

No.N/05/10

**BEFORE THE KARNATAKA ELECTRICITY REGULATORY COMMISSION
BANGALORE**

Dated this 6th January 2011

- | | |
|-------------------------------|----------|
| 1. Sri M.R. Sreenivasa Murthy | Chairman |
| 2. Sri Vishvanath Hiremath | Member |
| 3. Sri K. Srinivasa Rao | Member |

Case No. RP 03/2010

Between

M/s Karnataka Power Corporation Limited
82, Shakthi Bhavan, Race Course Road
BANGALORE – 560 001

... Petitioner

(Represented by its Law Officer, Sri Guruprasad)

And

1. Karnataka Power Transmission Corporation Limited
Cauvery Bhavan, Kempegoda Road
BANGALORE – 560 009

2. Chamundeshwari Electricity Supply Corporation Limited
No.927, LJ Avenue Commercial Complex,
New Kantharaja Urs Road, Saraswathipuram
MYSORE–570 009

3. Gulbarga Electricity Supply Company Limited
Main Road,
GULBARGA 585 102

4. Mangalore Electricity Supply Company Limited
Paradigm Plaza, A.B. Shetty Circle
MANGALORE – 575 001

5. Hubli Electricity Supply Company Limited
Navanagar, P.B.Road
HUBLI – 25

6. Bangalore Electricity Supply Company Limited
Corporate Office, K.R. Circle
BANGALORE - 560 001

7. Hukkeri Rural Electric Cooperative Society
H U K K E R I, Belgaum District
(Represented by Sri Sriranga, Advocate for Sl. Nos. 1 to 6
and Sri Shridhara Prabhu, Advocate for Sl. No.7)

... Respondents

1. The petitioner, Karnataka Power Corporation Limited (KPCL) has filed this Review Petition under Section 94 of the Electricity Act, 2003 for modification of the Commission's Order dated 3.8.2009 approving the PPAs submitted by it.

2. This Commission vide its order dated 3.8.2009 has approved the PPAs as agreed to between the KPCL and five distribution companies, namely –

- (1) Chamundeshwari Electricity Supply Corporation Limited (CESC)
- (2) Gulbarga Electricity Supply Company Limited (GESCOM)
- (3) Mangalore Electricity Supply Company Limited (MESCOM)
- (4) Hubli Electricity Supply Company Limited (HESCOM) and
- (5) Bangalore Electricity Supply Company Limited (BESCOM)

and directed them to sign the final PPAs. Accordingly KPCL has signed the PPAs subject to the present petition.

3. In the course of the order, this Commission, while dealing with the hydel power purchase agreements has restricted equity invested in the projects to Rs.522.84 crores considering 20 % of the cost of the projects even though the actual equity investment as allocated in the draft PPA to various hydro projects was Rs.844.30 crores. This has been updated to Rs. 906.60 crores of book value as on 31.3.2009.

4. It is submitted on behalf of the review petitioner that, treating only Rs.522.84 crores as equity amount for the purpose of tariff, would mean that the additional amount of Rs. 383.76 crores representing the equity has not been recognized for the purpose of returns. This will adversely affect the tariff payable to KPCL as a part of the actual investment made on the projects will not be earning any returns. Therefore the order of the Commission needs to be corrected to this extent.

5. It is further submitted by KPCL that, this additional amount has to be considered as notional debt as per CERC / KERC tariff norms and notional interest be allowed thereon.

6. We have heard all the parties concerned, including the Hukkeri Rural Electric Cooperative Society Limited (HRECS) represented by its counsel Sri Shridhar Prabhu.

7. At the outset, we would like to dispose of the contention raised by Sri Shridhar Prabhu on behalf of HRECS which does not go into the merit of the review petition. According to him, the order passed against it by the Commission for signing the PPA needs to be modified as GoK has not allotted any power to the Society from the plants covered by the PPA. The Law Officer appearing for KPCL has no objection to this. Accordingly, the direction to KPCL to sign the PPA with HRECS stands deleted.

8. As regards the contention of the review petitioner to treat additional equity in excess of 20 % of the project cost as notional debt, we do see merit in the point that has been made out by KPCL that as per CERC and KERC norms, additional equity which is beyond the normative debt equity ratio should be treated as notional debt. Therefore notional interest on this needs to be allowed to be recovered through tariff.

9. Accordingly, we order that the Commission's Order dated 3.8.2009 is hereby modified. The equity investment of Rs.906.60 crores excluding Rs.522.84 crores already reckoned as equity shall be treated as notional loan and notional interest as provided in CERC (Terms and Conditions of Tariff) 2009 Regulations [Proviso to Clause 16(5)] shall be considered while computing the tariff from time to time.

Sd/-
(M.R. SREENIVASA MURTHY)
CHAIRMAN

Sd/-
(VISHVANATH HIREMATH)
MEMBER

Sd/-
(K. SRINIVASA RAO)
MEMBER