



**ORDER
OF THE
WEST BENGAL ELECTRICITY REGULATORY
COMMISSION**

IN CASE NO:

FPPCA – 39 / 09 – 10

**IN RE APPLICATIONS OF THE DURGAPUR PROJECTS LTD
FOR AD HOC INCREASE OF THE FUEL COST INBUILT IN
THE EXISTING TARIFF FOR THE YEAR 2009- 2010 IN
ACCORDANCE WITH REGULATION 2.8.7.3 OF THE WEST
BENGAL ELECTRICITY REGULATORY COMMISSION
(TERMS AND CONDITIONS OF TARIFF) REGULATIONS,
2007, AS AMENDED.**

DATE: 25.11.2009



CHAPTER – 1 INTRODUCTION

- 1.1 The Durgapur Projects Limited (hereinafter referred to as “DPL”) has submitted an application to the West Bengal Electricity Regulatory Commission (referred to as the “Commission” hereinafter) on 13.10.2009, praying for an ad hoc increase of the fuel cost inbuilt in the existing tariff for the financial year 2009-10 in terms of Regulation 2.8.7.3 of the West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2007, as amended (hereinafter referred to as the “Tariff Regulations”). It has been submitted that the Eastern coalfields Limited (in short “ECL”) has introduced a new policy under which supply of superior grades of coal (i. e. B and C grades) from its underground mines would be only at a negotiated price. Such negotiated prices of B and C grades of coal are much higher than the rates of those grades notified earlier.
- 1.2 The inadequacy of coal supply, both in quantity and quality, by the subsidiaries of Coal India Limited in general and ECL in particular, resulting in considerable shortfall in the target generation of electricity, was also considered by the Government of West Bengal. In its Memorandum No.127-B(KPB)-09 dated 14 July, 2009, issued in the public interest and in exercise of the power conferred by Section 11(1) of the Electricity Act, 2003 (hereinafter referred to as the “Act”), the Government of West Bengal directed DPL to procure 0.3 million tones of better quality coal from ECL or other sources through negotiation so as to ensure maintenance of ash content norms as per standard of Ministry of Environment and Forest of Government of India.
- 1.3 Finding no other alternative sources and options, DPL had to enter into an arrangement with ECL, in the line as was done by other generating companies, and sign a Memorandum of Understanding (in short “MOU”) accordingly. The estimated prices for getting supply of desired B and C grades of coal compared with the earlier notified prices come as under:



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Rs/Tonne		
Grade of Coal	Earlier Notified Base Price	Estimated Base Price under new Scheme
B	2420.74	4800.00
C	2135.47	4171.70

- 1.4 During the pendency of the above referred application of DPL, the Coal India Limited (in short "CIL") revised the prices of all different grades of coal with effect from 16 October, 2009 whereby the average prices of applicable coal categories increased by about 15%. DPL has, therefore, submitted another application on 26 October, 2009 with the request to consider the effect of the referred hike in the administered prices of coal also along with the application submitted by it on 13 October, 2009. The Notification No. CIL: S&M:GM(F): Pricing 1181 dated 15 October, issued by CIL has been referred to by DPL in this regard..
- 1.5 Such a hike in the price of coal due to a significant change in the policy by ECL for supply of the requisite superior grades of coal as well as due to considerable upward revision of the prices of other applicable grades of coal was not envisaged when the Aggregate Revenue Requirement (in short "ARR") of DPL was determined by the Commission for the years 2008 – 2009, 2009 – 2010 and 2010 – 2011, vide its order dated 26 September, 2008 in Case No.TP-38/08-09.
- 1.6 After careful consideration of all the related aspects, the Commission feels that such a sharp rise in the prices of coal will result in a significant upward adjustment in the current tariff through the Fuel and Power Purchase Cost Adjustment (in short, FPPCA) route. The accumulation of the resultant effect till the time FPPCA falls normally due would be against the interest of the consumers as well as of the distribution licensee, the function of which will be



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badly affected due to inadequate cash flow attracting an additional working capital loan which will further increase the tariff in future. As per the provision of section 11(2) of the Act, the Commission also feels it prudent to off set the adverse financial impact of the direction given by the State Government under section 11(1) of the Act as referred to above. The Commission, therefore, in terms of regulation 2.8.7.3 read with regulation 4.8.8 of the Tariff Regulations considers it a fit case for allowing some ad hoc increase of the fuel cost provisionally subject to final adjustment of the same in the FPPCA for the year 2009 - 2010. The rate of such ad hoc increase of the fuel cost should be based on a rational estimate without disturbing any of the fuel consumption norms and other operational efficiencies considered for DPL in determination of ARR for the years 2008 – 2009, 2009 – 2010 and 2010 – 2011 in the tariff order of the Commission for the year 2008 – 2009 under Multi Year Tariff (in short “MYT”) approach. This aspect is being examined in the next part of this order.



CHAPTER – 2 ESTIMATION OF THE RATE OF AD HOC RECOVERY OF ADDITIONAL FUEL COST

- 2.1 On account of the major change in the pricing policy for the supply of superior grades of coal by ECL through negotiated route and the considerable upward revisions in the administered prices of all grades of coal with effect from 16 October, 2009, consequent upon the circulars of the CIL, as narrated in the preceding chapter, the Commission feels that a reasonable hike in the fuel cost of the power station of DPL has become inevitable. After due consideration of all the related aspects and based on certain additional information / clarifications asked for and provided by DPL, the Commission is set to arrive at the rational rate of such hike in the fuel cost. The detailed computations in this regard are given in Annexure 2A. The perusal of the same will reveal the following points:
- i) no dilution in the operational efficiency norms as were considered in the tariff order dated 26 September, 2008 has been allowed;
 - ii) average Heat Value (UHV) of coal for the power station has been assessed based on the grade mix of coal now being considered to be available; and
 - iii) the weighted average prices of coal for the power station have been considered with reference to change in the pricing policy of superior grades of coal based on the negotiated price and the latest upward revisions in the pithead price of supply by the subsidiaries of CIL.
- 2.2 The total fuel cost as will be required for realization by DPL comes to Rs. 57810.90 lakh as against Rs. 48733.05 lakh for 2009-10 allowed in the tariff order dated 26.09.2008 determining ARR for 2008-09, 2009-10 and 2010-11. The need for additional recovery of fuel cost, thus, comes to Rs. 9077.85 lakh.
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The unit rate of such additional recovery through the estimated sale of 3684.081 MU including sale of 1158.585 MU to WBSEDCL and the inter plant transfer of 40.00 MU comes to 24.64 paise / kWh, say 24.00 paise per kWh.



ANNEXURE - 2A

FUEL COST OF GENERATING STATION OF DPL FOR 2009 - 2010

ITEM	UNIT	FUEL COST OF DPL GENERATING STATION	
		ADMITTED	REVISED
Generation	MU	4219.69	4219.69
Auxiliary Consumption	MU	379.77	379.77
Ex-Bus Generation	MU	3839.92	3839.92
Station Heat Rate	Kcal/kwhr	2725.00	2725.00
Total Station Heat	M.Kcal	11498660.70	11498660.70
GCV of Oil	Kcal/lit	9000.00	9000.00
Specific Oil Consumption	MI/kwh	2.45	2.45
Oil Consumed	KL	10338.25	10338.25
Average Price of Oil	Rs/KL	44871.71	44871.71
Cost of Oil	Rs(Lakh)	4638.95	4638.95
Heat generated from Oil	M.Kcal	93044.21	93044.21
Heat generated from Coal	M.Kcal	11405616.49	11405616.49
Heat value of Coal	Kcal/Kg	4378.00	3256.72
Coal required	MT	2605211.62	3502180.98
Coal required with Transit Loss	MT	2631526.89	3537556.54
Weighted Average Price of Coal	Rs/MT	1675.61	1503.07
Cost of Coal	Rs. (Lakh)	44094.11	53171.95
Total Cost of Fuel	Rs. (Lakh)	48733.05	57810.90

The revised heat value of coal in Kcal/Kg. and the weighted average price of coal in Rs./MT for the generating stations of DPL have been considered on the basis of information submitted by DPL in their petition regarding gradewise quantity of coal, UHV of coal and price of coal



CHAPTER – 3 ORDERS

- 3.1 In consideration of the facts as brought out in the foregoing chapters, the Commission decides to allow DPL an ad hoc recovery of additional fuel cost at the rate of 24.00 paise / kWh from its consumers and WBSEDCL subject to final adjustment of the amount of under-recovery or over-recovery of the allowable fuel and power purchase cost, as the case may be, at the time of FPPCA for the year 2009 – 2010 and orders as under:
- 3.1.1 Such recovery of ad-hoc fuel and power purchase cost at the rate as stated above will be effective from the billing month of / pertaining to November, 2009 and will continue till the time the tariffs for the year 2010 – 2011 are determined.
- 3.1.2 As a part of the financial year 2009 – 2010 is already over by this time, the admissible amounts of ad hoc fuel cost for the past period of 2009 – 2010 are not being allowed to be recovered now and recoverable amount, if any, for this period will be considered while determining the final FPPCA for the year 2009 – 2010.
- 3.2 It is open to the State Government to grant any subsidy to any consumer or any class of consumers on the ad hoc fuel cost determined by the Commission for DPL. If at all any such subsidy under the provisions of the Act is intimated to DPL and to the Commission by the Government of West Bengal with clear indication of the consumer or class of consumers to be subsidized and if the amount of the subsidy proposed to be given is paid in advance, rate of ad hoc fuel cost for such consumer and / or the class of consumers shall be deemed to have been reduced accordingly as has been indicated by the State Government. However, such direction of the State Government shall not be operative till the payment is made by the State Government in accordance with the provisions of the Act and the Regulations made thereunder and the rate as fixed by the



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- Commission shall remain applicable. In accordance with the Tariff Regulations, the State Government is required to communicate, within 15 days from the date of receipt of this order, whether it shall give any subsidy to any group of consumers etc.
- 3.3 DPL shall present to the Commission a gist of this order along with the names of at least four leading daily news papers (at least one of which shall be in English and one in Bengali) within three working days from the date of receipt of this order for approval of the Commission and on receipt of the approval shall publish the approved gist in those newspapers within four working days from the date of receipt of the approval of the Commission.

Sd/-
(R. P. SAMADDAR)
MEMBER

Sd/-
(PURNENDU GUPTA)
MEMBER

Sd/-
(PRASAD RANJAN RAY)
CHAIRPERSON

DATED: 25.11.2009