF OPPORTUNITY

As there is no provision regarding LOSS OF OPPORTUNITY CLAIM, this claim of the petitioner may not be acceded to.

9.6 HSD Handling /Transportation Losses

As there is no provision in the PPA regarding payment of HSD evaporation losses as also viewed by CEA vide letter dated January 22,2013 that there is no provision in the PPA to allow compensation for evaporation losses, it is recommended that no compensation on account of HSD Handling/Transportation losses is payable.

