

ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

11-4-660,Singareni Bhawan, Red hills, Hyderabad –04.

O.P.No.392/2001

Dated: 08-04-2003

Present:

Sri G.P.Rao, Chairman

Sri D. Lakshminarayana, Member

Between:

APTRANSCO

Vidyut Soudha, Khairtabad, Hyderabad – 500 082.

.... Applicant

AND

APGENCO

Vidyut Soudha,Khairtabad, Hyderabad –500 082

The Commission having considered the proposal of Transmission Corporation of Andhra Pradesh Limited (APTRANSCO) for consent of to the Power Purchase Agreement (PPA) with the Generation corporation of Andhra Pradesh Limited (APGENCO) in regard to purchase of power from Rayalaseema Thermal Power Project Stage II (RTPP), the written submissions of the parties and the materials available on record, passed the following order in continuation of its earlier orders dt: 29.7.2002 and 5.12.2002:

ORDER

By letter dt. 08-03-2001, APTRANSCO sought the consent of the Commission for an arrangement to purchase electricity from APGENCO from Rayalaseema Thermal Power Project (RTPP Stage-II) as embodied in the draft Power Purchase Agreement enclosed to their letter. The project was to be financed by a 100% debt arrangement from a Chinese Govt. Agency and

executed by another Chinese Govt. Agency, China National Machinery and Equipment Import and Export Corporation (CNMEIE) for APGENCO. The matter was examined and a public hearing was held on 10th October 2001. Taking into account, *inter alia*, the points raised by the members of the public and the further responses of APTRANSCO and APGENCO, the Commission enumerated certain issues for discussion. By two orders bearing No. O.P.No.392/2001, dt. 29-07-2002 and dt. 5.12.2002, the Commission directed APTRANSCO to address the issues, which had serious impact on the tariff to the end-consumers. The Commission consequently withheld its consent to the PPA in the form it was presented by APTRANSCO.

2. In its last order dated 5.12.2002 the Commission mentioned that it would consider grant of consent for the PPA for RTPP II project on the fulfillment of the three major conditions.

3. APTRANSCO has submitted its response under letter dt. 27.01.2003 after discussions with APGENCO. The Commission wishes to discuss the current response from APTRANSCO on each of these issues:

Issue 1: INTEREST ON FOREIGN CURRENCY LOAN:

Commission's observation:

The Commission advises APGENCO to renegotiate with CNMEIE and reduce the interest on supplier's credit based on the fixed rate of interest prevailing as on the date of signing of EPC contract instead of the rate of interest as on the loan identification date.

Response of APGENCO/APTRANSCO:

APGENCO renegotiated with CNMEIE for reduction in the interest rate on Supplier's credit and the response from them is as follows:

- a) The fixed interest rate of 6.36% on the Supplier's credit as quoted by them in July, 1999 was not based on LIBOR.
- b) CNMEIE are only EPC contractors and not bankers and hence their quotes were formulated to make them competitive.

- c) The EPC price is maintained at the same level inspite of increase in prices of equipment, materials and services. The interest rate on Supplier's credit cannot be reduced while retaining the contract price as fixed.
- d) Though there is hardly any scope for reduction in the interest rate of 6.36% per annum which was fixed for the entire term of 15 years, as a one time measure and as a special case, CNMEIE is willing to reduce interest rate to 6.16%. This is subject to formal approval of relevant authorities of Chinese Government.

APTRANSCO considers this as reasonable and recommends for accepting APGENCO's position.

Commission's Analysis:

The Commission queried as to why the interest rate on supplier's credit was linked to loan identification date instead of EPC contract signing date as there was a fall in interest rate during this period and APGENCO could have taken advantage of this situation. The Commission advised APGENCO/ APTRANSCO to renegotiate with CNMEIE and reduce the interest rate on supplier's credit. APGENCO has accordingly renegotiated with CNMEIE.

CNMEIE had replied that they had quoted the price in a competitive way for a period of 15 years in the capacity of an EPC contractor and not in the capacity of a banker. The Commission is able to appreciate the difference between an EPC contractor who is arranging a supplier's credit and the banker who is lending money for a project. The former was using the rates as part of his bid and the latter comes into play at a subsequent date. The Commission felt that APGENCO could have made use of the declining interest rates and renegotiated the interest rate while signing the EPC contract as the gap between loan identification date and EPC contract date is as long as 20 months. As the interest rate is fixed for a period of 15 years, any reduction in interest rate would have benefited APGENCO for the entire period of 15 years. The possibility of increase in EPC price cannot be ruled out if there was any increase in EPC price during this period as claimed by CNMEIE. As APGENCO did not explore this possibility

earlier, the Commission advised APGENCO to renegotiate with CNMEIE at least now. On renegotiations, CNMEIE has agreed for an adhoc reduction of 0.2% per annum in the interest rate without increasing the contract price. Both APGENCO and APTRANSCO consider this as reasonable and recommend for acceptance.

As CNMEIE's bid was selected on competitive basis as explained in the earlier orders, the adhoc reduction of 0.2% per annum in the interest rate after renegotiations is better than the earlier position even though the levelised tariff reduces only marginally by 1p/kwh.

The Commission advises APGENCO/APTRANSCO to finalise the fixed interest rate of 6.16% per annum for the supplier's credit arranged by CNMEIE.

Issue 2: COAL SUPPLY AGREEMENT:

Commission's observation:

APGENCO has to submit the revised variable cost computation to the Commission and if the cost is advantageous enter into a proper fuel supply agreement with SCCL after obtaining the necessary approvals from Ministry of coal and submit the same to the Commission.

Response of APGENCO/APTRANSCO:

The Standing Linkage Committee (Long Term) has agreed to transfer coal linkage from Mahanadi Coalfields Limited to Singareni Collieries Company Limited for RTPP Stage-II in its meeting held on January 6, 2003.

As a result, the variable cost would reduce by 17paise/ kWh under constant scenario and the levelised tariff would reduce by about 29 paise/kWh on an annual escalation of 6%.

Commission's Analysis:

The shift in coal supply from MCL to SCCL would reduce the freight and transit loss, as the distance to be covered would be only 720 kms in the case of SCCL instead of 1452 kms in the case of MCL.

From the calculation submitted by APGENCO it appears that the saving in variable cost is around 17 paise/kWh in the first year with increase in savings in

the subsequent years, based on annual escalations. The saving of 29 paise/kWh in levelised tariff would vary depending upon the actual increase in freight and coal price during the term of the PPA.

The Commission is satisfied that there is a direct saving in variable cost apart from the indirect advantage of reducing the transit loss as the coal has to be transported half the distance only from SCCL.

The Commission advises APGENCO to enter into a Fuel Supply Agreement with SCCL based on the decision at the Standing Linkage Committee (Long-term) meeting held on 6.1.2003.

Issue 3: Clearance by APTRANSCO against Power Procurement Plan:

Commission's remarks:

APTRANSCO has to finalise the power procurement plan and submit the same to the Commission with justification for inclusion of this project.

APTRANSCO's remarks:

APTRANSCO have submitted Power Procurement Plan upto FY 2007, duly including RTPP -II project along with the justification for its inclusion to the commission vide letter dated 16.11.2002.

Commission's Analysis:

APTRANSCO made a fresh Load Forecast petition before the Commission on 28-01-2003 estimating the projected additional capacity requirement as 5251 MW for the period from 2002-2008 revising their earlier estimate of 4270 MW for the same period. The Commission has issued a separate order O.P.No.179/2003 dated 08-04-2003 after considering the submissions of APTRANSCO fixing the additional capacity required for the period 2002-2008 at 5182 MW. All demand/supply expansion related issues are discussed in that order.

Conclusion:

APTRANSCO in consultation with APGENCO has complied with the three conditions mentioned in the Commission's order dated 5.12.2002. This has resulted in a saving of about 18 paise/kWh in the first year as follows:

- a) reduction in interest on supplier's credit – 1paise/kWh
- b) shift in coal supply from MCL to SCCL – 17 paise/kWh

The total saving in levelised tariff works out to 30 paise/kwh. But, it must be borne in mind that these quantitative analyses have been carried out by forecasting the numbers over a fifteen-year horizon based on reasonable assumptions.

ORDER

Accordingly in exercise of the powers under Sub-section (4) of Section 21 of the Andhra Pradesh Electricity Reform Act, 1998 the Commission grant consent to APTRANSCO to enter into a Power Purchase Agreement for the purchase of energy from RTPP stage II subject to the terms contained in this order and the Commission's earlier orders dated 29.7.2002 and 5.12.2002 on this project. A modified and restated PPA incorporating all the changes and duly executed by the parties may be filed before the Commission.

This order is issued by the A.P. Electricity Regulatory Commission on the 8th April 2003.

Sd/-
(D.LAKSHMINARAYANA)
MEMBER

Sd/-
(G.P.RAO)
CHAIRMAN

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