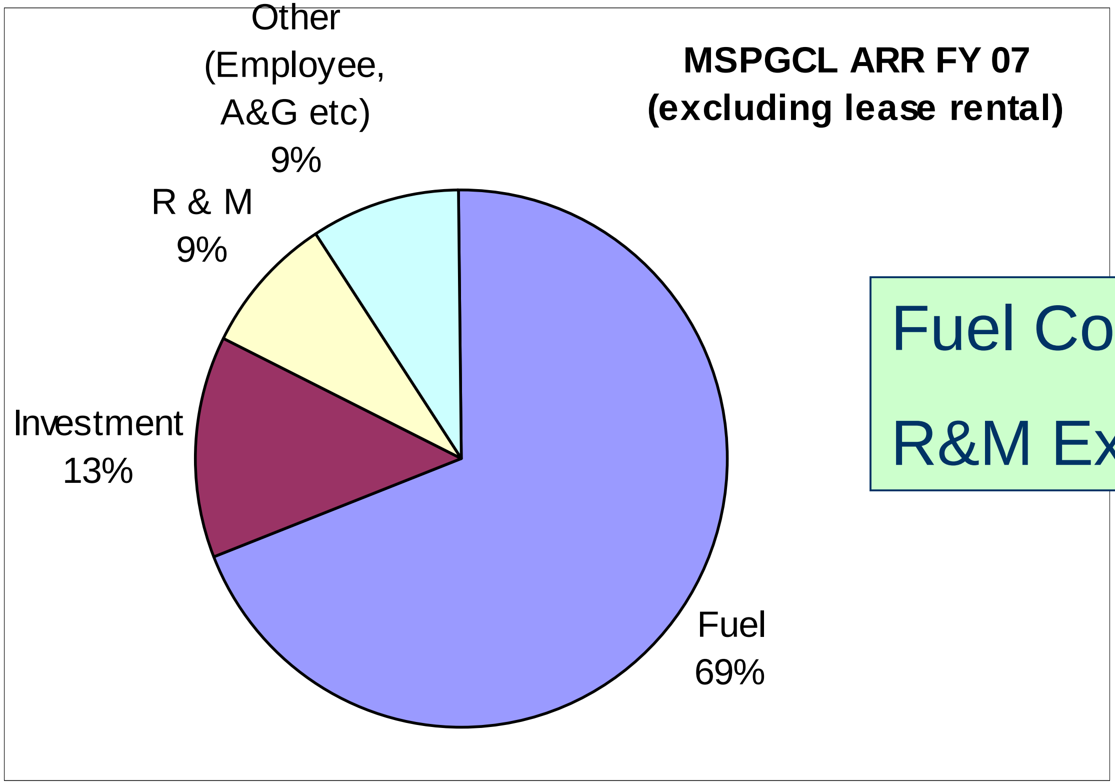
ARR and Tariff Application by MSPGCL for FY 2006-07

Prayas Energy Group

Public Hearing, Mumbai

13th June 2006

Major Costs of MSPGCL



Fuel Cost = 69%

R&M Expense = 9%

Coal costs at different stations

	Bhswl	Paras	Parli	Ch'pur	Koradi	Nashik
Freight + Handling (Rs/MT)	395	283	***613***	133	508	729
Transit Loss (%)	2.0%	***2.1%***	***3.2%***	1.0%	0.8%	1.0%

- Transit loss highest at Parli and Paras
  - Sites for new capacity addition

    (expansion units of 250 MW + new units of 250 MW each)

  ➔Need to reduce this transit loss on priority
- Freight Charges highest at Parli
  - Need to explore measures for efficient transportation

New projects by MSPGCL ...1

- Addition of 4,500 MW new coal projects
  - 3,000 MW are expansion projects
  - Total cost of 25,000 Cr *(4.5 Cr/MW)*

- Total capacity addition in the state
  - 4,500 MW – MSPGCL (Base Load)
  - 2,000 MW – New Central Quota (Base load)
  - 4,000 MW – Ultra-Mega project (Base load)
  - ➔ 10,500 MW of base load capacity addition
- ➔ Demand Forecast ?

New projects by MSPGCL ...2

- MERC should consider new projects through a separate public process
  - Thorough evaluation of project cost
  - Demand - Supply scenario
  - Long term capacity addition plan
  - Need to ensure optimum capacity addition

➔ All investments should stand the tests of usefulness and prudence

R & M Expenses

- R&M expenses
  - 448 Cr in FY 06
  - 642 Cr in FY 07
- Capital Expenditure
  - 552 Cr in FY07 on Life Extension and Renovation & Modernization

➔Performance improvement should be evaluated in this context

➔Could be considered for specific plants but should not form a norm for future R&M expense

Lease Rental Charges

- "In-principle" agreement - GoM and MSPGCL
  - Based on CRISIL report
  - Increase in Lease Rent for Hydro Stations by 290 Cr
- Observations on CRISIL report
  - No validation of capital cost of Koyna st. IV (pg. 20)
  - No data about loan repayment (pg. 28)
  - No data about design energy as per DPR (pg. 29)
  - Cost of Ghatghar project not considered
  - Need to evolve complete commercial arrangement

→ This should be dealt with in a separate process and currently rent of Rs. 85 Cr should be considered

Other Issues ...1

- Depreciation for FY 07
  - Different rates than MERC tariff regulations are used
  - ➔ Increase of 100 Cr

- Reasonable return for FY 06
  - Not consistent with MERC order dt 13th April 06

  ➔ Increase in FY 06 ARR by 170 Cr

Other Issues …2

- Interest on working capital for FY 06
  - Norms according to MERC Tariff Regulations are applied
  - Previous Tariff Order principles should apply

- Non-Tariff income
  - No non-tariff income is shown
  - MERC should validate this and ensure that benefits of non-tariff income are passed on to consumers

Other Issues …3

- Cashflow of MSPGCL
  - Smooth cashflow should be ensured
  - MSEDCL should be directed to make timely payments to MSPGCL

➔ MSPGCL should be directed to report every occurrence of non-payment / short payment of generation charges by MSEDCL for consecutively 2 months

Prayers ...1

1. Validate the R&M expenditure (revenue + CapEx)
    i. Need to establish a rational link between R&M and plant performance

2. This R&M expenditure should not be considered as the norm in future.

Prayers …2

4. Consider new project through a separate public process
   – No project should be approved without proper demand forecast and integrated capacity addition plan

5. Consider revision in Lease Rental Charges through a separate process
   – Currently consider present charges of 85 Cr/yr

6. Allow only those costs which are consistent with MERC order 13th April 2006

Prayer ...3

7. Direct MSPGCL to report every occurrence of non or short payment of generation charges by MSEDCL for consecutive 2 months

8. MERC Order should include detailed calculations and analysis as well as responses to comments by public.

9. Soft version (Spreadsheets) with formulae of calculations should be available on MERC's website