MERC
Date: 19/2/14
No. 6305

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Date: 17th February 2014

To,
The Chairman,
Maharashtra Electricity Regulatory Commission
World Trade Center, Cuffe Parade
Mumbai – 400 005

Dear Sir,

Sub: Committee Report on Compensatory Tariff for Tiroda power plant of Adani Power Maharashtra Limited

Pursuant to the Hon'ble Commission's order dated 21st August 2013 in Petition No. 68 of 2012to work out and recommend a package for Compensatory Tariff, the Committee was constituted as under as per the Government Resolution of Maharashtra government.

1. Mr. R. M. Malla Chairman of the Committee
2. Mr. K. P. Bakshi, Additional Chief Secretary (Planning), Govt. of Maharashtra
3. Mr. Ajoy Mehta, Principal Secretary (Energy), Govt. of Maharashtra and MD, MSEDCL
4. SBI Capital Markets Ltd., represented by MD&CEO - Independent Financial Analyst
5. Dr. SatishBagal, Financial Expert .
6. Mr. C. P. Singh, Former Director (BHEL) – Technical Consultant

\# Representative of Adani Power Maharashtra Limited – As Permanent Invitee

The Committee through a consultative process carried out a detailed exercise and analyzed all the relevant technical, commercial & financial aspects. The Committee had also appointed external industry experts i.e. legal consultant and independent auditor. The Committee has taken cognizance ofviews of all the stakeholders in order to find out practical sustainable solution.

Subsequently, the Committee has prepared the Report to present it for Hon'ble Commission's consideration. Copy of the report is enclosed herewith. The report can be segregated in two parts. Chapter 1 to 6 of the Report sets out essential background and deliberates upon company analysis, industry analysis and bidding assumptions of the company. The other part of report containing Chapter 7 & 8 recommends the methodology to address hardship faced by APML. Chapter 7 in particular covers the Committee's recommendation in regard to recovery of hardship, principles and its implementation mechanism to derive Compensatory Tariff going forward. Chapter 8 deals with the recommendations/ other issues raised by MERC/ Procurers for calculating/ recommending compensatory tariff, analysis of the Committee and recommendations.

In view of the above and with a view to have long term practical and commercial solution, we request the Hon'ble Commission to peruse the Committee's recommendation in the report and pass an appropriate order for its expeditious implementation.

Thanking you.

R. M. Malla

cc:

Mr. K. P. Bakshi, Additional Chief Secretary (Planning), Govt. of Maharashtra
Mr. Ajoy Mehta, Principal Secretary (Energy), Govt. of Maharashtra and MD, MSEDCL
Mr. V. G. Kannan, MD&CEO,SBI Capital Markets Ltd.
Dr. SatishBagal, Financial Expert
Mr. C. P. Singh, Technical Consultant
Adani Power Maharashtra Limited

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Committee Report for MERC

For determination of compensatory tariff-in the matter of Adani Power Maharashtra Limited

February 2014

Committee Report on Compensatory Tariff for Tiroda Power Plant of Adani Power Maharashtra Limited

Pursuant to order of Hon'ble Commission dated 21st August 2013 in petition no. 68 of 2012 to work out and recommend a package for the Compensatory Tariff, we hereby submit the report as per the order. The govt. nominees have informed that they will sign the report only after approval/acceptance from Govt. of Maharashtra.

We wish to place on record our sincere appreciation for the co-operation extended by all members. The Hon'ble Commission may be pleased to pass appropriate order(s) in this regard.

(R.M. Malla)
Chairman of the Committee

(Mr. V.G. Kannan)
Member – Financial Analyst

(Dr. Satish Bagal)
Member – Financial Expert

LIST OF ABBREVIATIONS

APL	Adani Power Limited
APML	Adani Power Maharashtra Limited
ARB	As Received Basis
BU	Billion Units
CCEA	Cabinet Committee of Economic Affairs
CEA	Central Electricity Authority
CEC	Compensatory Energy Charge
CERC	Central Electricity Regulatory Commission
CIF	Cost Insurance Freight
COD	Commercial Operation Date
CSA	Coal Supply Agreement
CT	Compensatory Tariff
DE	Debt Equity
DTA	Domestic Tariff Area
EA	Electricity Act
EIA	Environmental Impact Assessment
EPC	Engineering Procurement Construction
EPS	Electric Power Survey
FOB	Free On Board
FSA	Fuel Supply Agreement
GCV	Gross Calorific Value
GoM	Government of Maharashtra
GoI	Government of India
GR	Government Resolution
IDC	Interest During Construction
kcal	Kilo Calories
kWh	Kilo Watt Hour
LC	Letter of Credit

LoI	Letter of Intent
MEMR	Ministry of Energy and Mineral Resources
MERC	Maharashtra Electricity Regulatory Commission
MoC	Ministry of Coal
MoP	Ministry of Power
MoU	Memorandum of Understanding
MSEDCL	Maharashtra State Electricity Distribution Co. Ltd
MT	Million Tonne
MTPA	Million Tonnes Per Annum
MU	Million Units
MW	Mega Watt
O&M	Operations & Maintenance
PLF	Plant Load Factor
PPA	Power Purchase Agreement
RfP	Request for Proposal
RfQ	Request for Qualification
SBD	Standard Bidding Document
SEB	State Electricity Board
SERC	State Electricity Regulatory Commission
SLC	Standing Linkage Committee
SG	Steam Generator
SPV	Special Purpose Vehicle
T&D	Transmission & Distribution
TPD	Tonnes Per Day
UHV	Useful Heat Value
USD	United States Dollar

LIST OF ANNEXURES

EXECUTIVE SUMMARY

Adani Power Maharashtra Limited (APML/ Company) is a power generating company and a subsidiary of Adani Power Limited (APL). The Government of Maharashtra (GoM) on 28th March 2005 had declared a policy for encouraging private sector investment in power generation and under the said policy GoM had issued Letter of Support on 14th February 2007 to provide necessary support to the project for land acquisition, water availability and fuel tie-up. A copy of the letter of support is attached herewith as **Annexure IV**. Encouraged by the support of GoM, APML had commenced implementation of **3300 MW** Coal based thermal power project at Tiroda, Dist. Gondia, Maharashtra in 3 phases i.e. Phase I (2 x 660 MW), Phase II (1 x 660 MW) & Phase III (2 x 660 MW).Phase I and Phase II projects have been commissioned in **March 2013** and **June 2013**, respectively. Phase III is expected to be commissioned by **31st March 2014**. It has executed PPAs with Maharashtra State Electricity Distribution Company Ltd. (MSEDCL)to supply the entire net capacityof 3085 MW,

S.No	Purchaser	Net Capacity (MW)	Duration (Years)	Levellised Tariff (Rs./Kwh)	PPA Signing Date	Units
1	MSEDCL	1320	25	2.64	8Sep 2008	Unit 2 & 3
2	MSEDCL	1200	25	3.28	31 Mar 2010	Unit 1,4,5
3	MSEDCL	125	25	3.28	9Aug 2010	Unit 1,4,5
4	MSEDCL	440	25	3.28	16 Feb 2013	Unit 1,4,5
	Total	**3085**				

This report is related to the PPA dated 8th September 2008.

Consequent to withdrawal of the Terms of Reference (TOR) by MoEF for the Lohara captive coal block, the Company approached Maharashtra Electricity Regulatory Commission (hereinafter referred to as 'MERC' or 'Commission')through petition No.

68 of 2012 for redressal of the hardship being faced by it in the sale of power under PPA dated 8thSeptember 2008 to MSEDCL. By order dated 21st August 2013 the Commission held that it has the powers to adjudicate the dispute and directed to form a Committee to look into the details of the case, evaluate the impact of withdrawal of TOR on Unit 2 and 3 of Tiroda TPS and accordingly determine a compensatory charge to be provided to APML over and above the Tariff agreed in the PPA which shall be admissible for a limited period till the event which occasioned such compensation continues to exist.

The Committee was chaired by Mr Rajender M Malla and other members of the committee include representatives of Government of Maharashtra, MSEDCL, SBI Capital Markets Ltd. along with consultants Dr Satish Bagal and Mr. Chandra Pratap Singh. Further Mr. A.G. Karkhanis was appointed to assist the Committee for legal issues. M/s KPMG India Private Ltd. was appointed for the purpose of review of financials.

Committee Meetings

The first meeting of the Committee was held on 6th January 2014 to decide the process to be followed for determining "Compensatory Charge". The second meeting of the Committee was convened on 20th January 2014 to discuss the various options available for mitigation of the hardship faced by the Company. The Committee decided that in line with the MERC direction, the compensatory charge shall be limited to the 800 MW capacity of Lohara Coal block. Whereas in respect of 520 MW balance capacity linked to CIL linkage, tariff for linkage embedded in quoted/bid tariff will continue to be under operation. Technical Consultant and Financial Analyst were requested to visit the project site. Further, the third meeting of the Committee was convened on 10th February 2014 wherein broad contours of compensatory charge were agreed upon and decided to expedite the process keeping in view the direction of MERC to complete the process within 3 months from the date of the order. The final meeting of the Committee was held on 17th February 2014, where it was decided to submit the report to MERC.

Committee analyzed and discussed the various options to mitigate the hardship faced by the Company and to arrive at a compensatory charge.

After evaluating the various options, the Committee decided to recommend the "Compensatory Energy Charge (CEC)" duly considering the following:

- The CEC shall be limited to the period till Lohara coal block is restored to APML and thereafter it will be reviewed;
- The compensatory charge shall offset the additional cost of replacement of fuel cost from Lohara;
- The CEC to satisfy the principles of fairness, simplicity and sustainability;
- CEC shall be dynamic in nature and shall provide relief to APML on one hand and MSEDCL will benefit on reduction of coal prices being purchased in lieu of Lohara coal block on the other hand;
- To determine an equitable level of compensation;
- Various possible options for determining the compensation were deliberated, and the suggested methodology was selected as preferred approach in line with the scope of the Committee;
- The CEC should be limited to 800 MW, in lieu of withdrawal of ToR of Lohara coal block. Any other issues such as shortage of coal supply towards 520 MW linkage or change in law are not within the scope of the Committee.

The Committee has recommended the following formula to determine Compensatory Energy Charge.

Illustrative Example	Formula
Energy Charge for Lohara Portion as per bid assumption for respective year	A
Actual Energy Cost incurred for 800 MW capacity for respective year	B
Compensatory Energy Charge for 800 MW (C)	B - A

As there is single billing for entire contracted capacity under the PPA, the tariff for 1320 MW would be arrived at based on the revised tariff including compensation for

800 MW and retaining the tariff embedded in the bid stream for the linkage coal. (e.g. Rs. 1.53/kwh for FY 14), refer Section 6.4.

The compensation based on above formula shall be applicable from the commencement of PPA sales. The compensation amount for past period may be determined based on the decision of MERC subject to detailed audit of financials.

***Committee Recommendation*:**

- APML has also represented and submitted that it is incurring losses on capacity charges. As this is beyond the scope of the Committee, the Company may approach MERC in this respect. The scope of Committee is limited to evaluate and evolve mechanism to mitigate the hardship on account of energy charges corresponding to the Lohara captive coal block capacity of 800 MW only. In this regard, the Committee recommends to MERC to consider reimbursement of Compensatory Energy Charge towards actual hardship as per the mechanism and methodology for Compensatory Energy Charge explained in chapter 7 of the report.
- The Committee recommends that the Company should maintain cost accounting records as per statutory provisions and the same should be audited periodically.

1. BRIEF OVER-VIEW OF MERC ORDER

Case facts:

Petition No: Petition No. 68 of 2012

Date of last hearing: 3rd July 2013

Date of Order: 21st August 2013

Petitioner:

- Adani Power Maharashtra Ltd. (APML)

Respondent:

- Maharashtra State Electricity Distribution Co. Ltd (MSEDCL)

Case background:

The Adani Power Maharashtra Limited (APML) incorporated on 11 April 2007 is a subsidiary of Adani Power Limited, a public listed Company in India. The Company is implementing a coal based 3300 MW Supercritical Thermal Power Project at Tiroda, Maharashtra in three phases viz Phase I (2X660 MW), Phase II (1X660 MW) and Phase III (2X660 MW).APML has entered into PPA dated 8th September 2008 for supply of 1320 MW power to Maharashtra State Electricity Distribution Company Limited (MSEDCL) from Unit 2 of Phase I and Unit 3 of Phase II.

The present petition is concerned with sale of power through PPA dated 8th September 2008 to MSEDCL. Detailed chronology of events is enclosed in Annexure I and a brief of the PPA is as under:

(A) 1320 MW PPA dated 8th September 2008 with MSEDCL

MSEDCL issued Request for Qualification (RfQ) in November 2006 for procurement of power under Case I route of the Competitive bidding guidelines. APL, the holding company of APML, submitted a response to the RfQ on 3 February, 2007, based on which MSEDCL shortlisted APL for the RfP stage

In April 2007, MSEDCL issued the RfP. It obtained MERC's approval on certain modifications in the RfP and issued revised RfP on 16th February 2008. On 6th November 2007, Ministry of Coal (MoC) allocated Lohara West &Lohara Extension coal blocks to APL to meet the coal requirements of its 1000 MW power plant at Tiroda, Maharashtra. In response to the requirement of RfP to indicate the progress/ proof of fuel arrangements, APL indicated that Lohara (West) and Lohara (Extension) coal blocks would be used as source of fuel for 1000 MW. APL also stated that the balance requirement of fuel will be met by coal supply from CIL or its subsidiaries. APL submitted its bid on 20th February 2008, for supply of 1320 MW at levellised tariff of Rs. 2.6420/unit (comprising energy charges and capacity charges of Rs. 1.5887/kWh and Rs. 1.0533 /kWh respectively).

APL received approval of Terms of Reference (ToR) for Lohara coal blocks on 16th May 2008 from MoEF and its mining plan was approved on 23rd June 2008. APL was selected as the successful bidder and the Letter of Intent dated 29th July 2008 was issued in its favour by MSEDCL.

The PPA for supply of 1320 MW of power was signed between MSEDCL and APML on 8th September 2008.

(B) Subsequent developments

On 25th November, 2009, MoEF decided to withdraw the ToR as Lohara coal blocks were identified to be within the proposed buffer zone of the Tadoba Andheri Tiger Reserve (TATR). MoEF further recommended to the MoC for allocation of an alternate coal block for Tiroda TPS in lieu of Lohara coal blocks. After the withdrawal of ToR, APML applied to MoC for allocation of an alternate coal block on 3 December, 2009. Vide letter dated 2 January, 2010. APML informed MSEDCL, that the ToR in respect of Lohara coal blocks had been cancelled.

Between January 2010 and February 2011, APML made efforts to avail an alternate coal block or to reinstate the allocation of Lohara coal blocks by redefining the boundary & APML kept MSEDCL updated on the same from time to time. However, allocation of an alternate coal block has not been made by MoC as there is no policy in place for allocation of alternate coal block in lieu of cancellation of original coal block for environmental reasons. On 29th January 2010 and 8th April 2010, Standing Linkage Committee (Long Term) (hereinafter referred to as "SLC(LT)") authorised issuance of Letter of Assurance (LOA) by Coal India Limited (CIL) on tapering basis for the capacity of 660 MW and 140 MW respectively in accordance with provisions of New Coal Distribution Policy (NCDP).

Subsequently, APML approached the MERC through Petition No. 68 of 2012 on 16 July, 2012 and the prayer includes among others, revision of tariff and considering revised fuel cost for generation and supply of power.

Other Salient Points

APML has submitted that it participated in the MSEDCL bid with the premise that it will get captive coal from Lohara coal mine for 1000 MW and the coal requirement for balance contracted capacity will be met by CIL or its subsidiaries. Based on this, quoted levellised tariff of Rs. 2.6420/unit (comprising energy charges and capacity charges of Rs. 1.5887/kWh and Rs. 1.0533 /kWh respectively) was offered.

APML has informed that it believed that since the increase in mining costs at the Lohara coal mine would have been minimal, and would be offset by reduction in capacity charges over a period, the coal cost was predictable resulting in fixed tariff stream at the time of bid. Besides, the bidding documents did not enable bidding two separate tariffs from separate fuel source & considering that the major quantum i.e. 1000 MW was based on Lohara coal mine, no escalable component was quoted in the bid. Besides, the bidding parameters did not have any provision for quoting escalable tariff if blended coal was proposed to be used.

The submission of APML in the previous paragraph provides rationale/ reasoning for quoting non- escalable tariff.

MERC Analysis and Ruling

The Hon'able Commission has inferred from the provisions in the PPA and the Competitive Bidding Guidelines and as per Section 86 of the EA-2003, that it has the jurisdiction to adjudicate upon all the disputes between the generating company and the licensees with an option to refer any matter for arbitration. In its order dated 21 August, 2013, MERC has ruled that the PPA between MSEDCL and APML was signed based on a bid process and the responsibility of fuel tie-up rests only with APML. The Commission rejected the plea of APML that a force majeure event had occurred and stated that the sourcing of coal from Lohara extension coal blocks was an arrangement made by APML, without involvement of the procurer (MSEDCL). The PPA does not include any condition that it can be terminated if coal from Lohara coal block is not available. The Commission also ruled that the termination of PPA by APML was not correct on this ground.

The Commission also took note of the fact that expensive coal has to be arranged to generate and supply power to consumers of Maharashtra and therefore APML may incur financial losses in supplying power from Unit 2 and 3 of Tiroda TPS to MSEDCL at the Tariff quoted in the PPA, considering the present situation of coal supply for the project.

The Commission directed the formation of a Committee to look into the details of the case, evaluate the financial impact of non-availability of coal from Lohara Extension coal blocks on Units 2 and 3 of Tiroda TPS and accordingly, determine a compensatory charge to be provided to APML, if required, over and above the Tariff agreed in the PPA, for a limited period till the coal situation eases, subject to a periodic review by the parties to the PPA. The Commission directed APML and MSEDCL to constitute a Committee within 10 days from the issuance of the Order and that the Committee shall consist of Principal Secretary (Energy), Government of Maharashtra/Managing Director of MSEDCL, Chairman of APML, or their nominees, an independent financial analyst, an independent technical expert and an eminent banker of repute. The financial analyst, technical expert and the banker were to be selected based on mutual consent of APML and MSEDCL.

The Commission held that the Committee shall consider all the aspects highlighted in the Order and submit its final report outlining principles and on the precise mechanism for calculation of compensatory charge within three (3) months from the date of this Order. Once the Committee submits its report, the Commission will initiate proceedings to consider a final view on compensatory charge, if required.

The Commission observed that in the interim there is a need to intervene to ensure that the project continues to operate and supply power to the State and that there is a need to provide some temporary relief so as to ensure continuous supply of power to the State from the project, till such time as a final decision is taken on this matter. The Commission, while arriving at the decision considered significant issues involved in the present case, regarding the sanctity of contracts, Section 63 of EA-2003 and issues arising out of implementation of a 25 year long contract. Notwithstanding these, what has weighed with the Commission is the need to keep in mind the necessity to ensure reliable power supply to the consumers, prevent stranded assets and NPAs on the books of the lenders and boost investor confidence in the sector. A stranded asset is neither in the interest of the Generating Company nor in the interest of Consumers, lenders or the State.

The Commission felt that APML should also bear some burden arising due to its inability to firm up coal supply for Unit 2 and 3. Hence the capacity charges for interim relief have been computed by reducing 50% of Return on Equity as per the information submitted by APML. The capacity charge for the interim relief applying this principle worked out to Rs. 0.989 per kWh.

The Energy Charge is calculated based on tariff data available from PPA of units 4 and 5, which was concluded within 18 months from conclusion of the PPA for Units 2 & 3. Accordingly, an interim relief has been worked out at Rs 0.574 per kWh over and above existing first year tariff of Rs 2.55 per kWh (based on the levellised tariff of Rs 2.642 per kWh). Accordingly, interim relief worked out to Rs. 3.124 per kWh consisting of a capacity charge of Rs. 0.989 per kWh and energy charge of Rs. 2.136 per kWh.

The interim relief in the form of the above mentioned capacity and energy charges shall be applicable only for sale of power above the initial 520 MW (for which the FSAs have already been signed) supplied from Units 2 and 3 and shall be limited to the remaining 800 MW.This interim relief shall be applicable from the date of commercial operation and until 12 months from the date of the order. This direction of the Commission shall not alter any other terms and conditions of the above-mentioned PPA.

Subsequently in its Daily order dated 24th October, 2013 in the review petition No. 150 of 2013 filed by MSEDCL for review of MERC order dated 21st August 2013, the Maharashtra Electricity Regulatory Commission held that with respect to the prayer of MSEDCL for the stay of Order dated 21stAugust 2013 to the extent of payment of tariff at rate of Rs. 3.124 per kWh is concerned, the Commission directed that the part related to interim relief (tariff above the PPA rate) of the Order in Case No. 68 of 2012 will be kept in abeyance till Final Order of the Commission on the present review Petition & directed MSEDCL to expedite the consultative process for setting up of the Committee. APML has also conveyed its agreement for this arrangement.

Kind of relief to be granted

The Commission notes that Units 2 and 3 of the Tiroda TPS are already operational and supplying power to MSEDCL at a levellised Tariff of Rs. 2.64 per kWh. Prima facie, it appears that APML would incur significant financial losses by supplying power from Units 2 and 3 of Tiroda TPS at the quoted Tariff as per the PPA, which may lead to the project becoming a stranded asset. An operational asset becoming stranded does not serve the purpose of the stakeholders involved, i.e., Consumers, MSEDCL, Lenders or the State Government. The Commission notes that APML had been allocated a coal block for meeting part of its fuel requirements, but the ToR for the environmental clearance was withdrawn much later after it signed the PPA. The Commission also notes that MoEF and EAC have recommended an alternate coal block, looking at the circumstances under which the ToR for the Lohara coal blocks was withdrawn.

The next question that arises is whether the Commission has a role to play in such a situation. The Commission notes that Section 61 of EA-2003 deals with the principles that the appropriate Commission should consider while determining the Tariff which inter alia states that ***"safeguarding of consumers' interest and at the same time, recovery of the cost of electricity in a reasonable manner"***

Further, the Commission notes that the one of the objectives of the Tariff Policy notified by Ministry of Power is to ***ensure financial viability of the sector and attract investments.*** The Commission further notes that the National Electricity Policy also emphasizes the need for reasonable return to attract private sector investment in the power sector. The Commission further notes that the National Electricity Policy also emphasizes the need for reasonable return to attract private sector investment in the power sector and that a***n appropriate balance will have to be maintained between the interests of consumers and the need for investments.***

As can be inferred from the above, the EA-2003, Tariff Policy and National Electricity Policy stress upon the fact that it is not only necessary to protect the interest of the consumers, but also ensure recovery of cost of generation in a reasonable manner. **The Commission believes that the recovery of cost of generation in a reasonable manner not only serves the interest of the Generating Company and its stakeholders including lenders, but also ensures that the consumers" interest is protected considering the long-term goal of sustainable development. A stranded asset is neither in the interest of the Generating Company nor in the interest of Consumers, lenders or the State Government. Based on the above observations, the Commission believes that along with the objective of protecting the interest of Consumers, the Commission also needs to exercise its regulatory powers to prevent an operational generating asset from becoming stranded.**

The Commission has noted that APML has made several efforts to restore the coal supply arrangement but has not been successful till date. The Commission has further noted that APML has not been able to get an alternate arrangement of coal as the policy framework does not address the issue of giving an alternate coal block in lieu of a coal block being inaccessible due to environmental reasons. Looking at the need to set down the parties to a consultative process, the Commission has decided to form a Committee to look into the details of the case, evaluate the impact of withdrawal of ToR of Lohara Coal blocks on Unit 2 and 3 of Tiroda TPS and accordingly determine a compensatory charge to be provided to APML, if required. The compensatory charge agreed should be over and above the Tariff agreed in the PPA and should be admissible for a limited period till the event which occasioned such compensation continues to exist and should be subject to the periodic review by the parties to the PPA.

The Commission held that the Committee shall consider all the aspects highlighted in this Order, inter-alia, as outlined below and submit its final report outlining principles and on the precise mechanism for calculation of compensatory charge within three (3) months from the date of this Order:

- Impact of non-availability of coal from Lohara coal blocks on Unit 2 and 3 of Tiroda TPS, if APML continues to supply power at the quoted Tariff as per the PPA;
- Availability of coal from Lohara coal blocks in future considering options of under-ground mining and other alternative mining techniques;
- Availability of coal from an alternate coal block or long-term linkage in lieu of coal from Lohara coal blocks;
- APML accessing imported coal at a discount to market prices given their expertise as one of the largest trader of coal;
- Availability of coal by diverting coal from other projects of the group companies of APML;
- Separate coal accounting process for Unit 2 and 3 and audited data based on the same to be submitted by APML; and
- Reducing the impact through efficient operations, debt restructuring and other similar measures.

2. COMMITTEE PROCEEDINGS

Process Flow

As per MERC order dated 21st August 2013 in respect of the petition no. 68 of 2012 filed by Adani Power Maharashtra Ltd., the Commission directed APML and MSEDCL to constitute a Committee within 10 days from the issuance of the Order consisting of Principal Secretary (Energy), Government of Maharashtra/Managing Director of MSEDCL, Chairman of APML, or their nominees, an independent financial analyst, an independent technical expert and an eminent banker of repute. The financial analyst, technical expert and the banker will be selected based on mutual consent between APML and MSEDCL.

Direction by Government of Maharashtra

Government of Maharashtra (GoM) vide Resolution dated 9th December 2013, formed a Committee to look into the matter of finalizing Compensatory Charge in line with MERC Order dated 21st August, 2013. Cabinet constituted Committee of following personnel:

1. Mr. R M Malla (Committee Chairman & Eminent Banker), former Chairman IDBI Bank
2. Mr. K.P. Bakshi, Additional Chief Secretary (Planning), Government of Maharashtra
3. Mr. Ajoy Mehta, Principal Secretary (Energy), Government of Maharashtra and Managing Director, MSEDCL
4. SBI Capital Markets Ltd., Financial Analyst
5. Financial Analyst
6. Technical Consultant

First Meeting - 6th January 2014

Pursuant to the Government of Maharashtra (GoM) Resolution dated 9th December 2013, first meeting of the Committee was called on 6th January 2014 and all the appointed members were invited. The Committee was chaired by Mr. R M Malla. MSEDCL made a presentation on the present case and the broad points to be considered by the Committee were brought out. Since as per the Government Resolution (GR), company was not a member of this Committee, it was decided to call the company representative for further meetings as an invitee as and when required& also make a presentation in the next meeting. A financial analyst/technical expert was also required to be part of this Committee. The names of Dr. Satish Bagal (former Director of Accounts Treasuries, Government of Maharashtra) and Mr. C P Singh (former Director BHEL and Chairman of NTPC BHEL Power Project Company Private Ltd.) were finalized as financial analyst and technical consultant respectively. Further Mr. A G Karkhanis (former Executive Director, Legal, IDBI) was appointed to assist the Committee on legal issues. Further limited bids were called for the role of accounting due diligence. SBI Caps also made a brief presentation regarding the process followed in the case of the Committee constituted in the case of CGPL & APL with respect of CERC Committee headed by Shri Deepak Parekh &it was decided to follow the similar approach.

Second Meeting – 20th January 2014

Mr. R M Malla, chaired the meeting & welcomed all the members. The minutes of the previous Committee meeting dated 6th January were placed on record & accepted with some modifications.

Appointments of Consultants to the Committee were formalized.

Based on the bid submitted and the directives of Committee, it was decided to appoint M/s KPMG as Independent Accounting Agency. Their scope of work includes assisting the Committee in assessing the revenues from sale of power& cost of coal for the project under the PPA with MSEDCL. The fee being paid to all these consultants and independent auditor will be borne by MSEDCL which will later be shared between MSEDCL and APML on equal basis.

As per MERC Daily Order dated 9th January 2014 it was decided to invite representatives from APML as the permanent invitees to the Committee. Additional Chief Secretary (Planning) clarified that APML will become a permanent invitee, but they will not be a member of the Committee in line with GR dated 09.12.2013 and they would not be eligible to vote, etc.

Representatives of APML were also called in the meeting. They made a presentation covering background of APML project and underlying principles of the bid for capacity & energy charges were discussed. The sequence of events was highlighted emphasizing that the bid was submitted after allocation of the coal block & the PPA was signed after issue of Terms of Reference by MOEF. Details of fuel composition/arrangement at the time of bidding as well as applicable as on date were discussed. APML listed down a way forward and also suggested a formula of Compensatory tariff/Fuel Cost Adjustment charge.

Further, APML discussed its views on the aspects outlined by MERC in its order. The company reiterated that current scenario has adversely affected APML as well as the group companies who had so far supported by infusing additional equity in the power projects. This has also resulted in deterioration of the ratings of its group companies.

The Company was asked to give details of the assumptions taken at the time of bid submission. It was decided that the committee should examine the assumptions on which the bid was made and analyze the present situation on that basis.

The Chairman also asked the company to give an analysis of the various sources of imported coal being used and requested the technical consultant to explore the optimum coal mix within the technical constraints.

It was discussed that the normative availability for recovering of capacity charge as per the PPA is only 80%. Power beyond this normative availability may be sold to MSEDCL only at variable charge plus an incentive of 25 paise per unit as per the PPA. This will reduce the overall cost of power procurement from this plant.

Further itwas mentioned that the lenders of the project should also render their support by lowering the interest rates.It was brought to the notice that typically reduction in interest rate is accompanied by an improvement in the rating, which may be possible after the tariff is increased.

It was also decided that Mr. C P Singh & Dr. Bagal will visit the plant site. SBI Caps shall coordinate & circulate the list of information which may be required by them for the purpose of the analysis.

Third Meeting – 10th February2014

The Chairman welcomed all the members & participants. The minutes of the previous meetings were adopted. The scope of independent auditor was clarified and the KPMG representative was requested to ensure that all aspects as per the RFP are covered. The Committee also suggested that audit of financials may continue in parallel and may be concluded after submission of the report.

The Technical Consultant updated the Committee regarding the site visit & gave a brief presentation regarding various technical aspects regarding the project & the data gathered by him at the site visit & also based on subsequent visit to the Ahmedabad headquarters of the company. The committee requested Technical Consultant to also comment upon ideal coal mix blend for the plant based on design parameters. The company was also requested to provide requisite data in this regard for the analysis. Company representative also explained about the methodology of for deciding on blending ratio. SBI Caps briefed the Committee regarding the progress made so far& regarding meetings held between MSEDCL, APML representatives & SBI Caps to discuss the bid assumptions considered by the company. MSEDCL informed that all supporting documents for bid assumptions should also be made available to the Committee & consultants. It was informed that the value of compensation should be limited to the hardship portion (800 MW Lohara) only & also only till such time the hardship is continuing. SBICaps presented data regarding actual bid assumptions of the company, for the respective fuel sources of Lohara& Linkage portion considered when bidding. Possible options/principle for calculating the compensatory tariff was presented & the guidance of the Committee was sought regarding the approach. In this regard the company representative explained that while the energy cost quote was front loaded, the capacity charge quote was back loaded. This was done in order to satisfy the bid condition that the ratio of minimum and maximum quoted capacity charges should not be less zero point seven (0.7), and the ratio of minimum to maximum quoted energy charges shall not be less than zero point five (0.5) in case of captive mines.

Further the committee observed that, the current compensatory tariff mechanism will lay down the framework &principle, which will be laid down & applied on a year on year basis. The committee also deliberated on the approach & methodology to calculate past losses, and it was decided that subject to review by independent auditor, the same will be decided from date of commencement of supply under the PPA, on the same framework as may be decided by the committee. Activity list, way forward & timelines for consultant reports and draft committee report were also discussed.

Fourth Meeting – 17th February2014

The Chairman welcomed all the members & participants. The minutes of the last meeting was adopted with minor corrections. It was decided that the report shall finalized today after considering all the suggestions of the members. It was decided that KPMG may provide their preliminary report along with the Committee report as per the scope of their assignment. The audit exercise shall be completed in parallel & submitted at a later date. It was decided that the company be asked to maintain cost accounts & get the same audited strictly in accordance with the statutory requirements by an independent cost auditor of repute. The company has informed that a separate cost accountant has been appointed for the audit. Issues raised by MSEDCL in their letter of 15.02.2014 were with & the responses were discussed. It was decided that the letter & response of the Committee shall form part of the report. It was also decided that the reports of Technical Consultant, Legal Consultant & Auditor be taken on record along with the Committee report.

3. SCOPE OF THE COMMITTEE

Scope of the Committee

The Committee was formed pursuant to approval of Cabinet of Govt. of Maharashtra vide GR dated 9th December 2013, based upon MERC order dated 21st August 2013. As per the Government Resolution dated 9th December 2013 of Government of Maharashtra, constitution of the Committee was finalized.

As per MERC Order, the Commission has decided to form a Committee to look into the details, evaluate the impact of withdrawal of TOR of Lohara coal blocks on Units 2 and 3 of Tiroda TPS and accordingly determine a compensatory charge to be provided to APML, if required. The compensatory charge agreed should be over and above tariff agreed in the PPA and should be admissible for a limited period till the event, which occasioned such compensation, continues to exist and subject to periodic review by the parties to the PPA. Looking at the need to set down the parties to a consultant process, the Commission has decided to form a Committee to look into the details of the case, evaluate the impact of withdrawal of ToR of Lohara coal blocks on Unit no. 2 and 3 of Tiroda TPS and accordingly determine a compensatory charge to be provided to APML, if required. The Compensatory charge agreed should be over and above the tariff in the PPA and should be admissible for a limited period till the event which occasioned such compensation continues to exist and should be subject to periodic review by the parties to the PPA.

The Committee shall, after considering all the aspects as outlined below, submit its final report outlining principles and on the precise mechanism for calculation of compensatory charge:

- Impact of non-availability of coal from Lohara coal blocks on Unit 2 and 3 of Tiroda TPS, if APML continues to supply power at the quoted Tariff as per the PPA;
- Availability of coal from Lohara coal blocks in future considering options of under-ground mining and other alternative mining techniques;

- Availability of coal from an alternate coal block or long-term linkage in lieu of coal from Lohara coal blocks;
- APML accessing imported coal at a discount to market prices given their expertise as one of the largest trader of coal;
- Availability of coal by diverting coal from other projects of the group companies of APML;
- Separate coal accounting process for Unit 2 and 3 and audited data based on the same to be submitted by APML; and
- Reducing the impact through efficient operations, debt restructuring and other similar measures.

The Committee is also at liberty to suggest any further measures which can be practicable and commercially sensible to address the situation

a. Scope of work of Financial Analyst

The Committee appointed SBICAP as the Financial Analyst of the Committee and the scope of work of the Financial Analyst included:

- Due diligence of Project Documents of APML;
- Calculate the Compensatory package for APML using different methods proposed by the Committee;
- Present the study/analysis to the committee at regular intervals for guidance;
- Carry out sensitivity analysis of key parameters on the Compensatory Tariff.

Dr. Satish Bagal, Retd. Director of Accounts and Treasuries, GoM, was appointed to provide guidance to the Committee regarding the financial aspects.

b. Scope of work of Technical Consultant (Mr. C.P Singh)

It was decided that Mr. C.P. Singh, Ex-Director (Engineering and R&D) BHEL, would render technical assistance to the Committee to determine actual performance of the plant including all ancillaries and the reasons for any deviations from design parameters, assess the technical characteristics and operational parameters of generating stations based on EPC contracts with regard to design coal, analyze the impact of using Coal of different grades without affecting efficiency of generating stations, assess impact of use of such coals on parameters including Station heat rate, Auxiliary consumption, plant life, O&M cost, additional capex, other costs, etc. Provide an expert view on the possibility of under-ground mining and alternative mining techniques at Lohara Block and on quality of coal being supplied by Coal India Ltd. or its subsidiaries.

c. Scope of work of Legal Consultant (Mr. A. G. Karkhanis)

It was decided that Mr. Karkhanis, former ED and Legal Advisor IDBI Limited, would provide guidance with respect to Legal matters viz. scope of work of the Committee, assistance to other co-consultants, assistance in finalizing report ,assisting the committee in finalizing its recommendations and opining on legal tenability of Committee recommendations.

d. Scope of work of Independent Consultant (KPMG)

The independent consultant shall carry out the following work:

Review, audit and certify following:

- Financial Statements (Balance Sheet, Profit & Loss Account and Cash Flow Statement) of APML including detailed review of schedules and accounting entries.
- Profitability statements for power supply under the PPA and the invoices of coal supply to assess the cost of coal for the units supplying power under the PPA
- Revenue under the PPA for the period from COD (commencement of supply under PPA) till date.
- Data related to month wise units supplied, month wise revenues for supply under PPA with Maharashtra. KPMG will trace the units supplied and revenues to the underlying invoices and to the sales register.
- With respect to coal purchased for units supplying power under PPA, review of coal purchase with respect to - Quantity, Source and Delivered price for coal (Basic cost + Transportation Charges + Handling Cost + Financing Cost + Other Charges and losses)

- To assist and advise the Committee on such other matters as may be referred to by the Committee

It has been decided that KPMG shall review the above aspects and submit a report to the Committee. The audit and certification exercise may continue in parallel and be completed in due course and submitted to MERC.

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4. COMPANY ANALYSIS

This chapter covers the financial analysis of Phase I and Phase II of the Company. It may be observed that the Company has suffered significant losses resulting in depletion of net worth.

4.1. Financial Analysis- APML

APML started commercial operations in September 2012 when unit 1 of 660MW of Phase I was commissioned. Unit 2 of 660 MW of Phase I achieved commercial operation in March 2013. Subsequently, the Phase II (660MW) achieved commercial operations in June 2013.

A summary of the financial analysis of APML for the past 1 years and 9 months as per the audited annual report is as under: (Rs. Cr.)

FY ending [illegible]	[illegible]	[illegible]
Net Sales	338	2095
Other income (interest, sale of scrap and sale of mutual funds)	23	23
Total	**362**	**2118**
Expenditure		
Fuel Cost	189	1351
Employee Benefit Expense	5	39
Transmission, Admin and others	29	77
Total	223	1467
PBDIT	**139**	**650**
Depreciation &Amortization	125	420
PBIT	**14**	**230**
Finance Costs (Interest expense)	315	694
Profit before Exceptional items and Tax	-301	-463
PBT	**-301**	**-463**
Total Taxes (incl. Deferred taxes)	18	0
PAT	**-319**	**-463**
Gross Cash Accruals	**-176**	**-43**

FY ending March 31	2013	Dec 2013
EBIDTA Margin	41.14%	30.71%
PBT Margin	-88.81%	-21.88%
PAT Margin	-94.24%	-21.88%
Interest Coverage Ratio	0.05	0.33

*Source: *Audited Annual Reports, ** Provisional*

During FY12-13, total income of APML was Rs.362Cr. with EBIDTA of Rs. 139 Cr. and net loss of Rs. 319Cr. (cash loss of Rs.176Cr.). For 9 months ending 31st December 2013, total income of APML was Rs. 2117.5 Cr. with EBIDTA of Rs. 650.36 Cr. and loss of Rs.463.23 Cr. (cash loss of Rs. 43.22Cr.).

4.2. Credit rating- APML

The table below summarizes the CARE Credit rating enjoyed by APML for various long term bank facilities for a period of 1 year from Oct 2012 to Nov 2013 and from Nov 2013 onwards.

Year	Credit Rating
Oct 2012	BBB Negative
Nov 2013	BBB Negative

Typically, the credit rating of the company improves after commencement of commercial operations. However, rating agencies have kept the credit rating of the Company at the same level which can be attributed to its poor profitability and financial performance. The poor profitability and financial performance of the company has resulted in non-availability of sufficient funds for working capital. If the existing hardship of the Company continues, there may be further deterioration in performance as well as credit worthiness of the Company.

4.3. Overall Analysis: APML Phase I and Phase II

Set out below is the completed cost of Phase I and Phase II:

a. Capital Cost of Phase I and II

(Rs. Cr.)

Particulars	Phase I	Phase II	Total
Land, Site Development	38.89	24.31	63.20
Engineering, Procurement & Construction Cost (EPC)	6,914.34	3,009.24	9923.58
Mining Cost	0.81	0.00	0.81
Coal Transportation Arrangement	90.15	0.00	90.15
Water Arrangement	339.42	0.00	339.42
Township	58.40	0.00	58.40
Net other assets	4.74	213.01	217.75
Pre-operative Expenses	138.78	30.43	169.21
IDC	393.29	198.31	591.60
Contingencies	0.00	0.00	0.00
Total Project Cost	**7978.82**	**3475.30**	**11454.12**
Project Cost per MW	6.04	5.27	5.78

The capital cost as on 30 September 2013 as per Statutory Auditor Certificate dated 27 January 2014 is Rs. 7978.82 Cr for Phase I and Rs 3475.30 Cr for Phase II.

Actual Hardship from COD to 31st December 2013

The company commenced supply of power under the PPA with the commissioning of Unit 2 on 30th March 2013 and Unit 3 on14th June 2013.

Set out below is a brief snapshot of Profit and Loss statement for Phase I and Phase II project from SCOD till 31st Dec 2013. The table below shows the losses of about Rs. 318.70 Cr under 1320 PPA based on the Statutory Auditor Certificate for this period. A Copy of the certificate is enclosed as **Annexure VI** to this report.

(Rs. Cr.)

Particulars	**1320 MW PPA**
Sales (in MUs)	5582.57
Sales (Refer Note 1)	1604.11
Other income	0.29
Total Income	1604.40
Coal Cost (Imported)	676.67
Coal Cost (Domestic)	401.78
Coal Cost (Open Market)	85.02
Total Coal Cost	1163.47

Particulars	1320 MW PPA
Diesel / Other Secondary fuel	13.09
Total fuel cost	**1176.56**
Other Expenses	91.23
Depreciation	268.02
Total Expenses	1535.81
PBDIT	68.59
Other Income	13.93
PBIT	82.52
Finance costs	401.22
PBT (Refer Note 2)	**-318.70**
Hardship on account of Energy cost for PPA supply*	-357.28
Hardship on account of Capacity cost (w/o ROE) for PPA supply*	-133.98

Note 1: Includes Rs 129.00 Crores of Interim Compensatory Tariff as per MERC Order dated 21st August 2013 (Interim tariff is presently held in abeyance).

Note 2: Total Profit / (Loss) for the period from 1st April 2013 to 31st December 2013 without considering interim compensatory tariff is Rs. (447.70) Crs

Note 3: Out of total MUs sold under the 1320 MW PPA dated 8th September 2008 for supplying power from Company's Tiroda Power Plant, 1588.62 MUs are generated and sold from Unit 1 "as alternate source" under the PPA provision with prior written consent of MSEDCL. The above operating performance of power supplied under 1320 MW PPA includes revenue of Rs. 428.37 Crores and Fuel and Other Expenses of Rs. 381.17 Crores pertaining to units sold from Unit 1.

**Actual Energy Cost is Rs 2.08/unit for the 1320 MW PPA for period from 1st April 2013 to 31st December 2013 as against a quoted energy charge of Rs 1.44/unit for FY 2014. Actual Capacity cost is Rs 1.35/unit (includes Finance costs excluding ROE, Depreciation, Employee Benefit Costs, Administrative Costs, Repair & Maintenance expenses, Secondary Fuel Cost less other income) for the same period as against quoted capacity charge of Rs 1.11/unit.*

Source: Statutory Auditor Certificate (Subject to audit and certification by independent auditor appointed by the Committee)

APML is expected to incur losses not only on energy charges but also on account of capacity charges over quoted tariff. However, the scope of the Committee is limited to evaluate and evolve mechanism to mitigate the hardship on account of energy charges.

Conclusion:

It appears from the analysis above, that the Company is suffering financial losses currently due to under recovery of capacity and energy costs. As also submitted by the Company in the Petition, if the current operations of the Plant continue with imported coal, the networth of the Company may get eroded within next few years' time. In such a situation, the Company may be forced to shut down its operations rather than continuously incur losses. In such a scenario, the Company also runs the risk of lenders foreclosing and recalling the loans on account of deteriorating creditworthiness of the Company.

In view of above and the Commission's directive in order dated 21st August, 2013, a mechanism may be put in place for immediate mitigation of hardship and to avoid consequent repercussions on the Company enabling it to continue supply of power to the Procurer under 1320 MW PPA.

5. INDUSTRY ANALYSIS

This chapter sets out a comparison of APML with its peers to ascertain Company's competitive advantage over its peers. The comparison is with respect to the following areas:

- Capital Cost
- Variable cost per unit
- Recent bids

5.1 Capital Cost comparison

The capital cost of Phase I (Unit I and II) and Phase II (Unit III) is Rs.7978.82 and Rs. 3475.30 Cr as on 30 September 2013 as per Statutory Auditor Certificate dated 27 January 2014

Based on these total project costs, Per MW cost of the project approximates to Rs. 6.04 Cr. for Phase I and around Rs. 5.27 Cr. for Phase II respectively.

A comparison of project cost of APML- Phase I and Phase II with that of other comparable coal based power projects being currently developed are given below:

Completed Projects:

Project	Developer	Capacity (MW)	Cost (Rs. Cr.)	Cost (Rs. Cr./MW)	Remark
Jhajjar TPP, Haryana	CLP	1320	6398	4.85	Super critical
Warora TPP, Maharashtra	GMR	600	3948	6.58	Sub-critical
Maithon TPP, Jharkhand	Tata	1050	5232	4.98	Sub-critical

Under Implementation:

Project	Developer	Capacity (MW)	Expected Completion Cost (Rs. Cr.)	Cost (Rs. Cr./MW)	Remark
Chhattisgarh TPP	DB Power	1200	6533	5.44	Sub-critical
RKM Powergen TPP, Chhattisgarh	RKM	1400	7233	5.17	Sub-critical
Kanderai TPP, Orissa	KVK	1050	6300	6.00	Sub-critical
Bara TPP, Uttar Pradesh	Jaypee	1980	10780	5.44	Super critical
Rajpura TPP, Punjab	L&T	1400	9600	6.86	Super critical
Chhattisgarh TPP	GMR	1370	8290	6.05	Super critical
Amarkantak TPP, Chhattisgarh	Lanco	1320	7400	5.60	Super critical
Babandh TPP, Orissa	Lanco	1320	6930	5.25	Super critical
Vidarbha TPP, Maharashtra	Lanco	1320	8788	6.66	Super critical
Talwandi Sabo TPP, Punjab	Sterlite	1980	11000	5.56	Super critical
Mouda STPP Stage II	NTPC	1320	8190	6.20	Super Critical
Solapur STPP	NTPC	1320	9395	7.12	Super Critical
Lara STPP	NTPC	1600	11846	7.40	Super Critical
Kudagi STPP Stage I	NTPC	2400	15166	6.32	Super Critical
Barh STPP Stage II	NTPC	1320	7340	5.56	Super Critical
Bongaigaon TPP	NTPC	750	4400	5.87	Sub-

Project	Developer	Capacity (MW)	Expected Completion Cost (Rs. Cr.)	Cost (Rs. Cr./MW)	Remark
					Critical
Rihand STPP Stage III	NTPC	1000	6231	6.23	Sub-Critical

Source: Media Information / Market reports (Investor Presentations, ICRA Report, CARE Report etc.)

The costs of projects under implementation are expected to further rise. It may be observed from the above table; the cost per MW of APML Phase I & II Project is comparable with similar projects being set up by other companies.

5.2 Variable Cost comparison

An attempt has been made to ascertain the competitiveness of the power produced by APML- Phase I and Phase II. The latest Power procurement cost from Mahagenco Plants is as follows:

Sr. No	Plant	Capacity Charge (Rs/ kWh)	Energy Charge (Rs/Kwh)	Total Tariff (Rs/ kWh)
1	Bhusawal	1.01	3.48	4.49
2	Chandrapur	0.73	2.67	3.40
3	Parli	0.93	3.97	4.90
4	Khaperkheda	0.98	2.81	3.79
5	Koradi	0.97	3.52	4.49
6	Nasik	0.91	3.55	4.46
7	Paras Unit 3	2.09	2.01	4.10
8	Paras Unit 4	2.17	3.15	4.18
9	Parli Unit 6	2.09	3.15	5.24
10	Parli Unit 7	2.25	3.07	5.32
11	Khaperkheda Unit 5	2.44	2.80	5.24
12	Bhusawal Unit 4	2.13	3.39	5.52
13	Bhusawal Unit 5	2.13	3.39	5.52

Sr. No	Plant	Capacity Charge (Rs/ kWh)	Energy Charge (Rs/Kwh)	Total Tariff (Rs/ kWh)
14	Chandrapur Unit 8	1.73	3.70	5.43
15	Chandrapur Unit 9	1.70	3.23	4.93
16	Parli Unit 8	2.69	2.07	4.76
17	Koradi Unit 8	1.96	3.09	5.05

Source: MERC Order dated 12th February 2013 for MSPGCL MYT Business Plan

5.3 Evaluation of Recent Bids

In the last few years, various procurement processes have been initiated by Distribution companies under Case I Long term and Medium Term competitive bidding Process.

Details of the processes where PPAs were signed are set out below:

Procurer State	PPA term	Requisite Quantum (MW)	Tariff discovered (Rs/kWh)
Bihar	Medium Term	450	Rs. 4.41/ kWh
Tamil Nadu	Medium Term	450	Rs. 4.99/kWh
Tamil Nadu	Long term	1000	Rs. 4.91/ kWh
Andhra Pradesh	Long term	2000	Rs. 4.25/kWh
DNH	Long term	200	Rs. 4.62/kWh

Source: BERC Tariff approval Order, TNERC Medium Term tariff approval order, JERC Tariff approval order for DNH Long term etc.

Also, recent bids invited by Uttar Pradesh Power Corporation Limited (UPPCL) and Rajasthan DISCOMS under Case-1 (long term) indicated that the levelised tariff has been quoted by the bidders in the range of Rs. 4.4486/kWh to Rs. 7.100/kWh.

Bids were invited by UPPCL for 6000 MW. However, till date, LoI have been issued only to the following bidders:

Name of the Bidder	Quoted MW	Quoted Tariff
NSL-Odisha	300	4.48

PTC (TRN/ACB)	390	4.886
LancoBabandh	423.9	5.074
RKM Powergen	350	5.088

Source: Economic Times Article, Dec 2012

Bids were invited by Rajasthan for 1000 MW. Further, PPA signed between the DISCOM and successful bidders as under on 1st November 2013:

Sr. No	Name of the Bidder	Quoted MW	PPA Tariff (Rs./kWh)
1	Maruti Clean Coal and Power Ltd (PTC)	195	4.517
2	Diligent Power (DB Power) Ltd (PTC)	311	4.811
3	Lanco Babandh	100	4.89

Source: Rajasthan Rajya Vidyut Prasaran Nigam Ltd.

A summary of the state wise bids is reproduced in Annexure III for reference.

It is pertinent to assess the present bids in the light of changing business scenarios. The table below summarizes the various significant changes in some key parameters which are used in determining tariff vis-à-vis the year 2008 (i.e. when APML signed its PPAs):

	20th February 2008	Present
SBI PLR	12.50%	14.75%
MAT	10%	20.01%
Exchange rate	Rs. 40.15/ USD	Rs. 62/ USD
Domestic Coal related		
Pricing mechanism of Domestic coal	UHV basis, Number of declared grade: A to F	GCV (ADB) basis Number of declared grade: G1 to G13
Notified Basic Price of "F" grade Coal	Rs. 520 per MT	Rs. 700 per MT (34.62% increase over 2008)
Royalty	Rs. 55+ 5% of basic pithead price of ROM	14%ad-valorem on basic pithead price
Clean Energy Cess	Nil	Rs. 50/ton

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Central Excise Duty	Nil	6.18% calculated on amount including Royalty and Stowing excise duty
Railway freight related		
Pricing	Regulated	De-regulated, linked to diesel prices.
Busy Season Surcharge	5% on applicable base freight for busy season from 1st Oct 2007 to 31st March 2008 June	15% on applicable base freight rate for busy season from 1st Oct to 30th June
Service tax	Nil	3.71% (excluding 2% education cess and 1% higher education cess)
Development Surcharge	2% on normal tariff rate (basic plus busy season surcharge)	5% on Normal Tariff rate

As it is evident from the table above, the cost of investment including finance cost, costs of domestic coal and coal transportation has increased substantially. This corroborates the view that if performance of power supply obligations of APML under the PPAs in question is rendered impossible, new replacement supply arrangement is likely to be costlier.

Inference

Based on the above tariff structure, it may be inferred that the tariff of this PPA including compensatory charge is likely to be competitive.

6. BID ASSUMPTION/PRINCIPLES

6.1. Bidding parameters:

APML had made certain assumptions while bidding for power supply of 1320 MW from Tiroda. The cost assumptions were made considering that coal would be available from the captive mines at Lohara Block and from coal linkage. These cost assumptions are captured in this chapter.

The compensation, if payable, would depend on the cost assumptions. Many of the assumptions made by APML are substantiated by such documents as Mining Plan and Geological Survey while some estimates are made by the company.

In order to assess the prudency of bid basis and to restrict compensation limited to 800 MW affected by withdrawal of Lohara coal block, the Committee decided to analyze in detail the bidding basis which was considered by APML while quoting the energy charges under the PPA. For the purpose of the analysis in this report, the bid assumptions for only Energy Charges have been considered / analyzed.

The coal source assumed in the bid was Lohara coal block for 1000 MW and Linkage coal from SECL for balance 412 MW. The escalation rates for SECL fuel cost and transportation as well as for the Lohara coal were assumed as per respective CERC notified escalation rates at the time of the bid. The other parameters used to arrive at the bid nos. are as follows:

Source of Coal		Lohara Coal Blocks	SECL (Linkage Coal)	Source / Basis of assumption
Quantum Supplied	MW	1,000	412	
Normative Availability	%	80%	80%	As per PPA
Auxiliary Consumption	%	6.5%	6.5%	Company estimate; CERC (Tariff regulations 2004-09) for

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				subcritical is 7.5%
SHR	kCal/ kWh	2,350	2,350	Company estimate; CERC (Tariff regulations 2004-09) for subcritical is 2450
GCV	kCal/ kg	4,950	3,300	Geological Report by MECL (Lohara) / MERC Order, April 2007 (linkage)
SCC	kg/ kWh	0.47	0.71	Calculated Value
Fuel Cost Escalation	%	6.61%*	7.66%	CERC (Tariff regulations 2004-09)
Transportation Escalation	%	5.18%	5.18%	CERC (Tariff regulations 2004-09)
Unit Generation @80% NA	MUs	7,008	2,887	
Discount Factor		11.1%		As per bid documents

*the escalation has been assumed in the mining excavation costs on y-o-y basis

6.2. Lohara Coal Block

Lohara coal cost considered for bidding was taken at a transfer price. The transfer price determination for the entire tenure is illustrated through break-up of FY

2014 coal cost. The Lohara coal cost and transportation cost break-ups for FY 2014 are given in the following table:

Lohara Coal Transfer Price Calculations			
		Transfer price FY 2014	Remarks
Coal Mining Cost	INR/MT	45.00	Base price for 2011
Waste/OB Removal Cost	INR/BCM	50.00	Base price for 2011
Stripping Ratio	BCM/MT	12.17	As per Mining Plan
Mining Excavation Cost Escalation	%	6.61%	YoY from the base year of 2011
Cost of Excavation per tonne of coal	**INR/MT**	**791.84**	
Processing (crushing and washing cost	INR/MT	10.00	Company estimate
Other costs	INR/MT	7.00	Company estimate
Inland Transportation cost	INR/MT	10.00	Company estimate
Interest Cost	%	9%	Company estimate
Repayment		Annuity Method	Company estimate
Royalty	INR/MT	110.00	MoC Notification, 2007
ROE	%	14%	Company estimate
Total Other Costs	**Rs / MT**	**292.21**	
Total cost per tonne (Transfer Price)	**INR/MT**	**1,084.05**	For FY 2014

Transportation Charges			
		Transportation cost FY 2007	**Source / Basis of assumption**
Basic Freight	Rs/ MT	253.10	Railway Freight Table, 2006
Busy Season Surcharge @	Rs/ MT	12.66	Railway Rates Circular, Sep 2007

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Lohara Coal Transfer Price Calculations			
		Transfer price FY 2014	Remarks
5%			
Devl. Surcharge @ 2%	Rs/ MT	5.32	Railway Rates Circular, May 2007
Total Freight	Rs/ MT	271.07	Calculated Value
L/C, BG & Insurance charges @ 3%	Rs/MT	8.38	Company Estimate
Total Transportation (Incl. Handling losses @0.8%)	**Rs/MT**	281.71	Handling loss - CERC benchmark
Transportation Escalation	%	5.18%	From the base year of 2007

6.3. Domestic Coal Linkage

The Linkage coal considered in the bid was SECL 'F' grade coal. The detailed costing of the coal for the year 2007 is given in the table below. The escalation rates for SECL fuel and transportation were as per the CERC notified escalation rates during the bids.

Coal Cost			
		SECL (Base year 2007)	**Source / Basis of assumption**
Basic Cost (F Grade)	Rs/ MT	520.00	Coal price Notification, 2007
Royalty (55 + 5 % of basic)	Rs/ MT	81.00	Statutory Levy
Stowing Excise Duty	Rs/ MT	10.00	Statutory Levy
Sizing Charge	Rs/ MT	55.00	Coal price Notification

Surface Transportation Charges	Rs/ MT	40.00	Coal price Notification
Paryavaran and Vikas charges	Rs/ MT	10.00	Chhattisgarh Govt. Adhiniyam, 2005
Sub Total	Rs/ MT	716.00	
CST	Rs/ MT	21.48	Statutory Levy
Total	Rs/ MT	737.48	
Cost of coal incl. L/C & Insurance charges @ 3%	Rs/MT	760.29	Company estimate
Cost of coal incl. of Handling losses @0.8%	**Rs/MT**	**766.42**	**CERC Benchmark (Handling loss)**
Fuel Cost Escalation	%	7.66%	CERC benchmark
Transportation Charges			
Basic Freight	Rs/ MT	377.00	Railway Freight Table, 2006
Busy Season Surcharge @ 5%	Rs/ MT	14.14	Railway Rates Circular, Sep 2007
Development Surcharge @ 2%	Rs/ MT	7.82	Railway Rates Circular, May 2007
Total Freight	Rs/ MT	398.96	
Loading and loading supervision	Rs/MT	100.00	Company

charges	.		Estimate
Total Freight	Rs/ MT	498.96	
L/C, BG & Insurance charges @ 3%	Rs/MT	15.43	Company estimate
Total Transportation (incl. Handling losses @0.8% and L/C, BG & Insurance charges)	Rs/MT	518.54	CERC benchmark
Transportation Escalation	%	5.18%	CERC benchmark

6.4. **Bid Streams**

Based on the above set of assumptions, APML had arrived at two different bid streams for each of the fuel source. The overall bid numbers were based on a weighted average of the individual streams.

Bid streams:

Rs/Kwh

Parameters\ FY	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18	FY-19	FY-20	FY-21	FY-22	FY-23	FY-24	FY-25	FY-26	FY-27	FY-28	FY-29	FY-30	FY-31	FY-32	FY-33	FY-34	FY-35	FY-36	FY-37
Year of PPA	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*	*21*	*22*	*23*	*24*	*25*
Energy charge for Linkage Coal (412 MW)*	1.44	1.53	1.63	1.73	1.85	1.97	2.09	2.23	2.38	2.53	2.70	2.88	3.07	3.28	3.50	3.74	3.99	4.26	4.55	4.86	5.20	5.55	5.94	6.35	6.79
Energy charge for Lohara Coal (1000 MW)*	0.94	0.83	0.86	0.90	1.01	1.06	1.11	1.22	1.28	1.34	1.39	1.47	1.55	1.63	1.72	1.64	1.73	1.83	1.93	2.04	2.04	2.19	2.31	2.45	2.58
Weighted Average Energy Charge for 1412 MW	1.08	1.03	1.08	1.14	1.26	1.33	1.40	1.51	1.60	1.69	1.78	1.88	1.99	2.11	2.24	2.26	2.39	2.54	2.69	2.86	2.96	3.17	3.37	3.58	3.81
Levellised Energy Charge for Linkage Coal (412 MW)	2.46																								
Levellised Energy Charge for Lohara Coal (1000MW)	1.23																								
Levellised Energy Charge for 1412 MW	1.59																								

**Includes a risk premium of 8 paisa / unit.*

All the above bid assumptions and supporting documents have been submitted to MSEDCL / Committee.

6.5. Quoted Stream under PPA

Clause 2.8.1.4 of Request for Proposal (RfP) is as follows:

Ratio of minimum and maximum Quoted total Capacity Charges during the term of PPA shall not be less than zero point seven (0.7) and this ratio shall be applied only at the Bid evaluation stage on the Quoted total Capacity Charges after duly escalating the Quoted Escalable Capacity Charge on the basis of the escalation rates specified in Clause 3.3.1.3.

In case where the Bidder offers to supply power using coal/ lignite from a captive mine, the ratio of minimum and maximum Quoted total Energy Charges during the term of PPA shall not be less than zero point five (0.5) and this ratio shall be applied only at the Bid evaluation stage on the Quoted total Energy Charges after duly escalating the Quoted Escalable Energy Charges on the basis of the escalation rates specified in Clause 3.3.1.3.

Capacity and energy charges derived from the assumptions mentioned above needed to be modified in order to comply with the above mentioned clause. Also, APML had to ensure enough liquidity to service debt repayment and interest cost in the initial years of the PPA tenure. This also necessitated revision of bidding stream. In view of above, APML modified the above stream and quoted the following Energy Charges in the Bid to achieve same levellised tariff:

Rs / Kwh

Parameters\ FY	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18	FY-19	FY-20	FY-21	FY-22	FY-23	FY-24	FY-25	FY-26	FY-27	FY-28	FY-29	FY-30	FY-31	FY-32	FY-33	FY-34	FY-35	FY-36	FY-37
Year of PPA	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
PPA Quote	1.44	1.44	1.44	1.44	1.44	1.46	1.48	1.50	1.52	1.54	1.68	1.70	1.51	1.57	1.64	1.89	1.96	2.03	2.11	2.19	2.28	2.36	2.45	2.55	2.65
Levellised Quote	1.59																								

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7. COMPENSATORY TARIFF

Based on the deliberations at the Committee meetings, discussions amongst Committee members, inputs and findings from various consultants, comments and views of MSEDCL and Company, it may be recommended that:

- A methodology may be formulated to compensate the Company for the prospective hardship on account of non-availability of coal from Lohara coal blocks.
- The Company may be compensated for losses on account of energy cost under-recoveries from commencement of supply of power under the PPA limited to 800 MW capacity based on the above methodology.
- In respect of hardship being expressed by the Company for the balance capacity and energy charge for 520 MW capacity under the PPA due to short supply of coal under FSA and for changes in law and reasons beyond the control of the company, the Committee felt that it is not within its scope and the Company may further approach MERC for the same.

While deciding compensation, it is necessary to remain within the scope of MERC order no. 68 of 2012 dated 21st August, 2013, which says that compensatory Charge is to be given only for hardship on account of withdrawal of ToR for Lohara Coal Block. Accordingly, the methodology being worked out has to take into account compensation only to the extent of actual energy cost incurred for coal in lieu of Lohara coal block.

Cost Accounting Records

As per the Annexure to Statutory Auditor report dated 4th May 2013, the auditor has observed that "We have broadly reviewed the cost records maintained by the Company pursuant to Companies (Cost Accounting Records) Rules, 2011 prescribed by the Central Government under Section 209 (1) (d) of the Companies Act, 1956 and are of the opinion that, *prima facie*, the prescribed cost records have been maintained. We have, however, not made a detailed examination of the cost records with a view to determine whether they are accurate or complete".

The Committee recommends that cost accounting records be maintained as per statutory requirements and the same be audited periodically.

Brief Introduction

In view of non availability of coal from Lohara coal block due to withdrawal of ToR by MoEF, the cost of production of electricity from the Power Plant has increased significantly which has rendered it commercially unviable to supply power to the MSEDCL at the PPA prices. APML has submitted that if it continues to use imported coal purchased at existing prices, its Net-worth would be eroded in next few years and the Project is at risk of lenders foreclosing and recalling the loans due to deteriorating creditworthiness.

APML has submitted that in such a situation, APML will be left with no option but to shut down the plant at the earliest, rather than continuously incur losses. APML has submitted that if the shutdown of Tiroda Plant is to be prevented, the only solution is to adjust or revise the tariff. Accordingly, APML has approached the Commission for mitigating the hardship on account of the non-availability of coal from Lohara block.

Reference may be drawn to paragraph 113 of the MERC order where the Hon'ble Commission has noted that APML would incur significant financial losses by supplying power from Units 2 and 3 of Tiroda TPS at the quoted Tariff as per the PPA dated 8 September, 2008, which may lead to the project becoming a stranded asset. An operational asset becoming stranded does not serve the purpose of the stakeholders involved, i.e., Consumers, MSEDCL, Lenders or the State Government. APML should be compensated to make the project commercially viable to operate and supply power to MSEDCL in terms of the PPA. The Hon'ble Commission further added that the adjustment in the tariff is in the interest of consumers, investors and power sector as a whole.

In this regard, the Hon'ble Commission has suggested that the Committee should examine the following points highlighted below:

- ✓ Impact of non-availability of coal from Lohara coal blocks on Unit 2 and 3 of Tiroda TPS, if APML continues to supply power at the quoted Tariff as per the PPA;
- ✓ Availability of coal from Lohara coal blocks in future considering options of under-ground mining and other alternative mining techniques;
- ✓ Availability of coal from an alternate coal block or long-term linkage in lieu of coal from Lohara coal blocks;
- ✓ APML accessing imported coal at a discount to market prices given their expertise as one of the largest trader of coal;
- ✓ Availability of coal by diverting coal from other projects of the group companies of APML;
- ✓ Separate coal accounting process for Unit 2 and 3 and audited data based on the same to be submitted by APML; and
- ✓ Reducing the impact through efficient operations, debt restructuring and other similar measures

Hon'ble Commission directed APML and MSEDCL to constitute a Committee to work out a compensation package. The compensation package, to be called 'Compensatory Energy Charge', could be variable in nature commensurate with the hardship that APML is suffering on account of the non-availability of Lohara coal block and/or which as affected its performance under the PPA.

The Hon'ble Commission insisted on a pragmatic way to make the PPA workable while ensuring supply of power to the consumers at competitive rates.

Committee Observations

Based on the deliberations at the Committee meetings, discussions amongst Committee members, inputs and findings from various consultants, it was discussed that if actual cost towards fuel cost incurred by the Company for procurement of coal in lieu of Lohara coal block is considered in the composite Energy charges, it would mitigate the hardship suffered by APML on account of under recovery of fuel cost. The bid stream for Lohara coal block portion was cross-subsidizing the energy cost of linkage portion.

In view of the above, following methodology was evaluated by the Committee for the purpose of formulating a compensatory tariff mechanism for hardship on account of non-availability of coal from Lohara coal blocks:

7.1. Compensation in lieu of hardship due to withdrawal of TOR for Lohara Coal block

The Committee felt that the principle of fixation of CEC should be simple to understand, transparent and reflect the true position. As per the methodology considered, the actual energy cost incurred for 800 MW capacity is compared with the energy charge arrived at based on APML's Bidding assumptions for Lohara Coal block portion. Whereas in respect of 520 MW balance capacity linked to CIL linkage, tariff for linkage embedded in quoted/bid tariff will continue to be under operation.

Particulars	Formula
Energy Charge for Lohara Portion as per bid assumption for respective year	A
Actual Energy Cost incurred for 800 MW capacity for respective year	B
Compensatory Energy Charge for 800 MW (C)	B – A

#As there is single billing for entire contracted capacity under the PPA, the tariff for 1320 MW would be arrived at based on the revised tariff including compensation for 800 MW and retaining the tariff embedded in the bid stream for the linkage coal (e.g. Rs. 1.53/kwh for FY 14), refer Section 6.4.

Rationale for Selected methodology

The Company had entered into a PPA based on the assurance of one of the instrumentality of GoI to provide the coal mine. Therefore, the other instrumentality of a state government may need to consider the fact of subsequent non-availability of coal mine. This fact has been acknowledged by MERC when it passed an interim order for CEC (presently kept in abeyance). The Committee also recognizes the above situation and has accordingly proposed a methodology for CEC.

The proposed mechanism for Compensatory Energy Charge will enable APML to recover cost which in turn will enable it to sustain its operations thus ensuring supply of contracted power to consumers.

The Company has informed that it is facing substantial under recovery of capacity related costs due to the actual capacity charges of the Project having increased beyond quoted capacity charges under the PPA mainly on account of unprecedented depreciation of currency, increase in interest rates, increase in IDC, etc. Since the hardship on account of capacity charges is not within the scope of committee, the Company may approach MERC for appropriate relief.

Considering the above facts and situations, it is recommended by the Committee that the compensatory energy charge be allowed to be paid to the Company based on methodology being recommended by the Committee.

7.2. Operationalization of Mechanism for Compensatory Charges

This section sets out the suggested mechanism to compensate the Company for mechanism to determine Compensatory Energy Charge to mitigate the hardship to the Company as per the mandate of the Committee.

a) Derivation of coal cost in lieu of 800 MW Portion

In order to operationalize the suggested methodology for CEC, it is essential to derive the weighted average cost of coal to be used / used in lieu of 800 MW portion of Lohara Coal Block. The Company was granted a tapering linkage for 800 MW in lieu of Lohara Coal block. However, it is important to note that under Tapering linkage, supply of coal is available only for 3 years from scheduled commencement of production from Lohara coal blocks. Also, such supply is available to the extent of 75%, 50% and 25% of ACQ in 1st, 2nd and 3rd year respectively. From 4th year, there will be no coal supply under tapering linkage. If it decided to compensate for the past losses of the Company, the fact that delay in COD also resulted in forefeiting advantages of tapering linkage also have to be taken into consideration. Also, the basic cost of coal attracts premium as decided by CIL. However, even with this premium, the landed cost of coal from tapering linkage is expected to be lower.

APML has informed that they have pursued the matter for conversion of tapering linkage to long term linkage, extension of Tapering linkage period and also supplying full quantum under LoA through various communications between Jan 2012 to Dec 2013. In SLC (LT) dated 04.10.2013, extension of tapering linkage was recommended for 1 year till May 2015. This will help in reducing actual coal cost for procurement of coal in lieu of Lohara Coal Block. The balance coal is required to be imported by APML or to be procured from other sources including E-Auction.

It is necessary to arrive at per unit cost of coal for Tapering linkage and Imported coal. Following section elaborates procedure to derive at fuel cost for Tapering linkage. Weighted average rate of coal for 800 MW portion for Lohara shall be derived based on weightage of capacity using respective coal type - Tapering linkage and Imported.

b) Coal Cost for Tapering Linkage

To derive at per unit fuel cost, it is essential to have sound basis for technical parameters for machine and quality consideration for tapering coal. As elaborated in report submitted by Technical Consultant, following parameters have been considered:

Parameter	Basis	Present CERC Norms
SHR	2358 kcal/kwh (as assessed by Tech Consultant) or actual, whichever is lowest	2380 kcal/kwh
Auxiliary Consumption	Design of 6.89% (as assessed by Tech Consultant) or applicable	6.5%

	relevant indices	change in source of coal to other country, relevant coal indices will be used.
Ocean Freight	Actual as incurred by the Company on the basis of Contracts.	Capped to freight index or guidance suggested by CERC
Transaction L/c and Insurance Charges	Actual as incurred by the Company, but will not be more than 3% of landed cost	This will include LC, Bank and financial charges and other transaction costs
Port handling Charges	On actuals	
Transit & Handling Losses	Actual or CERC norms, whichever is lower	
Transportation from Port to Tiroda TPP	Actual as incurred by the Company on the basis of Contracts.	On the basis of invoices, availability / capacity of port, Railway approval/connectivity for movement of coal from port etc.
Domestic Coal Procured from other sources i.e. e-auction, traders, inter-plant transfer, etc	On actual basis, duly certified by the Auditors, but the landed cost to be benchmarked / compared with landed cost of imported coal and e-auction coal. (landed cost in terms of GCV)	To be procured, if the cost of generation is lower than Imported coal
Loading supervision liasioning, co-ordination charges	Actual as incurred by the Company	Subject to determination by bidding or market norm

Based on above considerations, per unit cost of coal for Imported coal may be derived as follows:

Parameter	**Unit**	**Formula**

Specific Coal Consumption	kg/ kWh	A_i = SHR/ GCV
Specific Coal Consumption incl. Aux. Consumption	kg/ kWh	$B_i = A_i$ /(1-Aux. Consumption)
Cost of Imported coal	Rs/ kG	C_i
Cost of energy for Imported Coal	Rs/ kWh	$D_i = C_i \times B_i$

Based upon supply of tapering linkage coal or coal mix being used for 800 MW capacity, the effective cost of coal would be determined. The effective cost of coal will be calculated as follows:

$D^{\#} = a \times Dt + b \times D_i$

where a and b are the proportions of different coals in terms of heat value.

Further, it is necessary that the imported coal procured by the Company is a least cost options available at the time of procurement. As suggested by Technical Consultant, in order to opt for source of most optimized imported/market fuel source from commercial view point, there are various factors that need to be considered. While procuring imported coal, quality of such coal is required to be ensured depending upon following factors:

- Depending on the quantity and quality of domestic coal linkage received, quality of imported coal for balance requirement is to be selected in such a way that technical specification of blended coal is within 3331 to 4527 kcal/Kg, and close to design specifications to the extent possible.
- The source of such quality imported coal needs to be selected depending upon landed cost in termsof, per unit heat value of coal at plant.
- The decision for procurement of imported coal needs to be taken from time to time considering the various aspects such as Quality of Coal, FOB price of the

Origin County, Ocean freight, Availability / capacity of port and handling charges, Railway approval/connectivity for movement of coal from port etc.

The Compensation for the past losses incurred due to energy costs pertaining to 800 MW capacity of Lohara Coal block may be verified by the Independent Auditor based on the methodology suggested by the Committee.

7.3. Methodology for recovery of Compensatory Energy Charge

Compensatory Tariff to be recovered in the following manner:

1. Compensatory Energy Charge (CEC) to be charged in the monthly bill:

Based on the above mentioned formula, the Company shall calculate compensation for past period and raise the invoice to MSEDCL within15 days from MERC Order in this regard. The same shall be subject to audit by Independent Auditor. MSEDCL shall pay the amount so billed within 3 months in three equal installments.

For the period beyond date of MERC Order, APML shall prepare and raise monthly Invoice on the basis of actual cost of coal required to cater 800 MW portion by 2nd day of the next month. MSEDCL shall pay the same within 30 days from receipt of the same.

2. Reconciliation of CEC at the end of the Particular Year:

APML has to file a report with MSEDCL providing detailed calculation of actual energy costs incurred on the basis of principles/ mechanism laid down by the Committee. The report to be submitted must contain figures duly audited and authenticated by Company's statutory auditors. MSEDCL will approve the same within 15 days of the receipt of the same.

3. Truing up/ Reconciliation exercise:

On the actual energy charges being approved by MSEDCL, the Compensatory Energy Charge may be trued up. The truing up of CEC is to be done in a time bound manner (within 30 days). After trued up.CEC is approved, the difference between trued up and paid will be payable by MSEDCL to the Company or vice versa within 30 days from the date of approval.

In case of any deviation from the principle laid down by the Committee or in case of any dispute in interpretation of the said principles, aggrieved party shall approach MERC for adjudication of dispute.

Further the Committee recommends that all the figures used for determination of the Compensatory Charge should be subject to year on year audit, by a reputed auditor.

8. OTHER CONCERNS

This chapter deals with the suggestions made by MERC in Order dated 21st August, 2013 and the suggestions that came up during the Committee meetings. The impact of these suggestions/recommendations on Compensatory Tariff has been examined and the analysis and recommendations are as follows:

8.1 Sale of Power beyond target availability

As per the report of Technical consultant, the Units 2 and 3 can sustain an availability of 85% during the year. However, after discussion with site engineers, it may be inferred that availability may be improved to 90%.

Under the PPA, the Company has to sell all of the available contracted capacity to MSEDCL. MSEDCL shall pay full capacity charges at normative availability (80% as per PPA) and incentive shall be provided for availability beyond 80%. In case of availability being lower than normative availability, the capacity charges shall be payable on a proportionate basis in addition to a penalty to be paid by Seller. The details of incentive and penalty calculation as per PPA are as follows:

1. If and to the extent the availability for a year exceeds 80%, an incentive at the rate of 40% of quoted non-escalable capacity charges subject to a maximum of Rs 0.25 /kwh shall be allowed.

2. In case availability for a year is less than 75%, a penalty at the rate of 20% of simple average capacity charge for all months of the year applied on energy corresponding to difference between 75% and the actual availability.

In case MSEDCL procures the additional 10% units from the plant, there will be significant benefit in per unit tariff being paid by MSEDCL. A table showing saving in Rs per kWh for each 1% increase in availability over normative availability is as follows:

Availability	Normative Availability	Incremental Availability	Weighted Average Capacity Charge	Saving per Unit
%	%	%	Rs/ kWh	Rs/ kWh
81%	80%	1%	1.10	0.01
82%	80%	2%	1.09	0.02
83%	80%	3%	1.08	0.03
84%	80%	4%	1.07	0.04
85%	80%	5%	1.06	0.05
86%	80%	6%	1.05	0.06
87%	80%	7%	1.04	0.07
88%	80%	8%	1.03	0.08
89%	80%	9%	1.03	0.09
90%	80%	10%	1.02	0.10
91%	80%	11%	1.01	0.10
92%	80%	12%	1.00	0.11
93%	80%	13%	0.99	0.12
94%	80%	14%	0.98	0.13
95%	80%	15%	0.98	0.14

As can be seen from the table above, there will be overall saving ranges from Rs. 0.01 to 0.14 per kWh based on actual Availability over normative availability. This will result in overall reduction in cost of power from the Units 2 and 3 of APML. However, the said reduction in cost will depend upon actual energy cost for incremental units being generated due to higher availability.

8.2 Power Producers may curtail their rate of return

Since the commencement of commercial operations of Unit 2 in March 2013, APML is facing hardship because of withdrawal of Lohara coal block and increase in capacity charges which is evident from P&L account submitted by the company for

FY 2013-14 till December 2013. The Company has suffered a loss of Rs. 318.70 Cr till 31st December 2013. This has significantly eroded the Networth of the company. If no relief is given to the company soon, the Networth will be completely eroded in the coming years and the project will be at risk of shutting down.

For APML Phase I and Phase II projects, there has been an increase in project cost majorly on account of increase in EPC cost on account of adverse currency movement and other factors. It is observed that the increase in project cost has already eaten away the complete return on equity for APML. Considering actual numbers till 31st December 2013, the total fixed cost is around Rs. 1.35 per unit (without ROE) as against the Capacity charge of Rs.1.11 per unit under PPA (for FY 13-14). The levellized capacity charges work out to be Rs. 1.05/unit.

The above calculations show that there is no room for reduction in Rate of return of Developer as there is currently no return being earned in the Project. However, as and when cumulative return (after adjusting past losses) increase beyond 15.5%, the same may be passed on to MSEDCL.

8.3 GOI should reduce the import duty on Coal and other taxes etc.

It is suggested that MSEDCL and APML may jointly continue to pursue all possible options with the concerned authorities for reduction in duties and taxes. The recommended mechanism for deriving Compensatory Tariff is comprehensive and variable in nature and if there is any reduction/removal of duty/taxes, benefits of the same will be embedded in methodology to derive Compensatory Tariff.

8.4 Other Options

As per MERC order dated 21st August 2013 in respect of the petition no. 68 of 2012 filed by Adani Power Maharashtra Ltd., the Committee has to examine the following aspects while outlining the principles and on the precise mechanism for calculation of compensatory charge:

1. ***Impact of non-availability of coal from Lohara coal blocks on Unit 2 and 3 of Tiroda TPS, if APML continues to supply power at the quoted Tariff as per the PPA***

   Due to non-availability of coal from Lohara, 800 MW capacity is presently running with a mix of coal from tapering linkage and imported coal. In case APML continues to supply power under the PPA at quoted energy charges, it would incur substantial losses in the next few years as a result of under-recovery in energy charges. The Company will become sick and may close down causing huge loss to all stakeholders especially depriving consumers of much needed power. Hence, a compensatory mechanism needs to be devised to recover the actual costs.

2. ***Availability of coal from Lohara coal blocks in future considering options of under-ground mining and other alternative mining techniques***

   The Committee notes that APML had submitted a proposal to use alternative mining techniques at Lohara Coal blocks. However, on 18th December 2013, MoC has issued a show-cause notice to APML mentioning non-achievement of milestones and potential de-allocation of the coal block. In view of these developments, this option seems prima facie not available.

3. ***Availability of coal from an alternate coal block or long-term linkage in lieu of coal from Lohara coal blocks***

   The Committee notes that APML has made several efforts with various agencies including MoC, MoEF, MoP, PMO, etc., to get an alternate coal block in lieu of Lohara Coal blocks or to reconsider the environmental clearance for Lohara coal blocks by redefining the boundaries.

   The Committee is of the opinion that appropriate government agencies may take steps to immediately allocate coal blocks/ mines of adequate reserves with a tapering linkage for 3-4 years, pending long term allocation of mines or coal linkage. The Company may arrange for washing the coal to meet the design parameters of their plants.

Due to the current policy framework where coal blocks are not allocated through a Govt. dispensation route to a private player, it may be difficult to have allocation of coal blocks/mines/tapering linkage to APML.

Further it is suggested that MSEDCL and APML jointly may continue to pursue all possible options with the concerned authorities including State govt. for coal allocation. The methodology to derive Compensatory Energy Charge is variable in nature and it will include the benefits for MSEDCL due to changes in coal costs arising from a change in fuel sources. The benefits of such lower cost should be passed on to MSEDCL.

4. ***APML accessing imported coal at a discount to market prices given their expertise as one of the largest trader of coal***

   The Committee acknowledged that imported coal prices is market driven and it is very difficult to avail preferential treatment. However, Adani group being the largest coal trader in India, in case there is any possibility to get any discount over benchmarked price of imported coal, the same may be pursued and benefits in this regard may be passed on to the MSEDCL.

5. ***Availability of coal by diverting coal from other projects of the group companies of APML***

   As submitted by APML, there is no additional linkage available in any of their other projects without having a PPA commitment. Therefore no advantage of diverting coal can be considered in the PPA under consideration.

6. ***Separate coal accounting process for Unit 2 and 3 and audited data based on the same to be submitted by APML***

As submitted by APML, separate coal accounting for Unit 2 and Unit 3 is being maintained.

The methodology being followed by the Company is as follows:

- Supply of 1320 MW power under the PPA dated 8th September 2008 is from the identified Units #2 and #3
- For Units #2 and #3 there is Tapering Linkage for 800 MW and long term coal linkage for the balance capacity.
- As per the existing policy, the coal supply under tapering linkage is only 25% for 2013-14 and the overall materialization of coal supply from CIL, both under the long term linkage and tapering linkage, is very low owing to the shortage scenario.
- As the Coal supply through Long Term Linkage and Tapering Linkage is not adequate, balance Coal requirement are met by procurement of Coal from alternate source such as Imported Coal, E-auction Coal & Open Market Coal.
- For Unit-wise Coal Accounting separate Cost Centres are created in the System. Separate Material Codes are created for Imported and Domestic Coal. Imported Coal material codes are further bifurcated into various type of coal. For Domestic Coal also, separate material codes are created for linkage, e-auction and Open Market coal.

Coal Accounting methodology currently followed from procurement till consumption is narrated in brief as follows;

- Coal Type-wise Purchase Order is created in SAP.
- For domestic Coal PO is created on Monthly basis and for Imported Coal same is created Vessel-wise.
- In Domestic Coal, quantity is taken based on FSA and Price is taken based on past invoicing. In Imported Coal both quantity and price is taken based on Contract for the concerned vessel.

- The various components of landed costs such as the price of coal, transportation cost, loading & unloading expenses etc. are incorporated in PO.
- Based on the type and quantity of Coal received, Goods Receipt Note (GRN) is prepared against each Purchase Order in SAP
- Separate feeders are used for Imported and Domestic Coal to measure the quantity of each type of Coal being used/fired
- Coal Consumption in the books of account for each type of coal is recorded on regular basis, using moving weighted average price of each type of coal.
- Reconciliation of physical and book stock is also carried out on quarterly basis.

7. *Reducing the impact through efficient operations, debt restructuring and other similar measures*

As submitted by APML, it is experiencing a higher capacity charge than quoted as a result of the following factors:

a) Adverse currency movement
b) Increase in interest rates
c) Higher working capital requirement for imported coal
d) Increase in interest during construction due to delay in availability of land, water, visa policy etc.

Due to the above factors, it is not able to realize the benchmarked Return on equity. However, the Committee recommends that interest reduction measures be pursued with the Project lenders and plant efficiency may be continuously improved in order to control the burden on all stakeholders.

8. *Optimum coal blend:*

In the given fuel supply scenario where Company has to use blend of Domestic and Imported coal, there is need to work out the optimum level of coal blending, which will support machines to operate at maximum efficiency with least possible fuel cost.

As per design parameters, the plant is in a position to use coal with GCV range of 3331 to 4527 kcal/Kg, with design value of 3927 Kcal/Kg. The studies suggest that coal supplies having tech specifications close to design coal specifications will give the efficient technical performance.

However, in order to opt for source of most optimized imported/market fuel source from commercial view point, there are various factors that needs to be considered. The company has submitted details regarding the same as per below:

Quality of Imported/market Coal: Quality of coal to be used to meet the shortfall against Lohara coal to be used depends upon following factors

- Depending on the quantity and quality of domestic coal linkage received, quality of imported coal for balance requirement is to be selected in such a way that technical specification of blended coal is within 3331 to 4527 kcal/Kg, and close to design specifications to the extent possible.

- The source of such quality imported coal needs to be selected depending upon landed cost in term of Rs per heat value of coal at plant.

- Landed cost of imported coal from various source countries depends on following factors:

    - Quality of Coal i.e. Calorific value of coal
    - FOB price of the origin county: A FOB price of coal having similar heat value varies from country to country. Various coal Indices provide FOB prices of various countries imported coal.

- Ocean freight: Ocean freight also varies from country to country, depending on distance and other market factors such as demand and supply of vessels in the region. For example, Ocean Freight will be higher from Australia than Indonesia, and during grain season in South America due to vessels shortage freight goes up.
- Availability / capacity of port and handling charges:
- Apart from distance there are other factors like capacity of the port etc. that impact selection of port for import of coal. Further, Port handling charges also vary from port to port.
- Railway approval/connectivity for movement of coal from port:
- Railway in their logistic plan decides traffic movement. Presently Railway has approved to import coal to Tiroda from West coast, despite the fact that Gangavarm port is located at less distance than any port on west coast. The ports on west coast are also left with no surplus capacity to handle additional cargos.
- The decision for procurement of imported coal needs to be taken from time to time considering the various aspects explained as above in such a way that it achieve least cost of generation.

Recommendations

As per technical consultant, suitable fuel source for blending would be of GCV 5000, 5700, 6300 kcal/kg from South Africa and GCV of 6300 (with 8% moisture) from Indonesia in ratio of 34% to 39% (in terms of heat value) depending on GCV of each variety.

The coal from South Africa is found to be better from technical angle as with specification nearer to Indian coal. One coal variety from Indonesia having GCV of 6300 kcal/kg and moisture of 8% is also found to be available for blending.

However, above calculations are illustrative and may vary depending on numerous factors not only limited to technical specifications of the machine. Hence, the source may be decided on case to case basis and along with consideration of market fluctuations in international coal sector and ocean freight annually.

8.5 Letter from MSEDCL

A letter dated 15th February 2014 was received from MSEDCL regarding their comments on the draft report circulated to the Committee members. The same is enclosed in Annexure VII. A response to the same is provided below:

Sr. No.	Query	Reply
1	**Contours of Compensatory Charge** As per the MERC directives, the Committee should look into the impact of non-availability of coal from lohara Coal Blocks and to determine the compensatory charge limited to 800 MW only.	This issue was discussed during the Committee meetings also. The Committee has analysed the impact of non-availability of coal from Lohara Coal block. The compensation has been worked out in such a way that the tariff corresponding to linkage coal is not altered. The 'Compensatory Energy Charge' (CEC) has been recommended limited to 800 MW only.
2	**Determination of Compensatory Charge through Bidding** In our view, the best way to determine compensatory charge is to conduct a competitive bidding process to discover tariff afresh with a pre-determined cap on	It may be noted, that as per the MERC order dated 21st August 2013, the scope of the Committee is limited only to look into the aspects regarding impact of withdrawal of TOR of Lohara Coal blocks on Unit no. 2 & 3 of Tiroda TPS and

	compensatory charge.	accordingly determine a compensatory charge to be provided to APML, if required. It is beyond the scope of the Committee to comment whether the CEC/tariff should be discovered by way of competitive bidding or any other method.
3	**Technical Parameters** The Financial Analyst SBI CAP has considered certain technical parameters for calculation of compensatory charge. MSEDCL is of the opinion that the technical parameters such as SHR, Aux. consumption, coal quality, coal cost etc. which are most optimal in terms of energy cost should be applied. **a. Station Heat Rate** In the report, SBI Caps has considered the SHR of 2350 kCal/kWh. As per the latest draft of CERC Tariff Regulations for the control period starting 2014, CERC has proposed a Design SHR of 2103 - 2247 kCal/kWh with margin of 4.5%. This margin is provided on	As per the section of 'Operationalization of mechanism for Compensatory Charge' of the report, technical parameters to be considered are based on the recommendations of Technical Expert& which are at par with existing regulations. The SHR based on the same is 2358 kcal/kwh. Further reliance on draft regulation may not be appropriate method, as the same is currently only at draft stage. Further it is understood that the CERC's proposal for allowing margin of 4.5% is in respect of plants achieving COD on or after 1.4.2014 not applicable to plants which have

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	account of degradation over the plant life. Therefore, in the initial years, the SHR for energy charge determination should be considered equal to the Design SHR. Further, it may also be noted that average SHR for the period FY09-13 for 500 MW subcritical units of NTPC is in the range of 2350 to 2375 kCal/kWh. As APML has installed super-critical power units of 660 MW, the SHR for APML units should be lower. Optimal SHR should be determined based on the above and the findings needs to be certified by Technical Expert to the Committee.	been commissioned earlier. Besides, the Committee has already recommended that in case SHR is lower than recommended by this Committee, the same will be considered for computation of compensatory tariff.
4	**Mine Related Assumptions** SBI Caps has not determined the quantum of compensatory charge on account of non- availability of coal from Lohara Coal Blocks. However, the report outlines the principles for determination of compensatory charge considering certain assumptions with regard to the mining cost and coal quality of the Lohara Coal Blocks. MSEDCL is	In the course of the various meetings held by the Committee and also based on discussions with the company, the assumptions related to mining cost, coal quality of Lohara Coal Blocks along with parameters such as GCV, Coal Production profile, Cost of mining, Capital expenditure on Mine development along with supporting documents have been submitted to the Committee and

	of the opinion that the mining parameters such as GCV, Coal Production Profile, Cost of Mining, Capital Expenditure on Mine Development which are verifiable, most optimal in terms of energy cost and in line with industry standards should be applied with certification by Technical Expert and Financial Analyst.	MSEDCL.
	a. Gross Calorific Value On perusal of the Geological Report for the Lohara Coal Blocks, the methodology of calculation of GCV appears to be unclear. SBI Caps may be asked to further elaborate the same to the Committee and clearly specify the GCV to be assumed based on the Geological Report of the Lohara Coal Blocks placed on record to the Committee.	The Gross Calorific value assumption regarding Lohara Coal blocks has been verified by SBI Caps from the Geological Report on Exploration for Coal (of Mineral Exploration Corporation Limited). As explained to the members of the committee, the average GCV is 4955 Kcal/Kg. The stated report has been circulated to the members of the Committee. Further the Technical consultant in his report has also commented upon this aspect.
	b. Coal Production Profile As submitted by SBI Caps, the production of coal from Lohara Coal Block for first two years is 1 MTPA and 3 MTPA respectively	It is understood that Company has submitted the mining assumptions to Committee. The coal production profile is as per the Mining plan. The cost of Coal has been worked out based on Year on Year production in

	after which mine reaches its peak rated capacity of 4 MTPA. Therefore, in the initial two years, the quantum of linkage coal (tapering or otherwise) required is higher. Thus, while determining the bid assumptions of APML, the fuel cost of power generated should be determined considering the year-on-year production rather than simply considering power being generated using coal from captive mine.	line with the Mining plan.
	c. Cost of Mining The estimates of mining cost (OB Removal and Coal Extraction Cost) depend upon various mine characteristics like year on year stripping ratio, average lead (in km), size of mining operations, equipment planned to be deployed etc. The above assumptions as considered by SBI Caps for the Lohara Coal Blocks should be in line with the mining plan and should be verified by the Technical Expert. The cost of OB Removal and Coal Extraction should be considered accordingly.	As per the bid assumptions of the Company, the rate of mining opex of Rs. 45 per MT and Rs. 50 per BCM is assumed by Company for the base year. The cost of Rs. 41.77 per BCM and Rs. 28.5 per MT of WCL having lead of 0.857 Kms and Rs. 1.359 per Kms, are representing operational cost as well as capital cost of equipment, therefore the same is not directly comparable with cost assumed by Company which represents only operational cost. It is understood that in addition to these costs certain other capital costs

	SBI Caps has submitted a work order from WCL for contract mining dated 12th February 2009 wherein cost of OB removal is quoted as Rs. 41.77 per Cubic meter and cost of coal removal is quoted as Rs. 28.50 per ton. It may be noted that the aforesaid work order is considering average lead of 0.85 km for 62.39 lakh cubic meter and 1.359 km for 5.32 lakh ton. However, as per the mine plan for Lohara Coal Blocks, the average lead distance is 5 km for OB Coal and 2 km for coal transport. This should be considered while calculating compensatory charge.	etc. are additional, which have been separately considered when calculating the cost of coal per tonne from Lohara.
	d. Associated Cost of Mine Operations These costs include processing, transportation and other costs. SBI Caps should confirm whether costs pertaining to sizing, surface transportation, loading/loading supervision costs, stowing excise duty and other mining related taxes/duties applicable are included in the associated costs. It may be noted that SECL charges Rs 105/MT for only sizing and surface	It may be noted that figures presented/circulated were only the bid assumptions of the Company. It may be important to add that individual cost differs from mine to mine and it is not possible to compare. Also the company has informed that part of these costs are also included under the head of mining costs, OB removal & other costs etc.

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	transportation charges whereas the total of all associated costs has been worked out by SBI Caps as only Rs 27 /MT.	
	e. Capital Expenditure on Mine Development Mine related assumptions like capital expenditure, debt:equity ratio pertaining to the Lohara Coal Blocks are not outlined in the report. For scientific estimation of mining costs, the draft report should outline the capital expenditure (initial and recurring) estimated along with justification with reference to the geological report and mining plan. Further, SBI Caps has considered EMI based debt servicing which is not a prevalent practice in project finance in India. Therefore, debt:equity ratio, repayment schedule and interest rates as per the financing agreements should be considered. In case, financing agreements are not available, conventional debt:equity ratio of 70:30 and equated repayment should be considered. Further, SBI Caps should also verify whether income	The financing assumptions for the mine are given by Company as per the assumptions taken at the time of bid submission. Analysis was also carried out with conventional project financing assumptions. This did not have any significant impact.

	tax on return on equity invested in the mine has been included in the cost of coal from Lohara Coal Blocks.	
5	**Cost of Coal Transportation from Lohara Coal Blocks** SBI Caps has considered railway freight as per railway freight notification dated 01-07- 2006. SBI Caps may verify whether any tariff revision or any change in classification of coal (Class 140 to 150 or vice versa) had occurred between 01-07-2006 and the date of bid submission. Further, the distance from mine to power plant should also be verified and certified.	As per extant notification, coal falls under the class 140 at the time of bid submission i.e. 20th Feb 2008. The class changed from 140 to 150 in Nov 2008.
6	**Alternate Coal Procurement** APML will need to use alternate coal (domestic and imported). Considering the number of options available for imported coal - both in terms of sourcing of coal and logistics - compensatory charge should be determined considering the most optimal source of imported coal (so as to achieve maximum efficiency) and the	The Committee has taken due care so that any inefficiency in coal procurement is not passed on in compensatory tariff.Accordingly, the Committee has suggested benchmarks of coal elements which will be compared with actual cost. The Committee has also suggested that in case actual cost is lower than benchmark, the actual cost will be used for computation of

	transportation route (so as to minimize sea freight, handling and inland transportation costs) .	compensatory tariff. The Technical Expert has indicated principles for deciding optimal coal blend; and the same has been summarized in the Committee Report also.
7	**Discount on Price of Coal** (a), The landed price of coal from Lohara Coal Blocks based on Bid Assumptions submitted by APML as determined in the report should be compared with (b) the landed price of coal from Lohara coal block as per mine plan, geological report, capital expenditure, actual financing arrangements etc. In case the landed price of coal as per (a) is lower than (b), then proportionate discount over the actual landed fuel cost should be considered while determining the compensatory charge.	It has been verified and found that landed price of coal from Lohara is estimated based on Geological Report and Mining Plan, etc.
8	**Nature of Compensatory Charge** It may be noted that the tariff quoted by APML was completely non-escalable. Therefore, in our view, non-escalable parameters should be applied while	It has been noted by the Committee that the escalation rates assumed by the Company for Linkage coal, Lohara coal and Railway transport were same as CERC notified rates. The Company had explained to the

	determining compensatory charge.	Committee that the bid format did not allow quoting tariff based on blended coal & hence it had quoted non-escalable tariff.
9	**Cap on Compensatory Charge** The recommended Compensatory Charge formula should be such that it provides a cap which will ensure that the tariff for this PPA including the Compensatory Charge is not higher than the L2 bidder in the said bidding process. However, if the Committee opines that the tariff including compensatory charge should be higher than L2, reasons and justification for the same should be recorded in the report.	It may not be appropriate to compare with L2 tariff as the cost of generation from each project differs due to various parameters& the Committee is not aware of such parameters for L2 bidder. The Committee has decided the principles for computation of Compensatory Charges based on the guidelines of MERC. In any case, the Report contains justifications for the principles considered in determination of Compensatory Charge.
10	**Year on Year Audit** The Committee should recommend that all the figures used for determination of Compensatory Charge must be audited by a reputed auditor.	As suggested, the same has been stipulated in the report.
11	**Coal Accounting Mechanism** The MERC has specifically directed the Committee to look into the coal accounting process for Unit 2 and	The Company has also submitted the procedure being followed for coal accounting. Independent Auditor may be requested to ensure that such

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	Unit 3 of APML's Tiroda TPS. Further, the Committee has already directed APML to maintain such separate coal accounts. It is submitted that the Committee should analyse the coal accounting process being followed currently and recommend any changes/improvements so as to ensure establishment of a scientific accounting method of consumption of various types of coal at Unit 2 and Unit 3.	procedure is analyzed by them & necessary suggestions for improvements may be incorporated.
12	**Billing Mechanism** The recovery period as well as billing mechanism for the compensatory charge has not been mentioned in the MERC Order. Clarity is required on the recovery period for compensatory charge. Therefore, Committee should recommend to the MERC to decide the recovery period along with the Billing Mechanism.	The Committee has suggested that the Company shall raise the claim for Compensatory Charge for past period within 15 days from MERC Order and MSEDCL to pay the same in 3 equal monthly instalments from the date of claim. MERC may take a suitable view in this regard.
13	**Applicable Taxes and Duties** In order to minimize the Compensatory Charge, the Committee should recommend to the Govt of India that taxes and	Appropriate recommendations have been incorporated in the report.

	duties applicable on coal mining, coal transport, coal import and/or power generation be reduced.	
14	**Discount on Interest by Lenders** As Procurer, we strongly feel that every stakeholder must come forward to make sacrifices to reduce the impact of compensatory charge. To this end, the Bankers must step forward to cut interest rates so that the compensatory charge may be minimised.	As submitted by the Company, it is experiencing a higher capacity cost than quoted as a result of the various factors which have resulted in under recovery of capacity charge. Further as per RBI guidelines any reduction in interest rate without commensurate improvement in other parameters/rating may be considered as restructuring. The Committee recommends that interest reduction measures be pursued with the Project lenders and plant efficiency may be continuously improved in order to control the burden on all stakeholders. Further, the Committee also recommends that in case cumulative actual ROE earned is more than regulated return allowed to generating companies, the incremental ROE will be passed on to MSEDCL in toto.
15	**Sacrifices need to be made by APML**	These issues have been covered in the report appropriately:

	a. Revenue from Higher Generation As per the provisions of the Schedule 6 of the PPA, an incentive at the rate of 40% of the Quoted Non-Escalable Capacity Charge subject to a maximum of 25 paise/kWh is allowed on the energy corresponding to the availability in excess of 80%. Considering the merchant power rates and an incentive of 25 paise/kWh, we feel that entire surplus power should be available to MSEDCL as per PPA. **b. ROE** Hon'ble MERC, while determining the interim tariff, directed that APML must sacrifice 50% of its return on equity on the project. MSEDCL submits that such sacrifice should be maximized.	a) Revenue from higher generation: Covered in the report under 'Sale of power beyond target availability; b) Company has informed that it has not been able to earn any ROE due to under recovery of capacity charge. The figures as on December 31st2013 have been verified from Statutory auditor certificate.
16	**Certification by Technical Expert** Verification of bid assumptions pertaining to efficiency of the power plant and the landed cost of coal from Lohara Coal Blocks forms the basis of determination of Compensatory Charge. As a result, the Technical Expert must verify all	Technical Expert has submitted a detailed report with recommendations and the same is included in the Committee Report.

	the aforesaid bid assumptions as well as the suggested mix/blend of alternate coal and certify that the same are in the best interest of MSEDCL and its consumers.	
17	**Certification by all Committee Members** In order to ensure transparency, each member of the Committee should submit an undertaking stating that no conflict of interest exists pertaining to this matter. Such an undertaking should be annexed to the report of the Committee. Further, the Committee should also ensure that the report is signed by Members of the Committee. In case any member chooses not to sign the report, the reasons for the same should be recorded by such member and it should form part of the report.	Such an undertaking was obtained at the time of appointment of members by the Committee.
18	**Independent Opinion on the Committee Report** Apart from Signing of the report (or otherwise) the Legal and Technical Experts should also provide their independent opinion on the Committee recommendations	Report from technical consultant has been received and may be annexed with the report of the Committee. Legal consultant has also provided his opinion on certain matters.

	which should be annexed to the report. It is submitted that the same shall facilitate in bringing out various aspects of the matter in a more elaborate manner.	
19	**Report by Independent Auditor** The Committee has appointed M/s KPMG as the Independent Auditor to audit and certify the financials of APML. In our view, the Committee should direct the auditor to complete their work before the MERC issues the final order in the matter.	Independent Auditor may be directed to submit their report at the earliest.
20	**Scope of the Committee** It is submitted that the Committee should avoid issues which are beyond the scope of what MERC has desired to be examined.	The Committee Report is confined to the Scope of Lohara Capacity of 800 MW and the issues raised in the MERC order.
26	**Tariff Determination under Section 62 or 63** The project was awarded to APML under Competitive Bidding as per the tariff guidelines issued by the Central Government. The MERC has adopted the Tariff pursuant to the provisions of the Section 63 of the Act. However, the compensatory	In line with the Scope of the Committee as laid down by MERC, only the principles to be adopted for computing the compensatory charge have been determined. Further, as per the MERC Order, the Compensatory Charge shall finally be approved by MERC.

	charge determined on the basis of landed cost of coal and design SHR tantamounts to tariff determination, at least to the extent of energy charges, pursuant to Section 62 of the Act. Therefore, MERC need to determine the additional compensatory charge every year which will be passed on to the MSEDCL. Further, MERC need to approve such expenditure on account of the additional compensatory charge in the ARR of MSEDCL. There is also a need to enable MSEDCL to call for renegotiations in case the project becomes unviable to the MSEDCL through appropriate provision in the final order. The Committee should consider this aspect while finalizing the report.	The mechanism for compensation has also been laid down under the chapter 'methodology for recovery of compensatory charge' which shall be approved by MERC. With regard to renegotiation in case the project becomes unviable and the steps to be taken by MSEDCL, the same may be addressed at the appropriate time.

8.6 Committee Recommendations– In a Summary

- The CEC satisfies the twin principles of simplicity and long term sustainability.
- Being dynamic in nature, the current compensatory package seeks to provide relief to APML;
- MSEDCL will be benefitted on reduction of imported coal prices and improvement in linkage coal supply.

9. ANNEXURES

Annexure-I (A) APML: Chronology of Events

Date	Event
17-Nov-06	MSEDCL initiated a two-stage bid process for procurement of 2000 MW power under Case 1 route of the Competitive Bidding Guidelines
03-Feb-07	APL submitted response to RfQ issued by MSEDCL
03-Apr-07	APL was shortlisted for RfP stage based on its response to RfQ
06-Nov-07	MoC allocated Lohara West &Lohara Extension coal blocks to APL
24-Jan-08	The Commission issued an Order in Case No. 38 of 2007 in the matter of Petition of MSEDCL seeking approval for deviations in the bid documents to be used for procurement of power through competitive bidding process under Case 1 route being conducted by MSEDCL
16-Feb-08	MSEDCL issued final RfP after revising the same based on the Commission's Order
20-Feb-08	APL submitted its bid for supply of power to MSEDCL mentioning Lohara captive coal block as fuel source and also attached the copy of the allocation letter for the coal blocks along with its bid
16-May-08	MoEF granted the ToR for Lohara coal blocks
23-Jun-08	Mining plan was approved
21-Aug-08	Rapid Environment Impact Assessment (EIA)/ Environment Management Plan (EMP) report was submitted
29-Jul-08	MSEDCL issued Letter of Intent (LoI) to APL based on the bid submitted by the latter in response to the RfP
08-Sep-08	APML, a subsidiary of APL, executed PPA with MSEDCL for supply of 1320 MW power from Tiroda power project based on the bid submitted by APL in response to RfP issued by MSEDCL
11-Sep-08	Public hearing for environmental clearance of Lohara captive coal block concluded

In the light of the above, the Compensatory energy charges method is applied to determine Compensatory Charge to the Company.

21-Oct-08	.APL submitted application for forest clearance for Lohara coal blocks
27-Oct-08	APML requested for tapering linkage in view of delay in forest clearance of Lohara West and Lohara Extension block
25-Nov-09	After considering the reports of the Government of Maharashtra (GoM) and of the National Tiger Conservation Authority, the EAC of MoEF, in its meeting held on 25 November 2009, decided to withdraw the ToR granted for the coal block, as Lohara coal mine project is located within the proposed buffer zone of the TATR. EAC also suggested for allocation of new coal block to APL.
03-Dec-09	APML applied to Ministry of Coal for allocation of an alternative coal block in lieu of Lohara coal blocks for which the ToR has been withdrawn by MoEF
02-Jan-10	APML informed MSEDCL that the ToR in respect of Lohara coal blocks had been cancelled and this has resulted in conditions akin to "force majeure"
07-Jan-10	MoEF informed APL regarding its decision of not considering Lohara coal blocks for environmental clearance and it has asked MoC to consider the allocation of an alternate coal block
Between January 2010 and February, 2011	APML made all possible efforts to avail an alternate coal block or to reinstate the allocation of Lohara coal blocks by redefining the boundary. APML kept MSEDCL updated on the same from time to time. However, allocation of an alternate coal block has not been made by MoC as there is no policy in place for allocation of alternate coal block in lieu of cancellation of original coal block for environmental reasons
29-Jan-10	Standing Linkage Committee (Long Term) (hereinafter referred to as "SLC(LT)") authorised issuance of Letter of Assurance (LOA) by Coal India Limited (CIL) on tapering basis for the capacity of 660 MW in accordance with provisions of New Coal Distribution Policy (NCDP) subject to the special milestones approved in the meeting in November 2008 and also conditions applicable in respect of

	projects recommended in the meeting
08-Apr-10	SLC(LT) authorised issuance of additional tapering linkage for 140 MW by CIL as per provisions of NCDP
22-May-10	APML again informed MSEDCL of its inability to supply power under the PPA in the scheduled time due to the withdrawal of ToR for Lohara coal blocks
14-Jun-10	APML intimated MSEDCL regarding the occurrence of force majeure under Article 12.3 of the PPA on account of withdrawal of ToR for Lohara coal blocks
14-Oct-10	APML requested MSEDCL to impress upon the GoM for allocation of an alternate coal block
23-Nov-10	APML intimated MSEDCL regarding its continuous efforts with PMO, MoEF, MoP as well as MoC for the request to consider the restoration of ToR by redefining the boundary of Lohara coal blocks and requested MSEDCL to impress upon GoM and GoI for allocation of alternate coal block or restoring ToR by redefining the boundary of Lohara coal blocks
16-Feb-11	APML issued notice to terminate the PPA citing the occurrence of "force majeure" on account of withdrawal of ToR for Lohara coal blocks and non-allocation of an alternate coal block despite all possible efforts
05-Mar-11	MSEDCL sought information against APML's letter dated 16 February, 2011. MSEDCL contended that the PPA cannot be considered to be terminated till the information sought is furnished by APML
15-Mar-11	APML clarified the queries raised by MSEDCL. APML also suggested reinstating the PPA with revision in quoted Tariff in such a way that impact of change in circumstances is mitigated
18-Jun-11	MSEDCL, at the behest of GoM, requested APML to provide information about efforts made to resolve the force majeure condition

20-Jun-11	APML informed MSEDCL about the various efforts made with PMO, MoC, MoP, GoM, MoEF, etc., for providing an alternate coal block in lieu of withdrawal of ToR for Lohara coal blocks or redefining the boundary of Lohara coal blocks
30-Aug-11	Considering the communications made by APML, MSEDCL sought comments regarding benefits of using imported coal with higher GCV for evaluating the impact on Tariff
04-Oct-11	APML furnished the details sought by MSEDCL for representing to GoM
17-Mar-12	By referring to the letter of GoM dated 18 February, 2012, MSEDCL stated that based on the opinion given by Advocate General, Maharashtra, force majeure clause cannot be invoked and hence, the request for revision in Tariff made by APML cannot be considered
19-Mar-12	In reply to MSEDCL's letter, APML sought the copy of the letter dated 18 February, 2012 by GoM along with the opinion of Advocate General, Maharashtra and conveyed that it would reply in detail in this matter after it has received the above
11-Apr-12	APML contended that the PPA stands terminated from 23 February, 2011 and MSEDCL has accepted the occurrence of force majeure event all along. APML requested MSEDCL to return the performance guarantee of Rs. 99 Crore submitted along with the bid

Annexure-II: Minutes of Committee Meeting (MoM)

MOM for Meeting held on 6thJanuary 2014

Composition of the Committee: A Committee has been formed pursuant to cabinet approval based upon MERC order dated 21st August 2013. As per the Government Resolution dated 9.th December 2013 of Government of Maharashtra, constitution of the Committee was finalized. First meeting of the Committee was called on 6th January 2014 and all the appointed members were invited. The members present at the meeting were Mr. K P Bakshi, Additional Chief Secretary (Planning), Government of Maharashtra, Mr. Ajoy Mehta, Principal Secretary (Energy) & Managing Director, MSEDCL, Mr. R M Malla, MD&CEO, PTC Financial Services and Mr. V G Kannan, Managing Director, SBI Caps. The meeting was also attended by representatives from MSEDCL & SBI Caps. The Committee was chaired by Mr. R M Malla, who welcomed all the invitees and thanked them for attending the meeting.

Presentation by MSEDCL: After the welcome and introductions, MSEDCL made a presentation on the present case inter alia covering;

- Explaining the bid process for procurement of power through competitive bidding route& the process of awarding the LOI & subsequent PPA with APML.
- The presentation also explained the chronology of events related Coal linkage &Lohara coal block.
- The MERC order dated 21st August 2012& the directions therein of MERC were discussed.
- MERC directed to constitute the Committee consisting of Principal Secretary (Energy)/Managing Director, MSEDCL, Chairman of APML or their nominees, an independent financial analyst, an independent technical expert an eminent banker of repute to look into the details, evaluate the impact of withdrawal of ToR of Lohara coal blocks on Unit 2 & 3 of Tiroda TPS & determine a compensatory charge over & above the quoted tariff to be provided to APML.

- MERC also provided interim tariff for one year to offset the losses being incurred by APML.
- The impact and additional financial burden to MSEDCL was discussed.
- Based on a review petition by MSEDCL, the interim tariff was kept in abeyance.
- The broad points to be considered by the Committee were brought out.

Shri R M Malla, Chairman of the Committee thanked MSEDCL for the presentation. He also mentioned that the Hon' Commission has clearly laid down the agenda for Committee &this shall serve as a reference to the members of the Committee.

Key Issues Discussed

While as per the order of MERC, representative from Company (APML) was also supposed to be a member of this Committee. However, the Company is not a part of this Committee as per the Government Resolution (GR). Company representative may be called as an invitee as and when required. MSEDCL informed that they shall seek consent from the Company regarding the same which will be duly communicated to MERC.

As per the GR, a financial analyst/technical expert is also required to be part of this Committee. It was decided that the Committee may go ahead and finalize these appointments. Reference was also drawn to similar process & appointments in a similar case with respect to CERC order regarding M/s Coastal Gujarat Power Ltd. (CGPL) &M/s Adani Power Ltd.'s (APL). In that case, an independent legal consultant and an independent auditor were also appointed to extend support in the whole process.

MSEDCL proposed the name of Dr. Satish Bagal (former Director of Accounts Treasuries, Government of Maharashtra) for the role Financial Analyst who will provide guidance to the Committee in the financial matters. For technical expert and legal consultant, names of Mr. C P Singh and Mr. A G Karkhanis were suggested respectively as they were part of the CERC committee also. All the members agreed to the appointment of these three persons.

Further it was also deemed necessary to appoint an agency for accounting due diligence of the financial statements of the generating units. For this job, names of reputed accounting firms were suggested like – M/s KPMG, M/s Price Waterhouse Coopers, M/s Ernst & Young, M/s Grant Thornton. It was decided to appoint one of these firms shortly for the required task.

It was decided that SBI Caps shall frame the "Terms of Reference" for appointment of Technical Consultant, Legal Consultant and Independent Auditor which will be circulated to all the Committee members to take their consent. It was decided that all these independent consultants as mentioned above will be appointed before the next meeting.

SBI Caps also made a brief presentation regarding the process followed in the case of the Committee constituted in the case of CGPL & APL with respect of CERC order under the chairmanship of Mr. Deepak Parekh. The methodology followed and the roles of various members and independent experts were explained. It was also mentioned that a core sub-group was constituted for financial analysis and finalization of report.

The Chairman noted that since there was already a framework available regarding the consultative process, it will serve as a precedent and he suggested that a similar process should be followed in this case also.

It was also decided to form a core sub-group comprising of Mr. Malla, Mr. V G Kannan and Dr. Satish Bagal to monitor the progress of the Committee on regular basis. Mr. D Wavhal, Director Finance, MSEDCL would be an invitee to this core sub-group as a coordinator from discom's side.

MSEDCL also requested the Committee take note of and instruct the Company to commence the process for separate coal accounting process for Unit 2 & 3, in line with the order of MERC.

It was also discussed that there will be many issues on which information or inputs will have to be sought from the Company. The Committee decided that in the next meeting, Company be called upon to make a presentation on their behalf. It was also mentioned that Company should be instructed to specifically cover their views regarding the points that MERC has asked the Committee to consider in the order amongst other things.

MOM for Meeting held on 20th January 2014

Mr. R M Malla, chaired the meeting & welcomed all the members. The minutes of the previous Committee meeting dated 6th January were placed on record & accepted with some modifications.

Appointment of Consultants to the Committee: The appointments of Mr. A G Karkhanis (Legal Consultant), Mr. C P Singh (Technical Consultant) and Dr. Satish Bagal (Financial Analyst) were formalized. Mr. Karkhanis also mentioned that his firm M/S India Law Services was associated in capacity as Lender's Legal Consultant for APML's Phase 1 project. However, since presently he is not associated with APML & there being no clash of interest, his appointment was accepted. The Committee also decided that each of them should get an honorarium fee of Rs 7.5 lakh plus applicable taxes for their services.

As per the directives of Committee, request for proposal was sent to four agencies viz. M/s KPMG, M/s Ernst & Young (E&Y), M/s Price Waterhouse Coopers (PwC) & M/s Grant Thornton, India to select Independent Accounting Agency. Out of these four firms, M/s KPMG & M/s Grant Thornton India had submitted their proposal before due date of submission i.e. upto 12.00 hours on 18.01.2014, M/s E&Y submitted the proposal by email on 19.01.2014 and M/s PWC submitted the proposal on 20.01.2014.The fee quotes received from these agencies are as follows:

S. No.	Agency	Quoted Fee (excluding service taxes)
1	KPMG	14 Lakh + Admin charges (3% of engagement fee) + OPE (capped at Rs 50,000)
2	Grant Thornton	Rs. 86 Lakh
3	E&Y	Rs. 75 Lakh + OPE
4	PwC	Rs. 14 Lakh + OPE

PwC had not submitted the required undertaking regarding conflict of interest & its bid was received after the specified deadline. Further, the overall quote of KPMG is capped to Rs. 14.92 Lakh after including engagement fee, admin charges and out of pocket expenses (OPE). However, OPE quoted by PwC was not capped. Therefore, it was decided to appoint M/s KPMG for this service. Their scope of work includes assisting the Committee in assessing the revenues from sale of power& cost of coal for the project under the PPA with MSEDCL. MSEDCL shall Issue the appointment letter to KPMG. The fee being paid to all these consultants and independent auditor will be borne by MSEDCL which will later be shared between MSEDCL and APML on equal basis.

MERC Daily Order dated 9th January 2014: The MERC daily order was read out to the Committee and it was decided to invite representatives from APML as the permanent invitees to the Committee. Mr. K P Bakshi clarified that APML will become a permanent invitee, but they will not be a member of the Committee in line with GR dated 09.12.2013 and they would not be eligible to vote etc.

Presentation by APML: Representatives of APML were also called in the meeting. They made a presentation inter alia covering;

- Background of APML project including total investments made, employment generated, power supplied to state of Maharashtra, impact on stakeholders etc.
- Underlying principles of the bid for capacity & energy charges. It was mentioned that energy charge charges were quoted at lower levels as coal availability from Lohara captive coal block was considered.

- The sequence of events & the important milestones were highlighted emphasizing that the bid was submitted after allocation of the coal block & the PPA was signed after issue of Terms of Reference by MOEF.
- Details of fuel composition/arrangement at the time of bidding as well as applicable as on date were discussed.
- APML discussed the efforts made for restoration of fuel arrangement and to optimize the fuel Cost
- Interim measures/relief received in form of allocation of tapering coal linkage etc.
- It was highlighted that even if an increase in energy charge is considered, the tariff of APML will continue to be more competitive as compared to recent bids in the case of TNEB, Rajasthan Discom& UPPCL& also latest tariff of Mahgenco's plants.
- APML listed down a way forward and also suggested a formula of Compensatory tariff/Fuel Cost Adjustment charge.

The company also mentioned that they are making efforts for increasing the current quantity of tapering linkage from 25% to 100%.

Further, APML discussed its views on the aspects outlined by MERC in its order which covered-

- Fuel mix currently being used by APML
- Efforts made by APML & the Adani Group to ensure interrupted supply of power using the group's expertise in imported coal at best available prices.
- No additional linkage is available in any the other projects over and above the PPA commitment.
- Separate coal accounting for Unit 2 & 3 is being maintained.

- Actual capacity cost is higher than the quoted capacity charge and APML is not realizing the benchmark RoE.

The company reiterated that current scenario has adversely affected APML as well as the group companies who had so far supported by infusing additional equity in the power projects. This has also resulted in deterioration of the ratings of its group companies.

The Committee also enquired if allocation of Coal mine was conditional at the time of bidding. APML mentioned that typically all coal allocations are conditional and as per the PPA, environmental clearance for MOEF was a condition subsequent and not a condition precedent.

The company was asked to give details of the assumptions taken at the time of bid submission. It was decided that the committee should examine the assumptions on which the bid was made and analyse the present situation on that basis.

The chairman also asked the company to give an analysis of the various sources of imported coal being used and he asked the technical consultant to explore the optimum coal mix within the technical constraints.

It was discussed that the normative availability for recovering of capacity charge as per the PPA is only 80%. Power beyond this normative availability may be sold to MSEDCL only at variable charge plus an incentive of 25 paise per unit as per the PPA. This will reduce the overall cost of power procurement from this plant. The company officials informed that plant is not run at higher PLF due to commercial reasons as the company was making losses on energy charge. The technical consultant was asked to explore the maximum availability and PLF that the plant may achieve.

Further it was mentioned that the lenders of the project should also render their support by lowering the interest rates. It was brought to the notice that typically reduction in interest rate is accompanied by an improvement in the rating, which may be possible after the tariff is increased. Mr. Mehta asked SBI Caps to initiate discussions and fix meetings with senior officials of Banks/Financial Institutions who are lenders to this project to explore such support.

It was also decided that Mr. C P Singh & Dr. Bagal will visit the plant site. SBI Caps shall coordinate & circulate the list of information which may be required by them for the purpose of the analysis. Further, the core sub-committee may meet to discuss on the option analysis if required. APML also agreed to cooperate and provide the necessary information at the earliest.

The meeting was closed with a vote of thanks.

MOM for Meeting held on 10th February 2014

Mr. R M Malla, chairman of the Committee welcomed all the members & participants. The List of participants is enclosed as annexure 1.The minutes of the previous Committee meeting dated 20thJanuary were placed on record &adopted.

Scope of Independent Auditor

It was brought to the notice of the Committee, that the scope of KPMG should be made very clear and they should cover all the aspects as mentioned in the RFP. The Committee advised KPMG representative to resolve the same. The Committee also suggested that audit of financials may continue and may be concluded after submission of the report.

Updates on Project Site Visit of Technical Consultant & Financial Analyst

It was informed to the Committee that Mr. C P Singh &Dr. Bagal had visited the project site on 26th& 27th January 2014. Mr. Singh gave a brief presentation regarding various technical aspects regarding the project & the data gathered by him at the site visit & also based on subsequent visit to the Ahmedabad headquarters of the company. He informed the Committee that large part of the data required data for analysis is collected & asked the company to provide the balance information at the earliest. His presentation inter alia covered-

- Salient features of the project & technical parameters of the equipment;

- Unit wise plant availability data;
- Turbine & station heat rate data;
- Design coal Specifications including data on best coal, worst coal & design/optimal coal mix for achieving maximum efficiency& auxiliary consumption at each of these levels;
- Weighted average cost of generation beyond 80% availability;
- Auxiliary power consumption.

Mr. Singh also mentioned that tests results were made available at various GCV blend of coal by the company. The committee requested Mr. Singh to also comment upon ideal coal mix blend for the plant based on design parameters. The company was also requested to provide requisite data in this regard for the analysis.

The company was also requested to provide details regarding Coal accounting process/methodology being followed.

In response to this, the company representative also explained to the Committee, the methodology based on which the actual blending ratio is being decided. The blending is being decided,with due regard to the design parameters, as well as based on the actual quality of coal being received for that period under linkage & tapering from SECL. Based on this, the actual quality of coal to be imported/used is being decided.

Discussion on progress made so far

SBI Caps briefed the Committee regarding the progress made so far. The members were also informed that between the current and previous meetings two rounds of meetings were held between MSEDCL, APML representatives & SBI Caps to discuss the bid assumptions considered by the company. MSEDCL informed that all supporting documents for bid assumptions should also be made available to the Committee & consultants. Mr. Mehta also emphasized that the value of compensation should be limited to the hardship portion only & also only till such time the hardship is continuing.

Further as per the principle laid down by MERC, the compensation shall be only for 800MW portion, irrespective of any changes in 520 MW portion.

SBICaps presented data regarding actual bid assumptions of the company, for the respective fuel sources of Lohara & Linkage portion considered in the PPA. Further possible options/principle for calculating the compensatory tariff were also presented& the guidance of the Committee was sought regarding the approach.

- Option 1: Comparison with the bidding stream based on the assumptions of the company.
- Option 2: Comparison with the quoted stream.

It was also brought to notice that both the options were neutral in NPV terms over the period of 25 years.

In this regard the company representative explained that while the energy cost quote was front loaded, the capacity charge quote was back loaded. This was done in order to satisfy the bid condition that the ratio of minimum and maximum quoted capacity charges should not be less zero point seven (0.7), and the ratio of minimum to maximum quoted energy charges shall not be less than zero point five (0.5) in case of captive mines.

Dr. Bagal asked the company officials to explain if any other non-financial parameters were considered when submitting the bid &enquired if it was possible to quantify this. The company officials responded to this by stating that APML is already leveraging on Adani Group's strengths as one of the largest coal importers to source coal in such a manner so as to achieve optimum sourcing of imported coal &blending.

Further the committee observed that, the current compensatory tariff mechanism will lay down the framework &principle, which will be laid down & applied on a year on year basis.

Determination of Past losses

The committee also deliberated on the approach & methodology to calculate past losses, and it was decided that subject to review by independent auditor, the same will be decided from date of commencement of supply under the PPA, on the same framework as may be decided by the committee. The past losses shall be verified by the Independent auditor.

It is informed by the Govt. nominees that Committee Report shall be sent to the Govt. of Maharashtra for approval/comments. Therefore the Govt. nominees shall sign the report only after such approval/acceptance is received.

Activity list, way forward & timelines for consultant reports and draft committee report:

A discussion was held regarding the activity chart for various consultants and it was decided that concerned parties shall endeavor to complete their analysis and submit their views by 13.02.14, so that the committee can have the inputs for finalizing the draft report by 15.02.14.

The meeting was closed with a vote of thanks.

MOM for Meeting held on 17th February 2014

Mr. R M Malla, chairman of the Committee welcomed all the members & participants. The minutes of the last meeting was adopted with minor corrections.

It was decided that the report shall finalized today after considering all the suggestions of the members. Further, it was decided that KPMG may provide their preliminary report along with the Committee report as per the scope of their assignment. Further, the audit exercise shall be completed in parallel & submitted at a later date.

In the light of some observations that were made by the statutory auditors of the APML, Dr. Bagal enquired about auditor's observations whether cost accounts are being maintained & whether any cost audit is being carried out. It was decided that the company be asked to maintain cost accounts & get the same audited strictly in accordance with the statutory requirements by an independent cost auditor of repute. The company has informed that a separate cost accountant has been appointed for the audit.

The Committee received a letter from MSEDCL regarding their comments on the draft report. These issues were dealt with by the Committee & the responses were discussed. The letter & response of the Committee shall form part of the report.

It was also decided that the reports of Technical Consultant, Legal Consultant & Auditor be taken on record along with the Committee report.

The meeting was closed with a vote of thanks.

Annexure-III: Recent results of Case I bids and tariff

Bid type	State	Bidder	MW	Fuel Type	Levelised Tariff	Period
Medium Term	Tamil Nadu	JPL	200	Captive Coal block	4.91	1st Mar 2012 - 30th Sept 2017
		AEL	200	Blended	4.99	
		OPG	70	Imported	5.99	
Medium Term	Bihar	AEL	200	Blended Coal	4.41	1st Mar 2012 - 30th Sept 2017
		Sterlite	100	Domestic Coal	4.95	
		JPL	200	Captive Coal Block	5.16	
Medium Term	Kerala	PTC India- Balco	100	Domestic Coal	4.506	Mar'14-Mar'17
		NVVN	300	Domestic Coal	4.526	
		Jindal Power Ltd.	300	Captive Coal Block	4.543	
		Tata Power Trading	70	Domestic Coal	4.61	
		KSK Mahanadi Power Company Ltd.	200	Domestic Coal	5	
		KSK Wardha Power	120	Domestic Coal	5.356	
		Global Energy Pvt. Ltd.	25	Domestic Coal	5.892	
		Coastal Energen	150	Imported	6.041	
		JSW Power Trading	100	Imported	6.477	
		JSW Power Trading	200	Imported	6.815	
Long Term	AP	GMR	200	Domestic Coal	4.62	1st Oct 2012 - 31st Dec 2019
		Abhijeet	50	Domestic Coal	4.974	
		Balco	100	Domestic Coal	5.175	
Long Term	UP	NSL-Odisha	300	Domestic Coal	4.48	25 years
		PTC (TRN/ACB)	390	Domestic Coal	4.886	25 years
		LancoBabandh	423.9	Domestic Coal	5.074	25 years
		RKM Powergen	350	Domestic Coal	5.088	25 years
		KSK Chhatisgarh	1000	Domestic Coal	5.443	25 years
		PTC Moserbaer	361	Domestic Coal	5.73	25 years
		Navyug-Krishnapatnam	800	Imported Coal	5.843	25 years
		Indiabulls-Nasik	1200	Domestic Coal	5.97	25 years
		PTC-DB Chhattisgarh	203	Domestic Coal	5.97	25 years
		Jindal	300	Captive Coal Block	6.115	25 years

Bid type	State	Bidder	MW	Fuel Type	Levelised Tariff	Period
		Indiabulls-Amravati	600	Domestic Coal	6.3	25 years
		Lanco-Amarkantak	1072.5	Domestic Coal	6.303	25 years
		NCC	200	Blended Coal	6.425	25 years
		Lanco-Vidharbha	454.2	Domestic Coal	6.643	25 years
		PTC (East Coast)	300	Blended	6.819	25 years
		PTC (DB Power MP)	302	Domestic Coal	7.101	25 years
Long term	Raj	LBPL	100	Domestic Coal	4.943	25 years
		Athena Chhattisgarh Power Ltd	200	Domestic Coal	5.143	25 years
		SKS Power Generation Chhattisgarh Ltd	100	Domestic Coal	5.3	25 years
		LVTPL	100	Domestic Coal	5.49	25 years
		Anuppur Thermal Power Project	200	Domestic Coal	5.517	25 years
		KSK Mahanadi Power Project (Chhattisgarh)	475	Domestic Coal	5.572	25 years
		Jindal Power Limited	300	Captive Coal Block	6.038	25 years
		LAPML	100	Domestic Coal	7.11	25 years

Annexure–IV: Letter of Support from Govt. Of Maharashtra, dated 14th February 2007

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GOVERNMENT OF MAHARASHTRA

No. Project-2007/CR-700/NRG-4,
Industries, Energy and Labour Department,
Mantralaya, Mumbai 400 032.
Date :

To
M/s Adani Power Pvt. Ltd.,
Shikhar, 9th floor,
Near Mithakhali Six Roads,
Navrangpura,
Ahmedabad - 380 009.

Sub : Proposal for setting up 2000 MW Thermal Power Project at Tiroda, Dist. Gondia in Maharashtra State.

Ref : Your letter dated 16.1.2007, 19.1.2007 and 22.1.2007.

Sir,

You have forwarded details about your proposed thermal power plant at Tiroda, District Gadchiroli. On the basis of the details submitted by you, Government of Maharashtra is issuing "Letter of Support" to facilitate you to get various clearance from State and Central Government. Also this will help you in land acquisition process as well as for water and fuel tie up.

It is believed that you will take all required necessary action to commission the power project as early as possible.

"Letter of Support" is enclosed herewith.

Thanking you,

Yours faithfully,

Encl : One.

Deputy Secretary (Energy)
Government of Maharashtra.

CR700

GOVERNMENT OF MAHARASHTRA

No. Project-2007/CR-700/NRG-1,
Industries, Energy and Labour Department,
Mantralaya, Mumbai 400 032:
Date : 14 FEB 2007

Letter of support

Government of Maharashtra had, on 28th March 2005, declared a policy for encouraging Private Sector investments in power generation. Under that policy Government of Maharashtra (GoM) had announced a number of administrative and fiscal measures to support such projects. While the issue of extending fiscal support as announced under the policy for a further period beyond that stipulated under the policy is under consideration, GoM continues to provide the administrative support declared under the policy which is as follows :

Administrative Support

i) Land:

Govt. land wherever required for the project purposes will be made available at the ready reckoner rate but will include the cost of rehabilitation and reconstruction to be paid by the Developer. Land acquisition will be done by MIDC, if required.

ii) Single Window Clearance :

All the clearances will be provided to the investors by the Committee to be constituted under Chairmanship of Secretary Energy. Indicative time period for clearances related to the issues, under the purview of State Government shall be 45 to 60 days.

iii) State Govt. will facilitate

a) Creation/strengthening of all connecting infrastructure to the project site i.e. roads etc.
b) Right of way
c) The availability of water for the project.
d) Getting fuel linkage for the project.
e) Evacuation facilities for the project.

M/s. Adani Power Pvt. Ltd. have approached GoM for support under the policy for their 2000 MW project proposed to be set up at Tiroda in Gadchiroli district. On examination of all the papers submitted by M/s. Adani Power Pvt. Ltd. GoM is pleased to

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provide the administrative support as mentioned above to this project. This letter of support may kindly be treated as a request to all Central and State Government Ministries, Departments, Agencies, Authorities and Undertakings to provide the necessary support and cooperation to the above mentioned project as per their respective policies and procedures.

It may please be noted that above facilities are to be given for above mentioned power project only and cannot be utilized for any other purpose.

Deputy Secretary (Energy)
Government of Maharashtra.

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Annexure-V: GoM Resolution dated 9th December 2013

मा.महाराष्ट्र विद्युत नियामक आयोगाच्या
दिनांक २१.०८.२०१३ च्या आदेशानुसार
समितीवर राज्य शासनाचे प्रतिनिधी
नियुक्त करण्याबाबत.

महाराष्ट्र शासन

शासन निर्णय क्र. संकीर्ण २०१३/प्र.क्र.२२१/ऊर्जा-५
उद्योग, ऊर्जा व कामगार विभाग,मंत्रालय, मुंबई - ४०० ०३२.
दिनांक: ०९ डिसेंबर २०१३.

प्रस्तावना :

महावितरण कंपनीने मे.अदानी पॉवर महाराष्ट्र लि. यांच्या सोबत दिनांक ०८.०९.२००८ रोजी १३२० मे.वॅ. वीज रु.२.६४ प्रति युनिट या समतल दराने त्यांच्या तिरोडा प्रकल्पातील संच क्र. २ व ३ मधून खरेदी करण्याबाबत वीज खरेदी करार केला आहे.

२. मे.अदानी पॉवर महाराष्ट्र लि.ने दिनांक १६.०२.२०११ च्या पत्रान्वये लोहारा कोल ब्लॉक रद्द झाल्यामुळे, फोर्स मेज्युअर परीस्थिती उद्‌भवली आहे असे नमुद करुन वीज खरेदी करार रद्द करण्याची नोटीस दिली. त्यानंतर पर्यायी वीज दर वाढविण्यासाठी महावितरणला विनंती केली. महावितरणने मे.अदानी यांची विनंती नाकारली.

३. मे.अदानी पॉवर महाराष्ट्र लि. यांनी करार रद्द करण्यासाठी अथवा पर्यायी वीज दर वाढवून मिळविण्यासाठी महाराष्ट्र विद्युत नियामक आयोगाकडे याचिका दाखल केली.

४. महाराष्ट्र विद्युत नियामक आयोगाची शेवटची सुनावणी दिनांक ०३.०७.२०१३ रोजी झाल्यानंतर सदर प्रकरणी महाराष्ट्र वीज नियामक आयोगाने दि.२१.०८.२०१३ रोजी खालीलप्रमाणे आदेश दिले.

i) महावितरण व मे.अदानी पॉवर महाराष्ट्र लि. यांच्यामध्ये झालेला वीज खरेदी करार केस-१ Bidding process नुसार आहे त्यामुळे कोळसा उपलब्ध करुन घेण्याची जबाबदारी मे.अदानी पॉवर महाराष्ट्र लि. यांचीच आहे.

ii) लोहारा कोल ब्लॉकचा MOEF ने ToR रद्द केल्यामुळे फोर्स मेज्युअर अट लागू होऊ शकत नाही.

iii) विज खरेदी करार रद्द करण्याकरिता मे.अदानी पॉवर महाराष्ट्र लि. ने उपस्थित केलेल्या अन्य बाबीमध्ये तथ्य नसून ते समर्थनीय नाही. म्हणून महाराष्ट्र वीज नियामक आयोग असे आदेश देते की वीज खरेदी करार रद्द करण्याबाबत मे.अदानी पॉवर महाराष्ट्र लि. ने त्यांचे दि.१६.०२.२०११ चे पत्र रद्द झाले आहे.

iv) मे.अदानी यांची बँक गॅरंटी परत करण्याबाबतची विनंती अनावश्यक आहे.

v) तसेच वीज नियामक आयोगाने वीज दराबाबत खालील अंतरिम आदेश दिले आहेत -

अ) पुरक वीज दर वाढीसाठी समिती गठीत करणे

ब) सदर समितीमध्ये प्रधान सचिव(ऊर्जा), महाराष्ट्र शासन / व्यवस्थापकीय संचालक, महावितरण, अध्यक्ष मे.अदानी पॉवर महाराष्ट्र लि. किंवा त्यांचे प्रतिनिधी, स्वतंत्र वित्तीय विश्लेषक, स्वतंत्र तांत्रिक निष्णात आणि नावाजलेला बँकर राहील.

क) मे.अदानी व महावितरण यांच्या सहमतीने, स्वतंत्र वित्तीय विश्लेषक, स्वतंत्र तांत्रिक निष्णात आणि नावाजलेला बँकर यांची समितीवर नेमणूक करणे.

ड) संच २ व संच ३ चा ToR रद्द झाल्यामुळे होणाऱ्या आघाताचे मुल्यांकन करणे व मे.अदानी पॉवर महाराष्ट्र लि. यांना देण्यात येणारी पुरक वीज दर वाढ निश्चित करणे. सदर पुरक वीज दर वाढ, वीज खरेदी करारातील दराच्या व्यतिरिक्त व मर्यादित काळासाठी राहील.

इ) सुरवातीच्या ५२० मे.वॅट साठी पूर्वीच कोळसा खरेदी करार झाल्यामुळे त्याचा दर वीज खरेदी कराराप्रमाणे राहील व त्यावरील ८०० मे.वॅट साठी रु.३.१२४ प्रती युनिट असा अंतरीम दर राहील व सदर अंतरीम दर या आदेशापासून १२ महिने किंवा समितीने प्रस्ताव सादर केल्यानंतर चे महाराष्ट्र वीज नियामक आयोगाचे आदेश यापैकी अगोदर येईल तोपर्यंत राहील.

५. मा. महाराष्ट्र विद्युत नियामक आयोगाची याचिका क्र.६८/२०१२ च्या संदर्भात आदेश प्राप्त झाल्यावर महावितरणकडून सदर प्रकरण मंत्रीमंडळाच्या परवानगीसाठी खालील पर्यायांवर निर्णय घेण्यासाठी शासनास सादर केले होते.

पर्याय-१ : महाराष्ट्र विद्युत नियामक आयोगाने याचिका क्र. ६८/२०१२ च्या संदर्भात दिलेल्या दि.२१.०८.२०१३ च्या आदेशाला Appellate Tribunal (APTEL) पुढे आव्हान देणे.

पर्याय-२ :(अ) महाराष्ट्र विद्युत नियामक आयोगाने याचिका क्र. ६८/२०१२ च्या संदर्भात दिलेल्या दि. २१.०८.२०१३ च्या आदेशानुसार मे.अदानी पॉवर महाराष्ट्र लि.यांना देण्यात येणारी पुरक वीज दर वाढ ठरवण्यासाठी गठीत करण्यात येणा-या संभाव्य समितीवर प्रधान सचिव (ऊर्जा) / व्यवस्थापकीय संचालक महावितरण यांची नेमणूक करणे.

(ब) वरील गठीत करण्यात येणा-या समितीवर स्वतंत्र वित्तीय विश्लेषक, स्वतंत्र तांत्रिक निष्णात आणि नावाजलेला बँकर यांच्या नेमणूकी बाबत शासनाने निर्णय घेणे.

(क) महाराष्ट्र विद्युत नियामक आयोगाने याचिका क्र. ६८/२०१२ च्या संदर्भात दिलेल्या दि. २१.०८.२०१३ च्या आदेशातील अंतरिम वीज दर वाढीच्या आदेशाला Appellate Tribunal (APTEL) पुढे आव्हान देणे.

पर्याय-३: (अ) महाराष्ट्र विद्युत नियामक आयोगाने याचिका क्र. ६८/२०१२ च्या संदर्भात दिलेल्या दि. २१.०८.२०१३ च्या आदेशानुसार मे.अदानी पॉवर महाराष्ट्र लि.यांना देण्यात येणारी पुरक वीज दर वाढ ठरवण्यासाठी गठीत करण्यात येणाऱ्या संभाव्य समितीवर प्रधान सचिव (ऊर्जा) / व्यवस्थापकीय संचालक महावितरण यांची नेमणूक करणे.

(ब) वरील गठीत करण्यात येणा-या समितीवर स्वतंत्र वित्तीय विश्लेषक, स्वतंत्र तांत्रिक निष्णात आणि नावाजलेला बँकर यांच्या नेमणूकी बाबत शासनाने निर्णय घेणे.

(क) समितीला निर्देश देण्यात यावे की, वीज प्रवर्तकाला वीज निर्मितीसाठी लागणारी किमान आवश्यक रोख निधीची गरज भागविता येईल इतका किमान अंतरीम दिलासा देण्याविषयी समितीने लवकरात लवकर अंतरीम अहवाल सादर करावा.

दरम्यान मा.महाराष्ट्र विद्युत नियामक आयोगाने मे.अदानी संदर्भातील महावितरणची पुर्नविलोकन याचिका दाखल करुन घेतली असुन अंतरिम वीज दर वाढीस सदर पुर्नविलोकन याचिकेच्या अंतिम निकालापावेतो तात्पुरती स्थगिती दिली आहे. मा.आयोगाने दिनांक २४.१०.२०१३ च्या दैनंदिन आदेशामध्ये लवकरात लवकर समिती गठीत करण्याचे निर्देश दिले. तद्नंतर सदर प्रकरण पुनश्च मंत्रीमंडळापुढे खालील दोन पर्यायांवर निर्णय घेण्यासाठी सादर करण्यात आले होते.

पर्याय १ : मा.महाराष्ट्र विद्युत नियामक आयोगाने वीज पुरक दरवाढ ठरविण्यासाठी समिती गठीत करण्याच्या आदेशाला मान देऊन समिती गठीत करण्याचा निर्णय घेण्यात यावा. जर मंत्रीमंडळाने समिती गठीत करण्याविषयी निर्णय घेतला तर त्या समितीवर नेमणूक करण्यासाठी खालील सदस्यांची नांवे सुचविण्यात येत असुन जर मा. मंत्रीमंडळाने अन्य नावाचा विचार केल्यास त्याप्रमाणे नेमणूक करण्यात येईल.

अ. क्र.	सदस्यांचे नाव	समिती प्रतीनिधीत्व	तपशिल
१	श्री राजेंदर एम. मल्ला	अध्यक्ष (नावाजलेला बँकर)	माजी अध्यक्ष आयडीबीआय बँक
२	मे. एसबीआय कॅपीटल मार्केटस् लि.	वित्तीय विश्लेषक	सीईआरसीने नेमणूक केलेल्या अन्य एका समितीवरील सदस्य
३	श्री के. पी. बक्षी	प्रतीनिधी महाराष्ट्र शासन	अप्पर मुख्य सचिव(नियोजन), महाराष्ट्र शासन
४	श्री अजय मेहता	प्रतीनिधी महावितरण	प्रधान सचिव (ऊर्जा) तथा व्यवस्थापकीय संचालक - महावितरण
५		वित्तीय विश्लेषक तथा तांत्रिक निष्णात	
६	श्री राजेश अदानी	प्रतीनिधी मे.अदानी पॉ.महा.लि.	व्यवस्थापकीय संचालक अदानी समुह

महाराष्ट्र शासन अथवा महावितरण कंपनी यांचा मा.महाराष्ट्र विद्युत नियामक आयोगाने दिलेल्या पुनर्विलोकन याचिका (१५०/२०१३) संदर्भात दिलेल्या आदेशा विरुध्द अपील दाखल करण्याचा हक्क अबाधित ठेऊन वरील प्रमाणे समिती गठीत करण्यात येईल.

सीजीपीएल प्रकरणी वरील प्रमाणे प्रस्ताव मान्य केला होता.

पर्याय २: महाराष्ट्र विद्युत नियामक आयोगाने याचिका क्र. ६८/२०१२ च्या संदर्भात दिलेल्या दिनांक २१.०८.२०१३ च्या आदेशाला Appellate Tribunal (APTEL) पुढे आव्हान देणे.

अश्या प्रकारच्या कोस्टल गुजरात पॉवर लि.च्या बाबतीत सीईआरसीने पुरक वीज दर वाढ देण्याबाबत गठीत केलेल्या समितीमध्ये भाग घेण्यासाठी शासन निर्णय दिनांक २८.०५.२०१३ अन्वये प्रधान सचिव (ऊर्जा), महाराष्ट्र शासन / व्यवस्थापकीय संचालक, महावितरण यांची नियुक्ती केली होती.

वरील प्रस्ताव मंत्रीमंडळाच्या विचारार्थ ठेवला असता, मंत्रीमंडळाने सद्यस्थितीतील ऊर्जा क्षेत्रातील गरज लक्षात घेऊन व ग्राहकांचे हित लक्षात घेवून पुढील निर्णय घेतला.

शासन निर्णयः

मे.अदानी पॉवर महाराष्ट्र लिमीटेड बाबत मा. महाराष्ट्र विद्युत नियामक आयोगाने दिलेल्या समिती गठीत करण्याच्या आदेशाबाबत निर्णय घेण्याकरीता मंत्रीमंडळापुढे ठेवण्यात आलेल्या दोन पर्यायापैकी पर्याय क्र.१ ची मंत्रीमंडळाने निवड करुन त्यास खालीलप्रमाणे मंजूरी दिली आहे.

१. मा.महाराष्ट्र विद्युत आयोगाने वीज पुरक दरवाढ ठरविण्यासाठी समिती गठीत करण्याच्या आदेशाला मान देऊन खालील प्रमाणे समिती गठीत करण्याचा निर्णय घेण्यात येत आहे.

अ. क्र.	सदस्यांचे नाव	समिती प्रतीनिधीत्व	तपशिल
१	श्री राजेंदर एम. मल्ला	अध्यक्ष (नावाजलेला बँकर)	माजी अध्यक्ष आयडीबीआय बँक
२	मे. एसबीआय कॅपीटल मार्केटस् लि.	वित्तीय विश्लेषक	सीईआरसीने नेमणूक केलेल्या अन्य एका समितीवरील सदस्य
३	श्री के. पी. बक्षी	प्रतीनिधी महाराष्ट्र शासन	अप्पर मुख्य सचिव(नियोजन), महाराष्ट्र शासन
४	श्री अजय मेहता	प्रतीनिधी महावितरण	प्रधान सचिव (ऊर्जा) तथा व्यवस्थापकीय संचालक - महावितरण
५		वित्तीय विश्लेषक तथा तांत्रिक निष्णात	

२. मे.अदानी पॉवर महाराष्ट्र लि. यांच्या प्रतिनिधीचे नांव समिती सदस्य म्हणून कमी करण्यात येऊन त्यांना आवश्यकतेप्रमाणे बोलविण्यात यावे.

३. महाराष्ट्र शासन अथवा महावितरण कंपनी यांचा मा.महाराष्ट्र विद्युत नियामक आयोगाने दिलेल्या पुनर्विलोकन याचिका (१५०/२०१३) संदर्भात दिलेल्या आदेशा विरुध्द अपील दाखल करण्याचा हक्क अबाधित ठेऊन वरील प्रमाणे समिती गठीत करण्यास मान्यता देण्यात येत आहे.

४. हा शासन निर्णय महाराष्ट्र शासनाच्या www.maharashtra.gov.in या संकेत स्थळावर उपलब्ध असून त्याचा सांकेतांक क्रमांक **२०१३१२०५१५१०४६३९१०** असा आहे.

महाराष्ट्राचे राज्यपाल यांच्या आदेशानुसार व नावाने.

Ajay Mehta
(अजय मेहता)
प्रधान सचिव (ऊर्जा)

प्रति

१. मा.मुख्यमंत्री यांचे अपर मुख्य सचिव, मंत्रालय, मुंबई ४०००३२.
२. मा.उप मुख्यमंत्री यांचे सचिव, मंत्रालय, मुंबई ४०००३२.
३. मा.राज्यमंत्री (ऊर्जा) यांचे खाजगी सचिव, मंत्रालय, मुंबई ४०००३२.
४. सचिव, केंद्रीय वीज नियामक आयोग, नवी दिल्ली.
५. सचिव, महाराष्ट्र वीज नियामक आयोग, जागतिक व्यापार केंद्र क्र.१, कफ परेड, मुंबई-००५
६. सचिव, ऊर्जा मंत्रालय,भारत सरकार, नवी दिल्ली.
७. व्यवस्थापकीय संचालक, महाराष्ट्र राज्य वितरण कंपनी, प्रकाशगड,वांद्रे (पू),मुंबई ४०००५१
८. मे.अदानी पॉवर महाराष्ट्र लि.,अदानी हाऊस, मिठाखली सर्कल, नवरंगपुरा, अहमदाबाद-९.

Annexure-VI: Statutory Auditor Certificate on operational performance for period Apr 2013 to Dec 2013

C. C. Chokshi & Co.

11|C

C. C. Chokshi & Co.
Chartered Accountants
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Tel : +91 (79) 27582542
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REF: GJS/APML/2013-14/17

CERTIFICATE

Adani Power Maharashtra Limited (Registered office at "Adani House", Near Mithakhali Six Roads, Navrangpura, Ahmedabad – 380009), ("the Company") has informed to us that the Company is required to furnish the details of operating performance for Power supplied under **1320 MW PPA entered into with Maharashtra State Electricity Distribution Co. Ltd (MSEDCL) dated 8th September 2008 ('the 1320 MW PPA)** from the Company's Power Project at Tiroda during the period from 1st April, 2013 to 31st December, 2013, to the Committee formed for recommending Compensatory Tariff packages as per order of Maharashtra Electricity Regulatory Commission ("the MERC") in Case No.68 of 2012.

The Statement showing the details of operating performance for Power supplied under the 1320 MW PPA from the Company's Power Project at Tiroda during the period from 1st April, 2013 to 31st December, 2013 as per **Annexure A** attached herewith is prepared by the management of the Company. Our responsibility is to verify the evidence supporting the information given in **Annexure A.**

The Statement showing the details of operating performance for Power supplied under the 1320 MW PPA from Company's Power Project at Tiroda during the period from 1st April, 2013 to 31st December, 2013 as per **Annexure A** has been verified with the books of account (which books of account have not been audited) and other relevant records maintained and furnished to us by the Company. We conducted our verification in accordance with "Guidance Note on Audit Reports and Certificate for Special Purposes and Standards on Auditing" issued by the Institute of Chartered Accountants of the India.

Based on such verification and as per the information and explanations given to us by the Company, we certify that the details of operating performance for Power supplied under the 1320 MW PPA from the Company's Power Project at Tiroda for the period from 1st April, 2013 to 31st December, 2013 as per **Annexure A** (which is stamped and initialed for identification purpose), have been properly extracted from the books of account and other relevant records of the Company.

This certificate is being issued at the request of the Company for submission to the Committee formed for recommending Compensatory Tariff package as per order of MERC in Case No.68 of 2012 and should not be used for any other purpose without our prior written consent.

For C. C. Chokshi & Co.
Chartered Accountants
(ICAI Reg. No. 101876W)

Gaurav J Shah

Partner
Gaurav J. Shah - M. No. 35701

AHMEDABAD, 11th February, 2014

Annexure - A

Adani Power Maharashtra Limited

Operating Performance for Power supplied under 1320 MW PPA dated 8th Sept 2008 entered into with Maharashtra State Electricity Distribution Co. Ltd for the period from 1st April 2013 to 31st December 2013

Sr. No.	Particulars	Basis of Allocation		Amount (Rs In Crores)	Per unit Sold (In Rs)
1	**Income from Operations**		MUS		
	Revenue from Operations (Refer Note 1)		5582.57	1,604.11	2.87
	Income from Sale of Fly Ash	On the basis of Coal Consumption ratio		0.29	0.00
	Total Income from Operations			**1,604.40**	**2.87**
2	**Expenses**				
	(a) Fuel Cost:				
	Coal Cost (Imported)	On the Basis of actual expenses incurred	MMT 1.10	676.67	1.21
	Coal Cost (Domestic)	On the Basis of actual expenses incurred	MMT 2.17	401.78	0.72
	Coal Cost (Open Market)	On the Basis of actual expenses incurred	MMT 0.20	85.02	0.15
	Total Coal Cost	**On the Basis of actual expenses incurred**	**MMT 3.47**	1,163.47	2.08
	Diesel / Other Secondary Fuel Cost	On the Basis of actual expenses incurred		13.09	0.02
	Total Fuel Cost			1,176.56	2.10
	(b) Employee Benefit Cost	On the Basis of Units Sold		30.11	0.05
	(c) Administrative Cost	On the Basis of Units Sold		51.14	0.09
	(d) Depreciation	On the Basis of actual expenses incurred		268.02	0.48
	(e) Repair & Maintenance expenses	On the Basis of Units Sold		9.98	0.02
	Total Expenses			**1,535.81**	**2.74**
3	**Profit / (Loss) from Operations before other Income, Finance Cost and Tax (1 - 2)**			**68.59**	**0.13**
4	Other Income (other than Interest Income)	On the Basis of Units Sold		3.32	0.01
5	Interest Income	On the Basis of acutal Income		10.61	0.02
6	**Profit / (Loss) before Finance Cost & Tax (3+4+5)**			**82.52**	**0.16**
7	Finance Costs (Including Derivaive MtoM Loss)	On the Basis of actual expenses incurred		401.22	0.72
8	**Profit / (Loss) before Tax (6 - 7)**			**(318.70)**	**(0.56)**

Note:

1) Includes Rs 129.00 Crores towards Interim Compensatory Tariff.

2) Total Profit / (Loss) before Tax for the period from 1st April 2013 to 31st December 2013 without considering Interim Compensatory Tariff is Rs (447.70) Crores and Loss Per Unit Sold is Rs (0.79).

3) Out of total MUs sold under the 1320 MW PPA from Company's Tiroda Power Plant, 1588.62 MUs are generated and sold from Unit 1 as "alternate source" under the PPA provision with prior written consent of MSEDCL. The above Operating Performance of Power supplied under 1320 PPA includes Revenue of Rs.428.37 Crores and Fuel and Other Expenses of Rs.381.17 Crores pertaining to MUs sold from Unit 1.

For Adani Power Maharashtra Limited

C.C. CHOKSHI & CO. AHMEDABAD CHARTERED ACCOUNTANTS

Authorised Signatory
Anup
Date : 11th February 2014

91C

Annexure VII: Letter from MSEDCL dated 15.02.2014

71C

MAHAVITARAN (TM)
Maharashtra State Electricity Distribution Co. Ltd.
5th floor, Prakashgad, Plot No.G-9, Bandra (East), Mumbai – 400 051 (P) 26478643, (O) 26474211, Fax- 26580645
Email : cepp@mahadiscom.in, ceppmsedcl@gmail.com Website : www.mahadiscom.in

No.CE/PP/APML Comm. /**5316**

Date:**15.02.2014**

To,

Mr. Rajender M. Malla,
The Chairman ,
Committee for Compensatory Charge,
C/o: PTC India Financial Services Ltd.,
7th Floor, Telephone Exchange Building,
8 Bhikaji Cama Place,
New Delhi - 110 066.

Subject : Comments of MSEDCL on Draft Report submitted by SBICAP regarding Compensatory Charge in respect of APML.(Case No.68 of 2012)

Sir,

Adani Power Maharashtra Limited (APML) is a Generating Company within the meaning of Sec 2(28) of the Electricity Act-2003 and a subsidiary of Adani Power Limited (APL). APML has entered into agreement with MSEDCL for supplying 1320 MW power (from Unit 2 and Unit 3 of the said power station) from their Tiroda Thermal Power Station (Tiroda TPS), which has a total installed capacity of 3300 MW.

MSEDCL has signed the PPA dtd.08.09.2008 for supply of 1320MW power (from Unit 2 and Unit 3 of the said power station) under Case-1 Stage-I of the competitive bidding process conducted by MSEDCL as specified in the Competitive Bidding Guidelines for Procurement of Power issued by Ministry of Power, GoI and as approved by MERC.

The Hon'ble Commission vide its order dated 21st August 2013 in case no. 68 of 2012 and daily order dated 24th October 2013 in review petition no. 150 of 2013, with regard to adjudication of dispute u/s. 86 of the Electricity Act 2003, has directed to form a Committee to look into the details of the case highlighted in the order, evaluate the impact of withdrawal of ToR for the Lohara Coal Blocks on Unit 2 & 3 of Tiroda TPS and accordingly determine a compensatory charge to be provided to APML.

The Hon'ble Commission further directed APML and MSEDCL to constitute a Committee consisting of Principal Secretary (Energy), Government of Maharashtra / Managing Director of

4. Mine Related Assumptions

SBI Caps has not determined the quantum of compensatory charge on account of non-availability of coal from Lohara Coal Blocks. However, the report outlines the principles for determination of compensatory charge considering certain assumptions with regard to the mining cost and coal quality of the Lohara Coal Blocks. MSEDCL is of the opinion that the mining parameters such as GCV, Coal Production Profile, Cost of Mining, Capital Expenditure on Mine Development which are verifiable, most optimal in terms of energy cost and in line with industry standards should be applied with certification by Technical Expert and Financial Analyst.

a. Gross Calorific Value

On perusal of the Geological Report for the Lohara Coal Blocks, the methodology of calculation of GCV appears to be unclear. SBI Caps may be asked to further elaborate the same to the Committee and clearly specify the GCV to be assumed based on the Geological Report of the Lohara Coal Blocks placed on record to the Committee.

b. Coal Production Profile

As submitted by SBI Caps, the production of coal from Lohara Coal Block for first two years is 1 MTPA and 3 MTPA respectively after which mine reaches its peak rated capacity of 4 MTPA. Therefore, in the initial two years, the quantum of linkage coal (tapering or otherwise) required is higher. Thus, while determining the bid assumptions of APML, the fuel cost of power generated should be determined considering the year-on-year production rather than simply considering power being generated using coal from captive mine.

c. Cost of Mining

The estimates of mining cost (OB Removal and Coal Extraction Cost) depend upon various mine characteristics like year on year stripping ratio, average lead (in km), size of mining operations, equipment planned to be deployed etc. The above assumptions as considered by SBI Caps for the Lohara Coal Blocks should be in line with the mining plan and should be verified by the Technical Expert. The cost of OB Removal and Coal Extraction should be considered accordingly.

SBI Caps has submitted a work order from WCL for contract mining dated 12th February 2009 wherein cost of OB removal is quoted as Rs. 41.77 per Cubic meter and cost of coal removal is quoted as Rs. 28.50 per ton. It may be noted that the aforesaid work order is considering average lead of 0.85 km for 62.39 lakh cubic meter and 1.359 km for 5.32 lakh ton. However, as per the mine plan for Lohara Coal Blocks, the average lead distance is 5 km for OB Coal and 2 km for coal transport. This should be considered while calculating compensatory charge.

d. Associated Cost of Mine Operations

These costs include processing, transportation and other costs. SBI Caps should confirm whether costs pertaining to sizing, surface transportation, loading/loading supervision costs, stowing excise duty and other mining related taxes/duties applicable are included in the associated costs. It may be noted that SECL charges Rs 105/MT for only sizing and surface transportation charges whereas the total of all associated costs has been worked out by SBI Caps as only Rs 27/MT.

e. **Capital Expenditure on Mine Development**

Mine related assumptions like capital expenditure, debt:equity ratio pertaining to the Lohara Coal Blocks are not outlined in the report. For scientific estimation of mining costs, the draft report should outline the capital expenditure (initial and recurring) estimated along with justification with reference to the geological report and mining plan. Further, SBI Caps has considered EMI based debt servicing which is not a prevalent practice in project finance in India. Therefore, debt:equity ratio, repayment schedule and interest rates as per the financing agreements should be considered. In case, financing agreements are not available, conventional debt:equity ratio of 70:30 and equated repayment should be considered. Further, SBI Caps should also verify whether income tax on return on equity invested in the mine has been included in the cost of coal from Lohara Coal Blocks.

5. **Cost of Coal Transportation from Lohara Coal Blocks**

SBI Caps has considered railway freight as per railway freight notification dated 01-07-2006. SBI Caps may verify whether any tariff revision or any change in classification of coal (Class 140 to 150 or vice versa) had occurred between 01-07-2006 and the date of bid submission. Further, the distance from mine to power plant should also be verified and certified.

6. **Alternate Coal Procurement**

APML will need to use alternate coal (domestic and imported). Considering the number of options available for imported coal – both in terms of sourcing of coal and logistics – compensatory charge should be determined considering the most optimal source of imported coal (so as to achieve maximum efficiency) and the transportation route (so as to minimize sea freight, handling and inland transportation costs) .

7. **Discount on Price of Coal**

(a), The landed price of coal from Lohara Coal Blocks based on Bid Assumptions submitted by APML as determined in the report should be compared with (b) the landed price of coal from Lohara coal block as per mine plan, geological report, capital expenditure, actual financing arrangements etc. In case the landed price of coal as per (a) is lower than (b), then proportionate discount over the actual landed fuel cost should be considered while determining the compensatory charge.

8. **Nature of Compensatory Charge**

It may be noted that the tariff quoted by APML was completely non-escalable. Therefore, in our view, non-escalable parameters should be applied while determining compensatory charge.

9. **Cap on Compensatory Charge**

The recommended Compensatory Charge formula should be such that it provides a cap which will ensure that the tariff for this PPA including the Compensatory Charge is not higher than the L2 bidder in the said bidding process. However, if the Committee opines that the tariff including compensatory charge should be higher than L2, reasons and justification for the same should be recorded in the report.

10. **Year on Year Audit**

The Committee should recommend that all the figures used for determination of Compensatory Charge must be audited by a reputed auditor.

11. **Coal Accounting Mechanism**

The MERC has specifically directed the Committee to look into the coal accounting process for Unit 2 and Unit 3 of APML's Tiroda TPS. Further, the Committee has already directed APML to maintain such separate coal accounts. It is submitted that the Committee should analyse the coal accounting process being followed currently and recommend any changes/improvements so as to ensure establishment of a scientific accounting method of consumption of various types of coal at Unit 2 and Unit 3.

12. **Billing Mechanism**

The recovery period as well as billing mechanism for the compensatory charge has not been mentioned in the MERC Order. Clarity is required on the recovery period for compensatory charge. Therefore, Committee should recommend to the MERC to decide the recovery period along with the Billing Mechanism.

13. **Applicable Taxes and Duties**

In order to minimize the Compensatory Charge, the Committee should recommend to the Govt of India that taxes and duties applicable on coal mining, coal transport, coal import and/or power generation be reduced.

14. **Discount on Interest by Lenders**

As Procurer, we strongly feel that every stakeholder must come forward to make sacrifices to reduce the impact of compensatory charge. To this end, the Bankers must step forward to cut interest rates so that the compensatory charge may be minimised.

15. **Sacrifices need to be made by APML**

a. **Revenue from Higher Generation**

As per the provisions of the Schedule 6 of the PPA, an incentive at the rate of 40% of the Quoted Non-Escalable Capacity Charge subject to a maximum of 25 paise/kWh is allowed on the energy corresponding to the availability in excess of 80%. Considering the merchant power rates and an incentive of 25 paise/kWh, we feel that entire surplus power should be available to MSEDCL as per PPA.

b. ROE

Hon'ble MERC, while determining the interim tariff, directed that APML must sacrifice 50% of its return on equity on the project. MSEDCL submits that such sacrifice should be maximized.

16. Certification by Technical Expert

Verification of bid assumptions pertaining to efficiency of the power plant and the landed cost of coal from Lohara Coal Blocks forms the basis of determination of Compensatory Charge. As a result, the Technical Expert must verify all the aforesaid bid assumptions as well as the suggested mix/blend of alternate coal and certify that the same are in the best interest of MSEDCL and its consumers.

17. Certification by all Committee Members

In order to ensure transparency, each member of the Committee should submit an undertaking stating that no conflict of interest exists pertaining to this matter. Such an undertaking should be annexed to the report of the Committee. Further, the Committee should also ensure that the report is signed by Members of the Committee. In case any member chooses not to sign the report, the reasons for the same should be recorded by such member and it should form part of the report.

18. Independent Opinion on the Committee Report

Apart from signing of the report (or otherwise), the Legal and Technical Experts should also provide their independent opinion on the Committee recommendations which should be annexed to the report. It is submitted that the same shall facilitate in bringing out various aspects of the matter in a more elaborate manner.

19. Report by Independent Auditor

The Committee has appointed M/s KPMG as the Independent Auditor to audit and certify the financials of APML. In our view, the Committee should direct the auditor to complete their work before the MERC issues the final order in the matter.

20. Scope of the Committee

It is submitted that the Committee should avoid issues which are beyond the scope of what MERC has desired to be examined.

1/c

21. Tariff Determination under Section 62 or 63

The project was awarded to APML under Competitive Bidding as per the tariff guidelines issued by the Central Government. The MERC has adopted the Tariff pursuant to the provisions of the Section 63 of the Act. However, the compensatory charge determined on the basis of landed cost of coal and design SHR tantamounts to tariff determination, at least to the extent of energy charges, pursuant to Section 62 of the Act.

Therefore, MERC need to determine the additional compensatory charge every year which will be passed on to the MSEDCL. Further, MERC need to approve such expenditure on account of the additional compensatory charge in the ARR of MSEDCL. There is also a need to enable MSEDCL to call for renegotiations in case the project becomes unviable to the MSEDCL through appropriate provision in the final order. The Committee should consider this aspect while finalizing the report.

Regards,

Yours faithfully

Director (Finance)
MSEDCL

Copy s.w.rs.to:

1. Mr. K.P. Bakshi, Additional Chief Secretary (Planning), Govt. of Maharashtra, Mantralaya, Mumbai.
2. Mr. Ajoy Mehta, Principal Secretary(Energy)/ Managing Director, MSEDCL, Corporate Office, Prakashgad, Bandra(E), Mumbai – 400 051.
3. Mr. V. G. Kannan, Managing Director & CEO, SBI Capital Markets Ltd., 202, Maker Tower E, Cuffe Parade, Mumbai-400 005.
4. Mr. Chandra Pratap Singh, J 704, Aditya Megacity, Vaibhav Khand, Indirapuram, Gaziabad, Uttar Pradesh.
5. Dr.Satish Bagal, 20, "Swami", Siddhi Vinayak Housing Society, Indira Nagar, Nashik-422009.
6. Mr.A.G. Karkhanis, Dubash House, 2nd Floor, 15 J.N. Heredia Marg, Ballard Estate, Mumbai-400001.