

Before the
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Case No. 97 of 2010

IN THE MATTER OF
Petition filed by the Jaigad Power Transco Limited (JPTL)
for approval of Aggregate Revenue Requirement for FY 2010-11

Shri V.P. Raja, Chairman
Shri Vijay L. Sonavane, Member

ORDER

Date: May 25, 2011.

In accordance with MERC (Terms and Conditions of Tariff) Regulations, 2005 and upon directions from the Maharashtra Electricity Regulatory Commission (hereinafter referred as MERC or the Commission), M/s Jaigad Power Transco Limited (JPTL), submitted its application on affidavit for approval of Aggregate Revenue Requirement (ARR) for FY 2010-11. The Commission, in exercise of the powers vested in it under Section 61 and Section 62 of the Electricity Act, 2003 (EA 2003) and all other powers enabling it in this behalf, and after taking into consideration all the submissions made by JPTL, all the suggestions and objections of the public, responses of JPTL, issues raised during the Public Hearing, if any and all other relevant material, determines the ARR for JPTL for FY 2010-11 as under.

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Abbreviations

A&G	Administrative and General
ARR	Aggregate Revenue Requirement
CERC	Central Electricity Regulatory Commission
Commission/MERC	Maharashtra Electricity Regulatory Commission
EA 2003	The Electricity Act, 2003
GFA	Gross Fixed Asset
IDC	Interest During Construction
IT	Income Tax
JPTL	Jaigad Power Transco Limited
JSWEL	JSW Energy Limited
JV	Joint Venture
MAT	Minimum Alternate Tax
MM	Margin Money
MSETCL	Maharashtra State Electricity Transmission Company Ltd.
MW	Mega Watt
MYT	Multi Year Tariff
O&M	Operation and Maintenance
PLR	Prime Lending Rate
R&M	Repair and Maintenance
RoE	Return on Equity
RTL	Rupee Term Loans
MSLDC	Maharashtra State Load Despatch Centre
TVS	Technical Validation Session

1. BACKGROUND & BRIEF HISTORY

1.1 Background

This Order relates to the Petition filed by Jaigad Power Transco Limited (JPTL) for approval of its Aggregate Revenue Requirement for FY 2010-11.

M/s Jaigad Power Transco Limited (JPTL) is a Joint Venture (JV) Company between JSW Energy Limited (JSWEL) and Maharashtra State Electricity Transmission Company Ltd. (MSETCL) for the purpose of developing, operating and maintaining the Transmission System as given below, consisting of two Transmission Lines along with the associated equipments and terminal bays at MSETCL's New Koyna and Karad substations only.

Table 1-1: Details of Transmission System of JPTL

Name of the line	Line length (Revised) & Capacity	District	Interface Point
Jaigad-New Koyna Transmission Line	55 km – 400 kV Double Circuit (Quad) Transmission Line	Ratnagiri, Maharashtra	MSETCL Substation, New Koyna
Jaigad-Karad Transmission Line	110 km – 400 kV Double Circuit (Quad) Transmission Line	Ratnagiri /Satara, Maharashtra	MSETCL Substation, Karad

The Commission had granted Transmission License to JPTL (License No 1 of 2009) on February 8, 2009, for a period of 25 years for the aforesaid Transmission System.

1.2 Tariff Regulations

The Commission, in exercise of the powers conferred by the Electricity Act, 2003 (EA 2003), notified the Maharashtra Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2005, (hereinafter referred as the MERC Tariff Regulations) on August 26, 2005. These Regulations superseded the MERC (Terms and Conditions of Tariff) Regulations, 2004.

1.3 Petition for Aggregate Revenue Requirement for FY 2010-11

While granting Transmission Licence to JPTL, the Commission directed JPTL to submit its application for approval of Capex Scheme and application for approval of Aggregate Revenue Requirement in accordance with provisions under MERC (Terms and Conditions

of Tariff) Regulations, 2005, within 90 days from grant of the Transmission Licence to JPTL.

Subsequently, JPTL submitted a combined Petition, numbered as Case No. 15 of 2009, on May 20, 2009 for approval of capital expenditure scheme and expenditure thereof, ARR of FY 2009-10 and also seeking approval for assignment of the Licence in favour of the Lenders. Under the Petition, JPTL submitted that the expected commissioning date of the 400 kV D/C (Quad) Jaigad - New Koyna and 400 kV D/C (Quad) Jaigad Karad Transmission Line to be October 2009 and June 2010, respectively. However, due to non-availability of "Right of Way" for tower foundations and conductor stringing on account of local issues and required forest clearance for 400 kV D/C (Quad) Jaigad -Karad Transmission Line, the implementation targets for proposed Transmission Lines were affected. The Commission held a Technical Validation Session (TVS) on December 7, 2009, where the Commission directed JPTL to submit a separate Petition for approval of ARR and for assignment of Licence. Further, during the TVS, the Commission directed JPTL to revise the ARR Petition in the wake of extended commissioning dates of the proposed Transmission Lines.

Based on the direction, JPTL submitted its Petition for determination of Aggregate Revenue Requirement for FY 2010-11 on December 1, 2010. In the said Petition, the status of commissioning of the 400 kV D/C (Quad) Jaigad - New Koyna and 400 kV D/C (Quad) Jaigad Karad Transmission Line was submitted as under:

"As per the current status, the 400 kV D/C (Quad) Jaigad-New Koyna Transmission Line has been commissioned on 7th July, 2010 and the 400 kV D/C (Quad) Jaigad-Karad Transmission Line is expected to be commissioned by 1st February, 2011."

JPTL, in its Petition, requested the Commission to approve the Aggregate Revenue Requirement of JPTL for FY 2010-11 as mentioned in the Petition.

The Commission, vide its letter dated December 24, 2010, forwarded the preliminary data gaps and information required from JPTL. JPTL submitted its replies to preliminary data gaps and information requirement on January 13, 2011. The Commission scheduled a Technical Validation Session (TVS) on JPTL's Petition for approval of Revenue Requirement for FY 2010-11, on January 12, 2011 in the presence of Consumer Representatives authorised under Section 94(3) of the EA 2003 to represent the interest of consumers in the proceedings before the Commission. The list of individuals, who participated in the TVS, is provided at **Appendix-1**. During the TVS, the Commission directed JPTL to provide additional information and clarifications on the issues raised

during the TVS. The Commission also directed JPTL to submit the draft Public Notice in English and Marathi in the format prescribed by the Commission.

1.4 Admission of Petition and Public Process

JPTL submitted its responses to the queries raised during the TVS and the revised ARR Petition was submitted on January 31, 2011, and the Commission admitted the ARR Petition of JPTL on March 3, 2011. In accordance with Section 64 of the EA 2003, the Commission directed JPTL to publish its ARR Petition in the prescribed abridged form and manner, to ensure wide public participation. The Commission also directed JPTL to reply expeditiously to all the suggestions and objections received from stakeholders on its Petition. JPTL issued the Public Notice in newspapers inviting suggestions and objections from stakeholders on its ARR Petition. The Public Notice was published in The Times of India (English), Indian Express (English), Loksatta (Marathi) and Maharashtra Times (Marathi) newspapers on March 9, 2011. The copies of JPTL's Petitions and its summary were made available for inspection/purchase to members of the public at JPTL's offices and on JPTL's website (www.jsw.in). The copy of Public Notice and Executive Summary of the Petition was also available on the website of the Commission (www.mercindia.org.in) in downloadable format. The Public Notice specified that the suggestions and objections, either in English or Marathi, may be filed in the form of affidavit along with proof of service on JPTL.

No written suggestions or objections on the Petition were received by the Commission. The Public Hearing was held in Mumbai on April 11, 2011 at 11:00 hours at **the office of the Commission at 13th Floor, Centre No.1, World Trade Centre, Cuffe Parade, Mumbai 400 005**. The list of persons, who participated in the Public Hearing, is provided in **Appendix- 2**.

During the Public Hearing, Shri. Ponrathnam, an authorised Consumer Representative for this Case, enquired whether the present Petition would affect the tariffs during the MYT period, to which the Commission clarified that the present Petition was for approval of the ARR for FY 2010-11, while the MYT Control Period was from FY 2011-12 to FY 2015-16. JPTL made a brief presentation during the Public Hearing on the status of the commissioning of the Transmission Lines, wherein it was submitted that the 400 kV D/C (Quad) Jaigad-Karad Transmission Line is not commissioned yet and the same is expected to be commissioned by the end of May 2011.

The Commission has ensured that due process as contemplated under law to ensure transparency and public participation was followed at every stage meticulously and adequate opportunity was given to all the persons concerned to file their say in the matter.

2. DETERMINATION OF AGGREGATE REVENUE REQUIREMENT FOR FY 2010-11

2.1 Commissioning Status of Transmission lines and Approval of ARR of JPTL for FY 2010-11

As highlighted in Section 1.3 and 1.4 of this Order, JPTL has submitted the present Petition for approval of ARR pertaining to its transmission system, which includes 400 kV D/C (Quad) Jaigad - New Koyna, 400 kV D/C (Quad) Jaigad Karad Transmission Line and the associated equipments and terminal bays of each Transmission Line at MSETCL's New Koyna and Karad substations. Based on the latest submission made by JPTL during the Public Hearing on the status of commissioning of the above Transmission Line, it is observed that the 400 kV D/C (Quad) Jaigad - New Koyna Transmission line has been commissioned in July 2010, but the 400 kV D/C (Quad) Jaigad – Karad Transmission line has not yet been commissioned and is expected to be commissioned by the end of May 2011. Further, JPTL has not submitted the completed capital cost of the 400 kV D/C (Quad) Jaigad - New Koyna Transmission Line that has been commissioned.

In view of the above status, for the purpose of this Order, the Commission has determined the provisional ARR of JPTL for FY 2010-11, after excluding the ARR claimed by JPTL towards the 400 kV D/C (Quad) Jaigad – Karad Transmission Line, which has not been commissioned during FY 2010-11. However, since the commissioning of this Line is expected to take place during FY 2011-12, the expenses towards the same may be considered at the time of approval of ARR for FY 2011-12. The Commission therefore, directs JPTL to submit expenses against the 400 kV D/C (Quad) Jaigad – Karad Transmission Line and associated transmission system assets as part of the MYT Petition for the Control Period from FY 2011-12 to FY 2015-16 for the Commission's approval.

2.2 O&M Expenses for FY 2010-11

Operation and Maintenance (O&M) expenditure comprises of employee related expenditure, Administrative and General (A&G) expenditure, and Repair and Maintenance (R&M) expenditure.

Initially, JPTL had applied O&M norms specified under Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009 for computing the O&M expenses for FY 2010-11 for JPTL. Accordingly JPTL estimated a total of Rs 1.57 Crore towards the O&M expenses for FY 2010-11. However, the Commission in its data gaps directed JPTL to submit a realistic estimation of O&M expenses for FY 2010-11 instead of deriving the same based on CERC norms for O&M expenses. Subsequently, JPTL revised

its Petition wherein, JPTL computed the O&M expenses for FY 2010-11 based on estimated costs being budgeted for the relevant activity. Thus, JPTL estimated a total of Rs. 3.57 Crore towards O&M expenses for FY 2010-11. The estimated employee expenses, A&G expenses and R&M expenses are Rs 0.67 Crore, Rs 1.73 Crore, and Rs 0.18 Crore, respectively. JPTL submitted that the A&G expenses included a one-time expense of Rs. 1.32 crore towards increase of authorised share capital. Besides employee expenses, A&G expenses and R&M expenses, JPTL submitted an amount of 0.99 Crore towards O&M of terminal bays and included the same as part of the total O&M expenses of JPTL for FY 2010-11. As regards, O&M for terminal bays, JPTL submitted that it is envisaged that MSETCL would be responsible for maintaining the terminal bays (2 each at MSETCL substations at New Koyna and Karad), as these terminal bays are interconnected with MSETCL's existing terminal bays. Further, JPTL submitted that the commercial terms and agreement with MSETCL for maintenance for the bays are under discussions/negotiations and are expected to be finalised shortly. Therefore, JPTL submitted that it has estimated the O&M expenses of terminal bays as 0.99 Crore on the basis of CERC O&M norms. JPTL also submitted that out of the total O&M expense for FY 2010-11, it has estimated an O&M expense of Rs 1.79 Crore towards Jaigad - New Koyna line and Rs 1.79 Crore towards Jaigad - Karad line.

The summary of the O&M expenses estimated by JPTL for FY 2010-11 is as under:

Table 2-1: Estimated O&M expenses for FY 2010-11 (JPTL) (Rs Crore)

Particulars	FY 2010-11
Gross Employee Expenses	0.91
Gross R&M Expenses	2.35
Gross A&G Expenses	0.25
O&M Expenses for Terminal Bays	0.99
Gross O&M Expense	4.50
Less: Expenses capitalized	0.93
Net O&M Expenses	3.57
O&M Expenses for (Jaigad – New Koyna line)	1.79
O&M Expenses for (Jaigad – Karad line)	1.79

For the purpose of approval of provisional ARR for FY 2010-11, the Commission has considered only expenses for the Jaigad-New Koyna Line, for reasons elaborated in Section

2.1 of this Order. Further, the Commission observes that JPTL has considered equal O&M expense for both Jaigad - New Koyna transmission system and Jaigad – Karad transmission system, though both transmission systems differ in their line length. The line length of Jaigad-New Koyna Transmission line is 55 Km whereas that of Jaigad-Karad Transmission line is 110 Km. The number of Bays in each case is the same, i.e., two terminal bays for each Jaigad-New Koyna and Jaigad-Karad Transmission system. Thus, for the purpose of allowing the O&M expenses for FY 2010-11, proportionate O&M expenses factoring the line length ratio has been considered, while the expenses linked to terminal bays has been divided equally between the two lines. The Commission has also pro-rata reduced the annual O&M expense of the Jaigad-New Koyna line to factor in the number of operational days of the Line in FY 2010-11, since the said line was commissioned in July 2010. The Commission will undertake the final truing up of O&M expenses for FY 2010-11 based on actual O&M expenses subject to prudence check. Accordingly, the approved O&M expenses for FY 2010-11 is summarised in the following Table:

Table 2-2: Approved O&M Expenses for FY 2010-11 (Rs. Crore)

Particulars	FY 2010-11	
	Estimate	Approved
Net O&M Expenses	3.57	1.00

2.3 Capital Expenditure and Capitalisation

JPTL had estimated a project cost of Rs. 580.00 Crore, against which the Commission has accorded an in-principle approval for Rs 576.29 Crore. However, in the present Petition, JPTL submitted that there has been a marginal decrease in the estimated cost of the project and JPTL now expects the required capital investment for the project to be Rs 574.51 Crore.

JPTL provided the capital costs for 400 kV (Quad) Jaigad-New Koyna transmission line on actual basis, and the revised capital costs for 400 kV (Quad) Jaigad-Karad transmission line based on the actual amount incurred as on December 31, 2010, and estimates of further capital costs till commissioning date, as below:

Table 2-3: Capital Cost (Rs. Crore)

Particulars	Approved	New-Koyna (Actual)	Karad (Revised)	Total (Revised)
EPC Cost	446.00	138.84	302.31	441.15

Non EPC Cost	18.60	16.00	23.57	39.57
Sub Total – I	464.6	154.84	325.88	480.72
Preliminary & Pre-operative Expenses	23.23	3.81	11.69	15.50
Contingencies	18.58		11.02	11.02
Interest During Construction (IDC)	43.73	10.13	31.00	41.13
Margin Money (MM)	4.06	2.03	2.03	4.06
Sub Total – II	554.21	170.81	381.62	552.43
Cost Towards Terminal Bays	22.08	10.82	11.26	22.08
Total Project Cost	576.29	181.63	392.88	574.51

JPTL submitted the following reasons for variations between the estimated and approved project cost.

- **EPC cost:** The EPC cost as per the contract signed between L&T, ECC and JPTL was Rs 446.00 Crore, which however, based on JPTL's present estimate is Rs 441.41 Crore based on actual expenditure incurred and future cost estimates to complete the project.
- **Non-EPC cost:** The non-EPC cost has been revised to Rs 39.57 Crore from Rs 18.60 as approved by the Commission.

Sr. No.	Sub Component of Non EPC cost	Amount approved by MERC	Jaigad New Koyna – Actual	Karad Line- Estimated	Total
1	Consultancy (Clubbed under Preliminary Expense)	4.81	3.20	8.00	11.20
2	Right of Way	10.14	12.71	14.00	26.71
3	Design Cost (Clubbed under EPC)	2.00			
4	Compensatory Land for Forest	1.40		1.40	1.40
5	Detailed survey (Clubbed under EPC)	0.25	0.09	0.17	0.26
	Total	18.60	16.00	23.57	39.57

- JPTL submitted the following reasons for the significant increase in non-EPC cost:

- a) The estimate for consultancy charges has been revised to Rs 11.2 Crore. The increase in consultancy cost could be attributed to the following reasons:
- (i) Increase in duration of project management consultancy contract due to delay in project implementation
 - (ii) Design/Testing of special towers by PGCIL/CPRI and enhanced scope of consultancy services, which were not originally anticipated.
- b) The increase in RoW costs are attributable to the following reasons:
- i. Appreciation in tree/crop compensation. The following major tree varieties were compensated throughout the route length.
 - Alphonso mango trees & grafts - superior variety of mango
 - Cashew trees - cash crop
 - Teakwood - has very high market value
 - Ain, Kher and Kinjal - has reasonable timber value
 - ii. Transmission line has been constructed through hilly terrain for more than 50% of the route length where there is dense growth of fruit bearing/timber trees.
 - iii. In view of the hilly terrain, approach to the tower locations was sometimes more than 5 km for a single location. Trees/Crop in the approach road also had to be compensated throughout the length of approach road.
 - iv. Stepped cultivation is being practiced in the Konkan region due to absence of plain land. Hence, in order to approach tower locations, general terrain of the land was required to be altered, i.e. levelled to facilitate vehicle/equipment movements, and again restored to its original position, which also increased the ROW cost.
- c) Reclassification of costs under Non EPC Costs: Detailed survey cost was previously classified under EPC cost and has now been reclassified under Non EPC Cost. Similarly, Consultancy/Design charges which was previously part of pre operative expenses has been reclassified under Non EPC.

- **Preliminary, Project Management and Pre-operative Expenses:** This fees, which in-Principle has been approved by the Commission at Rs. 23.23 Crore, comprises of fees to be paid towards studies to be conducted by owner’s and lenders’ counsel, insurance, professional charges, travelling expenses, upfront fees, syndication fees for long term debt, initial and annual license fees to be paid to the Commission, Petition filing fees, other expenses etc. Further, Consultancy/Design charges, which was previously part of pre-operative expenses has been now reclassified under Non EPC. Subsequently, JPTL has revised its estimates of expenses under this head to Rs 15.50 Crore.
- **Interest during Construction:** The Interest during Construction (IDC) expenses for the two Transmission Lines has been given an In-Principle approval of Rs. 43.73 Cr by the Commission. This estimate has been revised to Rs. 41.13 Crore. Actual Interest capitalization for Jaigad- New Koyna line is Rs. 10.13 Crore. Interest rate during construction for Jaigad – New Koyna is considered at 11.90%, which is the weighted average of interest rates of loans drawn till July 7, 2010. The revised estimate of IDC Cost for the Jaigad- Karad Line is Rs 31 Crore, considering the rate of interest as shown in the Table below:

Description	Amount in Crs	Weighted Avg Interest rate	Remark
Loan Drawn till date	259.88	12.29%	As per existing weighted avg. Interest rate as at 31-12-2010
Yet to be drawn	175.11	12.42%	As per prevailing PLR of respective banks.
Total	435.00	12.34%	

- **Margin Money for Working Capital:** The Commission has in-principle approved an amount of Rs 4.06 Crore as margin money for working capital. JPTL envisages no change in its margin money requirements.
- **Contingencies:** The project is proposed to be implemented through lump-sum price fixed time EPC contract with price escalation linked to various indices. The Commission had in-principle approved a total contingency of Rs. 18.58 Crore (4.0% of the total capital cost) to provide against escalation in EPC cost due to increase in WPI, material prices, any other unforeseen expenditure and variation in the non-EPC cost on account of changes in estimates of compensation to be provided for crop, forest, etc. The Jaigad – New Koyna Line has already been commissioned in

July 7, 2010 and no contingency fund has been considered for this Line. Increase in non-EPC cost for the Jaigad – Karad Line is being compensated by utilising contingencies approved by the Commission. Accordingly, the contingency requirement is being revised to Rs. 11.02 Crore.

The line-wise and total Capitalisation for FY 2010-11, as submitted by JPTL is as under:

Table 2-4: Capitalisation for FY 2010-11 (JPTL) (Rs. Crore)

Line Details	Capitalisation
400 kV (Quad) Jaigad-New Koyna transmission line	179.60
400 kV (Quad) Jaigad-Karad transmission line	390.85
Total capitalized expenditure	570.45

For the purpose of provisional approval of ARR for FY 2010-11, the Commission has considered only the capitalisation towards the 400 kV (Quad) Jaigad-New Koyna transmission line, the reason for which has been elaborated in the Section 2.1 of this Order. It is clarified that the detailed scrutiny of various cost components as claimed by JPTL will be undertaken for prudence check as against in-principle approval given by the Commission. However, for the purpose of determination of ARR for FY 2010-11, the Commission has considered the capitalisation for Jaigad-New Koyana Transmission line as proposed by JPTL, which shall be subject to prudence check at the time of true-up of FY 2010-11.

Accordingly, the provisionally approved capitalisation for FY 2010-11 is summarised in the following Table:

Table 2-5: Approved Capitalisation for FY 2010-11 (Rs. Crore)

Particulars	FY 2010-11	
	Estimate	Approved
400kV (Quad) Jaigad-New Koyna transmission line	179.60	179.60
400kV (Quad) Jaigad-Karad transmission line	390.85	0.00
Total	570.45	179.60

2.4 Depreciation

JPTL, in its Petition, considered the depreciation expenses at the rates specified in MERC (Terms & Conditions of Tariff) Regulations, 2005 for FY 2010-11 as under:

Table 2-6: Depreciation Expenses projected by JPTL for FY2010-11 (Rs Crore)

Particulars	New Koyna	Karad	Total
GFA	179.60	390.85	570.45
Depreciation @ 2.57% (Rs Cr)	3.39	1.62	5.01

JPTL has computed depreciation based on actual date of commissioning of assets associated with Jaigad-New Koyna transmission line (July 7, 2010 or 268 days in FY 2010-11) and expected date of commissioning of assets associated with the Jaigad-Karad transmission line (February 1, 2011 or 59 days in FY 2010-11).

JPTL, in its Petition, stated that JPTL is not seeking any advance against depreciation as there is no loan repayment scheduled in FY 2010-11. The Commission has considered the depreciation on the assets added during the year while approving the depreciation for FY 2010-11. In view of capitalisation as approved under previous paragraphs, the approved depreciation expenditure for FY 2010-11 is summarised in the following Table:

Table 2-7: Depreciation as approved by the Commission (Rs Crore)

Particulars	FY 2010-11	
	Estimate	Approved
Opening Gross Fixed Assets	0.00	0.00
Closing Gross Fixed Assets	570.45	179.60
Depreciation	5.01	3.39
Depreciation Rate	2.57%	2.57%

2.5 Interest Expenses

JPTL submitted that the project cost of Rs 574.51 Crore is proposed to be funded at a Debt Equity ratio of 75:25, which would comprise of Rs 430.88 Crore consisting of Rupee Term Loans (RTL) from the lenders. JPTL included the interest expense on the debt capital until the expected commissioning of the Karad Line (submitted as February 1, 2010) in the total

project cost as IDC expense. Accordingly, JPTL computed the interest expenses for a period of 9 months (268 days) in FY 2010-11 for the New Koyna Line and for two months (59 days) in FY 2010-11 for the Karad Line. Besides, JPTL has not considered any repayment since the repayment is envisaged to begin in FY 2011-12.

As regards Debt Equity ratio of 75:25, JPTL submitted that Commission, vide its letter MERC/CAP/DPR/11/10/00616 has given in-principle approval to the proposed funding arrangement for the approved capital requirement at a Debt: Equity ratio of 75:25. The details of Debt Equity break-up as submitted by JPTL is as under:

Table 2-8: Transmission Line-wise break up of project cost (JPTL) (Rs Crore)

Particulars	New Koyna	Karad	Total
Equity Contribution	45.41	98.22	143.63
Debt Financing (Rupee Term Loans)	136.22	294.66	430.88
Total	181.63	392.89	574.51

JPTL submitted that it has executed the loan agreement for debt aggregating to Rs.435 Crore with a consortium of six banks lead by State Bank of India collectively called the Lenders (Punjab National Bank, United Bank of India, Bank of India, Canara Bank, and Bank of Baroda being the other lenders). JPTL added that the Lenders have sanctioned term-loan facility to JPTL for execution and implementation of the Transmission Project.

As directed by the Commission, JPTL submitted a copy of the Loan Agreement executed between JPTL and the consortium of financial institutions for verification. Further, in response to the query on actual term loan, JPTL made the following submission on the same, presenting the disbursement as on December 31, 2010.

Table 2-9: Actual Loan Disbursement (Rs Crore)

Bank	Sanctioned Amount	Outstanding Amount
State Bank of India	100.00	57.99
Punjab National Bank	75.00	43.50
Canara Bank	75.00	51.26
Bank of Baroda	40.00	23.14
Bank of India	70.00	40.51
United Bank of India	75.00	43.50
Total	435.00	259.88

As regards interest rate considered, JPTL stated that the weighted average interest rate is expected to be 12.34% and provided the following details.

Table 2-10: Interest Rate (JPTL) (Rs Crore)

Description	Amount in Crores	Weighted Avg. Interest Rate	Remark
Loan Drawn till date	259.88	12.29%	As per existing weighted avg. interest rate as at 31-12-2010
Yet to be drawn	175.11	12.42%	As per prevailing PLR of respective banks
Total	435.00	12.34%	

JPTL, in its Petition, submitted the estimate for interest expenses for FY 2010-11 as Rs 18.22 Crore, as shown in the Table below:

Table 2-11: Interest Expenses for FY 2010-11 (JPTL) (Rs Crore)

Sl No	Particulars	New Koyna	Karad
1	Debt at time of commissioning	136.22	294.66
2	Repayment	0	0
3	Closing Debt	136.22	294.66
4	Interest Rate (%)	12.34%	12.34%
5	Count of financial year	0.73	0.16
6	Interest on the Debt Capital [(3) *(4)*(5)]	12.34	5.88
	Total Interest expenses		18.22

The Commission observed that JPTL has computed the debt component and the interest thereof on the capital expenditure proposed. However, for the purpose of approval of ARR of FY 2010-11, the Commission has considered only the debt amount pertaining to capitalisation approved for Jaigad-New Koyna Transmission system, as capitalisation of only this Line has been considered under the present ARR exercise. Further, the debt amount has been computed based on a debt equity ratio of 75:25 in accordance with the approval granted to JPTL as part of the in-principle approval of project cost for JPTL.

Upon scrutiny of the copy of the Loan Agreement and other submissions made by JPTL as mentioned above, the Commission has considered the interest rate of 12.34% for FY 2010-11. Accordingly, approved interest expenses for FY 2010-11 is summarised in the following Table:

Table 2-12: Interest Expenses for FY 2010-11 (Commission) (Rs Crore)

Particulars	FY 2010-11	
	Estimate	Approved
Opening Balance	0	0
Loan Addition	430.88	134.70
Loan Repayment	(0)	(0)
Closing Balance	430.88	134.70
Interest	18.22	12.20
Overall Interest Rate	12.34%	12.34%

2.6 Interest on Working Capital for FY 2010-11

For FY 2010-11, JPTL estimated the Interest on Working Capital (IWC) considering an interest rate of 12.34% on the working capital requirement computed as per the components considered in the MERC Tariff Regulations.

The MERC Tariff Regulations stipulate that the rate of interest on working capital shall be on normative basis and shall be equal to the short-term Prime Lending Rate of State Bank of India as on the date on which the application for determination of tariff is made. For FY 2010-11, the Commission has estimated the working capital requirement of JPTL after considering the revised expenditure approved in this Order. The Commission has considered the interest rate as 12.50% in accordance with the short-term Prime Lending Rate of State Bank of India prevalent at the time of filing the ARR Petition for FY 2010-11, i.e., as on December 1, 2010. The approved interest on working capital for JPTL for FY 2010-11 is given in the following Table:

Table 2-13: Interest on Working Capital for FY 2010-11 (Rs Crore)

Particulars	FY 2010-11	
	Estimate	Approved
Interest on Working Capital	0.71	0.46

2.7 Contribution to Contingency Reserves for FY 2010-11

JPTL submitted that the contribution to contingency reserves for FY 2010-11 has been computed at 0.5% of GFA, as Rs. 2.74 Crore for both the Lines.

In this regard, the MERC (Terms and Conditions of Tariff) Regulations, 2005 stipulates,

“50.7.1 Where the Transmission Licensee has made an appropriation to the Contingencies Reserve, a sum not less than 0.25 per cent and not more than 0.5 per cent of the original cost of fixed assets shall be allowed towards such appropriation in the calculation of aggregate revenue requirement:

Provided that where the amount of such Contingencies Reserves exceeds five (5) per cent of the original cost of fixed assets, no such appropriation shall be allowed which would have the effect of increasing the reserve beyond the said maximum:

Provided further that the amount so appropriated shall be invested in securities authorized under the Indian Trusts Act, 1882 within a period of six months of the close of the financial year.”

For the purpose of approval of ARR for FY 2010-11, the Commission, in accordance with Regulation 50.7.1 of the MERC (Terms and Conditions of Tariff) Regulations, 2005 has considered contribution to contingency reserves as Rs 0.45 Crore, computed at 0.25% of GFA approved for FY 2010-11.

2.8 Return on Equity (RoE)

JPTL, in its Petition, submitted that based on the break-up of project costs, 25% of the allowable capital cost has been considered as equity base for the project. Further, JPTL considered the return on equity for both the transmission lines at 14%. Accordingly, JPTL has estimated the return on equity for FY 2010-11 as Rs 10.05 Crore.

The details of Debt Equity break-up as submitted by JPTL is shown as following.

Table 2-14: Transmission Line-wise break up of project cost (JPTL) (Rs Crore)

Particulars	New Koyna	Karad	Total
Equity Contribution	45.41	98.22	143.63
Debt Financing (Rupee Term Loans)	136.22	294.66	430.88
Total	181.63	392.89	574.51

The Commission, in this Order, has computed RoE for FY 2010-11 on the opening balance of equity and 50% of the equity portion of the capitalised asset value approved for the year (capitalisation pertaining to Jaigad- New Koyna Transmission Line), in accordance with the MERC Tariff Regulations as applicable for the transmission business. Further, the equity amount has been computed based on a debt equity ratio of 75:25 in accordance with the approval granted to JPTL as part of the in-principle approval of project cost for JPTL.

The RoE as projected by JPTL and approved by the Commission for FY 2010-11 is summarised in the following Table:

Table 2-15: Return on Equity as approved by the Commission (Rs Crore)

Particulars	FY 2010-11	
	Estimate	Approved
Regulatory Equity at beginning of year	0.00	0.00
Equity Portion of Capital Expenditure	143.63	44.90
Regulatory Equity at the end of the year	143.63	44.90
Return on Regulatory Equity at beginning of year	0	0
Return on Equity Portion of Capital Expenditure Capitalised	10.05	3.14
Total Return on Regulated Equity	10.05	3.14

2.9 Income Tax for FY 2010-11

JPTL, in its Petition, submitted the income tax for FY 2010-11 has been estimated as of Rs. 1.90 Crore. JPTL further submitted that the tax rate being considered is the Minimum Alternate Tax (MAT) rate of 18% grossed up by 7.5% for surcharge and 3% for education cess, and hence, the applicable income tax rate considered for FY 2010-11 is 19.93%.

The Commission observes that the approach adopted by JPTL for computation of Income Tax is at variance with the approach usually adopted by the Commission for ARR approval. The Commission considers RoE as the Regulatory Profit Before Tax (PBT) and the Commission also does not gross up such RoE component for income tax, since the income tax is being allowed as an expense under the ARR, in accordance with the MERC Tariff Regulations. Also, under the Companies Act, contribution to contingency reserve and normative Interest on Working Capital are not considered as actual expenses and are hence, not considered for income tax computation. Thus, in line with the above, ROE is the taxable

income. However, due to the tax depreciation and Section 80 IA benefits, taxable income for FY 2010-11 as per Income Tax Act works out to be negative. Hence, for tax computation of JPTL, only MAT rate has been considered. The Petitioner has also computed the income tax based on MAT rate. The Income Tax computation as submitted by the Petitioner and as approved by the Commission is as shown below:

Table 2-16: Income Tax approved for FY 2010-11 (Rs Crore)

Particulars	FY 2010-11	
	Estimate	Approved
Expected Revenue	42.32	21.07
Operation & Maintenance Expenses	3.57	1.31
EBITDA	38.75	19.76
Depreciation as per Companies Act	10.30	6.96
EBIT	28.45	12.80
Interest and other finance charges	18.93	12.20
PBT	9.52	0.59
Tax rate considered	19.93%	19.93%
Income Tax	1.90	0.12

2.10 Non-Tariff Income for FY 2010-11

JPTL, in its Petition, submitted that as the transmission line of JPTL is a new project, it will not have any such income from generic or traditional activities such as the sale of scrap, etc., hence, JPTL does not expect any non-tariff income in FY 2010-11. Accordingly, the Commission has not considered any Non Tariff Income for the purpose of approval of ARR for FY 2010-11.

2.11 Performance Parameters

2.11.1 System Availability and Incentive for Higher Availability

Regulation 49.1 of the MERC Tariff Regulations, stipulates,

“Target availability for full recovery of annual transmission charges

(a) AC system:- 98 per cent

(b) HVDC bi-pole links and HVDC back-to-back stations:- 95 per cent”

Accordingly, JPTL should maintain the system availability at the levels stipulated in the MERC Tariff Regulations in order to be eligible to recover the full fixed charges, i.e., ARR,

as determined by the Commission. Any reduction in system availability will lead to pro-rata reduction in recovery of the ARR. The Commission will consider the actual availability of the transmission system at the end of the year based on actual availability, and the recovery of complete ARR will depend on the achievement of the normative availability levels.

While determining the ARR of various Transmission Licensees for FY 2009-10, the Commission had directed the Transmission Licensees to arrange for requisite certification from the Maharashtra State Load Despatch Centre (MSLDC) based on appropriate procedure formulated by MSLDC to monitor and certify the Transmission System Availability of various Transmission Licensees on regular basis.

In this context, during the TVS, the Commission had directed JPTL to submit the month-wise availability of its transmission system, duly certified by SLDC. However JPTL submitted the availability of its transmission system certified by MSETCL, rather than certified by MSLDC. The Commission hereby directs JPTL to submit such certification from MSLDC at the time of final true-up for FY 2010-11 and the same shall be considered for computing the incentive on transmission system availability for JPTL.

2.12 Aggregate Revenue Requirement of JPTL for FY 2010-11

Based on analysis of each element discussed above, the Aggregate Revenue Requirement of JPTL for FY 2010-11 as provisionally approved by the Commission in this Order is given in the following Table:

Table 2-17: Aggregate Revenue Requirement for FY 2010-11 (Rs Crore)

Sr No.	Particulars	FY 2010-11			
		Petition		Approved	
		Jaigad-New Koyna	Jaigad-Karad	Jaigad-New Koyna	Jaigad-Karad
A	Expenditure				
1	Operation & Maintenance Expenses	1.79	1.79	1.00	0.00
2	Depreciation, including advance against depreciation	3.39	1.62	3.39	0.00
3	Interest on Long-term Loan Capital	12.34	5.88	12.20	0.00
4	Interest on Working Capital and on consumer security deposits	0.37	0.34	0.46	0.00

Sr No.	Particulars	FY 2010-11			
		Petition		Approved	
		Jaigad-New Koyna	Jaigad-Karad	Jaigad-New Koyna	Jaigad-Karad
5	Income Tax	0.13	1.77	0.12	0.00
6	Contribution to contingency reserves	0.90	1.95	0.45	0.00
7	Total Expenditure	18.91	13.35	17.62	0.00
B	Return on Equity Capital	3.18	6.88	3.14	0.00
C	Aggregate Revenue Requirement	22.09	20.23	20.76	0.00
8	Less: Non Tariff Income	0.00	0.00	0.00	0.00
9	Less: Income from Other Business	-	-	-	-
D	Aggregate Revenue Requirement from Transmission Tariff	22.09	20.23	20.76	0.00

The Aggregate Revenue Requirement for FY 2010-11 is lower than that projected by the Petitioner primarily due to reduction in capitalisation expenses for FY 2010-11 due to non achievement of COD of 400 kV (Quad) Jaigad-Karad transmission line by March 31, 2011.

Accordingly, the Commission provisionally approves Aggregate Revenue Requirement for FY 2010-11 as Rs 20.76 Crore.

Accordingly, JPTL's Petition in Case No. 97 of 2010 stands disposed off.

Sd/-
(Vijay L. Sonavane)
Member

Sd/-
(V.P. Raja)
Chairman

APPENDIX 1

List of persons who attended the Technical Validation Session held on January 12, 2011

S. No.	Name
1	Shri. Navraj Singh
2	Shri. P. Singh
3	Shri. C. P. Tated
4	Shri. S. Badri Narayanan
5	Shri. Nishant Thote
6	Shri. B. H Gujarati
7	Shri. A. V Deo
8	Shri. N. N Wankhade
9	Shri. D.G Marathi
10	Shri. A. L Madhu
11	Shri. S. J Amberkar
Consultants to Commission	
1	Shri. Amit Mittal
2	Shri. Krishnajith M.U.

APPENDIX 2

List of persons who attended the Public Hearing held on April 11, 2010

S. No.	Name
1	Shri. Navraj Singh
2	Shri. Pritpal. Singh
3	Shri. C. P. Tated
4	Shri. Badri Narayanan
5	Shri. Nishant Thote
Consumer Representative	
1	Shri. N. Ponrathnam