

ARR and Tariff Revision Application by TPC for FY 07

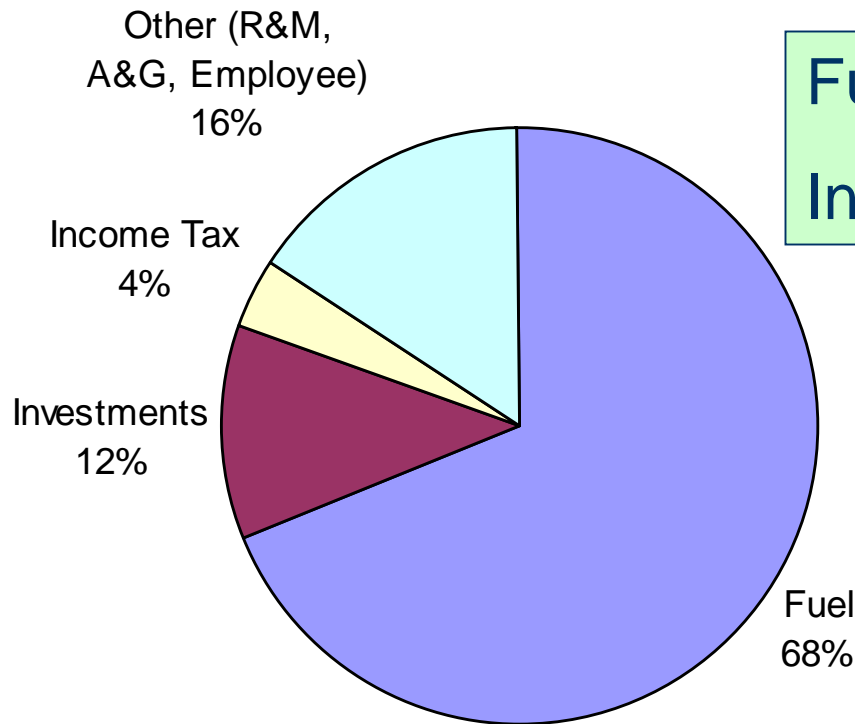
Prayas Energy Group

12th June 2006

Public Hearing, Mumbai



Major Components of TPC ARR



Fuel = 68%

Investment+Income Tax = 16%

TPC ARR FY 07 excluding power purchase and standby charges

Investment includes RoE, Depreciation and interest

Effective Tariff Hike

ARR of TPC-G Rs Cr	3441
Unrecovered FAC for FY 06 Rs Cr	288
Total ARR for TPC -G	3729
Sales to licensees (MU)	9269
Average Generation Tariff (Rs/kWh)	4.02
ARR of TPC-T Rs Cr	184
Average Transmission Charges (Rs/kWh)	0.17
Effective BST for licensees (Rs/kWh)	4.19

Considering Power Purchase, effective BST = Rs 4.89 /kWh

→ Proposed hike of about 25%

Fuel Charges ...1

Fuel Source	Oil	Coal	Gas	Hydro	Total
Net Generation Ex Bus (MU)	3073	3468	1398	1493	9432
Share in net generation (%)	33%	37%	15%	16%	100%
Fuel Cost (Rs Cr)	1712	540	109	-	2362
Share in fuel cost (%)	72%	23%	5%	-	100%
Average fuel Cost of Net Generation Ex Bus (Rs/kWh)	5.6	1.6	0.8	-	3.0 (only thermal)

➔ Need to reduce oil cost

–Alternatives to oil-based generation

–Efficient procurement (utilization of available discounts)

Fuel Charges ...2

- Performance of generation plants in FY07 is lower as compared to FY 06
 - Increase in fuel cost of about **100 Cr/year**
- Limited Coal availability
 - Coal shortage of 261 MT/day at Unit 5
 - Incremental cost of oil use in Unit 5 = **72 Cr/yr**
 - TPC should explain reasons for coal shortage and steps to reduce it

Coal Cost ...1

Cost component	FY 05	FY 06	FY 07
Basic Cost Rs/MT	1303	1152	1162
Freight + Handling Charges Rs/MT	1133	1476	1476
Duty, Taxes and others Rs/MT	184	208	202
Total Coal Price Rs/MT	2621	2835	2840

- Freight and handling charges = 52% of total coal cost
- Jump of 30% from FY 05 to FY 06
- ➔ Needs further scrutiny

Coal Cost ...2

Parameter	TPC	REL
Total Coal Price Rs/MT	2840	2858
Calorific Value of coal kCal/kg	4802	5200
Rs/1000 kCal of coal delivered	0.59	0.55

- Rs/1000 kCal for REL is much lower than TPC
 - Impact of **50 Cr/yr** (9% of total coal cost)
- Scope for reduction in coal cost

Capital Expenditure ...1

- CapEx already incurred
 - Detailed evaluation by MERC based on conditions of “in-principle” clearance
 - TPC should submit DPRs for 3 year roll-out plan of CapEx
 - Gives a long term comprehensive view
- ➔ Any CapEx should stand the tests of usefulness and prudence

Capital Expenditure: Some examples

- “Other Minor Schemes” (47 Cr)
 - Mainly includes replacement of valves, computers, office furniture etc
 - Appears high for stated objectives
- Trombay Expansion - Unit 9 (1000 Cr)
 - Coal based 250 MW expansion project
 - Cost should be significantly lower than typical greenfield project

True-up for past over recovery

- True up for FY 05
 - MERC should assess TPC's performance in FY 05 and consider any over recovery thereof for truing up in FY 07
 - Revenue and cost submitted in ARR should be reconciled with audited accounts
- Income Tax
 - Actual income tax paid by the utility should be used while truing up for FY 05 and FY 06

Prayers ...1

1. Efforts to reduce fuel cost
 - i. Improved plant performance and efficient fuel procurement
 - ii. Shift to non-oil based generation
2. Capital Expenditure
 1. Assess CapEx already incurred wrt in-principle clearance conditions
 2. Direct TPC to submit DPRs for 3 year rolling plan

Prayers ...2

3. New power projects
 - i. Separate process for new power projects
 - ii. Detailed scrutiny of costs required

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

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