

**BEFORE THE UTTAR PRADESH ELECTRICITY REGULATORY COMMISSION
LUCKNOW**

Application dated 24.8.07
in Petition No. 327/2006

IN THE MATTER OF: Seeking approval of financial package of 330 MW Srinagar HEP.

AND

IN THE MATTER OF:

M/s Alaknanda Hydro Power Company Ltd.
PAIGAH HOUSE,
156-159, Sardar Patel Road,
Secundrabad

:Applicant

UP Power Corporation Ltd.
Shakti Bhawan,
14, Ashok Marg,
Lucknow

:Respondent

The following were present:

1. Sri. P.V. Prasanna Reddy, Director & CEO, AHPCL
2. G. Madhav Reddy, AHPCL
3. Sri. S.P Pandey, EE (PPA), UPPCL

ORDER

(Date of Hearing 26.9.07)

- (1) The Applicant is seeking approval of firm financial package as follows:
 - (i) debt-equity ratio 80:20,
 - (ii) equity with no foreign component,
 - (iii) debt comprising lower amount of foreign currency loan of US\$ 40 M and balance rupee loan.
 - (iv) The rupee loan has been secured from a consortium led by Punjab National Bank (PNB). Loan of PNB led consortium is at an interest rate of 11.5% p.a from the date of initial draw down of the loan. For subsequent years after one year from the date of initial draw down, it is linked to BPLR of PNB with spread of

- (-) 1.5%. The rate of interest shall be reset at the end of each year based on variation in BPLR and the spread remaining constant through 19 years and 5 months. The loan is to be paid in 60 quarterly installments. Life Insurance Corporation of India (LIC) loan carries all above features except that the rate of interest shall be fixed up to COD and will be reset every three years after COD. Upfront fee at 0.10 percent of loan amount is to be paid.
- (v) Foreign currency loan has been secured from Axis Bank Ltd. at rate of interest of three months USD LIBOR plus spread of 248 basis points. Rate of interest shall be reset at the end of each three months depending on USD LIBOR, spread remaining same. The loan shall be for a term of 19 years and 5 months to be paid in 60 quarterly installments. Upfront fee at 0.10 percent of loan amount is to be paid.
- (vi) The financing charges comprise of-
- (a) one time financial advisory and syndication fee,
 - (b) one time Lender's Engineers, Lender's Legal Counsel, Insurance Consultant fees and ECB Documentation & Legal Fees along with taxes, and
 - (c) TRA Banker, security agent and Lender's agent fees to be paid along with taxes every year.
- (2) The Respondent in reply dt.25.9.07 has stated that, at exchange rate of Rs.40.25/US\$ prevailing at the time of financial closure, the completion cost of the project works out to Rs.1931.12 Cr. whereas the Applicant is seeking financing of Rs.2069 Cr. with debt equity ratio 80:20 instead of 70:30 approved earlier by the Commission. It is stated that the increase in the project cost by Rs.137.88 Cr. would affect the tariff. However, no objection has been raised on debt equity ratio of 80:20 on the ground that it conforms to clause 36 of UPERC (Terms & Conditions of Generation Tariff), Regulations 2004. The Respondent finds the terms and conditions

of debt in INR in order with the suggestion that terms for resetting of interest should be uniform in domestic loan. It is stated that current rate of interest on foreign currency loan should be indicated by the Applicant for comparison with the rate of interest on domestic loan. It is further submitted that the loan is repayable in 60 quarterly installments. The Respondent has objected to Clause 2.6(ii) of the common loan agreement concerning with 'Additional Interest and Panel Interest' stating that this provision should not make any adverse impact on the tariff. The Respondent has not made a specific prayer except praying the Commission to take appropriate view for disposal of the application.

- (3) (i) The representative of the Applicant, Sri. P.V. Prasanna Reddy, Director & CEO, AHPCL has submitted in the hearing that estimated capital cost of Rs.1977.87 Cr. was arrived at considering 9% interest on domestic and 7.25% on foreign currency loan but by the time of financial closure, the interest rates had risen to 11.5% and 8.07% respectively, as a result of which, IDC and financial charges have gone up to Rs.443.67 Cr. in comparison to earlier Rs.305.62 Cr. marking a net increase of Rs.138.05 Cr. in capital cost. The interests on loan, resetting of interest on loan and repayment schedule as stated in the petition has been reiterated. He emphasized that the change in debt equity ratio to 80:20, omission of foreign currency component in equity and reduced foreign currency loan than approved earlier has been done to contain possible tariff hike due to increase in interest rate on domestic and foreign currency loans which would vary depending on the market conditions. It is also clarified that since LIC is a long term investor in infrastructure projects, reset of interest at the end of each three years, subsequent to COD, has been secured and all loans could be swapped after one year. He further affirmed that defaults in payment under the loan agreement due to reasons solely attributable to the Petitioner should not impact the tariff and would be borne by the Petitioner.

The Applicant has also informed in the hearing that it is finding difficulty in acquiring land which was identified earlier by UP State Electricity Board and efforts are being made with the help of Government of Uttaranchal to acquire the same at the earliest.

Sri. Reddy has further prayed the Commission for a mid term review of the capital cost in view of increase in the input cost, geological surprises appearing at site for it being located in higher seismological zone striking at the design parameters of the project and consequential expenditures.

(ii) The Representatives of the Respondent, Sri. S.P Pandey, EE, UPPCL mentioned that he had no additional submission except whatever had been made in written submission.

(4) In view of the written and oral submissions made by the parties before the Commission, the following issues are to be addressed for disposal of the application as to whether -

(a) the financing of the project could be changed as proposed in the application,

(b) the terms & conditions of loan as noted under Para 1(iv&v) as well as financing charges are appropriate, and

(c) the delay in acquisition of land as well as financial closure would delay the project.

(5) In order dt.7.6.06, the Commission decided that the cost structure of Rs.1977.87 Cr. (at that time exchange rate of Rs.44.50/US\$) shall be as below:

Debt: US\$ 45 m + Rs.1184.26 Cr.

Equity: US\$ 65 m + Rs. 304.11 Cr.

Total: US\$ 110 m + Rs.1488.37 Cr.

M/s Alaknanda Hydro Power Company Ltd. (AHPCL) was directed to ensure that foreign debt and foreign equity component shall not be higher than prescribed and was asked to submit firm financial package with firmed up rate of interest and financial charges at the time of financial

closure, which shall be the basis for determination of IDC, and financing charges for determination of completed capital cost.

As per the present application, financing of Rs.1977.87 Cr. has undergone a major change due to change as below:

1. no foreign component in equity,
2. reduction of foreign component and loan,
3. change in debt equity ratio as 80:20,
4. increase in interest rate,
5. reduction in exchange rate.

It may be seen in Order dt.7.6.06 that the Commission had put an upper cap on foreign debt and foreign equity and accordingly the Applicant could vary the same and in fact he has not exceeded such upper limit while finalizing the firm financial package. However, the Commission allowed 70:30 as debt equity as proposed by Applicant at that time and on the basis of which he has signed an agreement with the UPPCL. The parties to the Power Purchase Agreement (PPA) have subscribed themselves to UPERC (Terms and Conditions of Generation Tariff) Regulations, 2004. As per Regulation 36 of the said Regulations, the equity less than 30% is admissible and in that event, actual debt & equity shall be considered for determination of tariff. Lower equity will eventually result in reduction of levelised tariff.

Due to increase in interest rates on loans, the requirement of interest during construction has increased by Rs.138.05 Cr. and the Applicant had tried to abate possible hike in tariff on account of rise in rates of interest on loans, IDC and financing charges by resorting to change in debt equity ratio, dropping equity in foreign currency and reduction in foreign currency debt. The financial market, of late, has developed a trend of providing loan on variable rate of interest governed by the market forces. The interest rates have also assumed rising trend since recent past. Therefore, in view of above, there is no option left other than to accept the terms & conditions of the loans.

As regards reduction in exchange rates, its impact will be known when foreign currency is utilized for import/interest payment and exchange rate prevalent at the time of its draw/utilization. The Applicant has reassured the Commission that delay in financial closure will not have any impact on completion time of the project. However, he has shown concern in delay of acquisition of land and geological surprises which may impact completion time of the project as per provisions of PPA.

In view of compatibility with the said Regulation and written submissions made now by the parties, the Commission allows:

- (1) the change in debt & equity ratio to 80:20,
- (2) changes in foreign currency component in the project cost and means of finance,
- (3) Increase in capital cost on account of increase in interest and financing charges estimated to be 135.08 Cr.,
- (4) terms & conditions of loan agreement as brought out in Para-(1) above.

The actual capital cost of the project for the purpose of tariff shall however be determined after completion of the project subject to prudence check by the Commission.

- (6) The Commission has taken note of the submissions made for mid term review of the project due to geological surprises being faced by the Applicant during construction as well as the possible increase in input cost because of the project being located in the seismological zone. The Petitioner is at liberty to approach the Commission in accordance with law for a mid term review of the capital cost of the project; although, the Commission has already held that the actual cost shall form the basis for determination of tariff.
- (7) The Commission further directs as follows:-
 - (i) The Applicant to follow the trend of financial market and swap the loan if considered appropriate to bring down the tariff and also to ensure

that defaults in payment to lenders due to reasons solely attributable to the Applicant does not impact tariff.

- (ii) The Respondent with the help of State Government should assist the Applicant in acquisition of land to avoid delay in completion.
 - (iii) Subject to provisions of PPA, the impact of delay in financial closure should not affect the completion period of the project.
- (8) The Petition is disposed of.

(R.D. Gupta)
Member

(P.N Pathak)
Member

(Vijoy Kumar)
Chairman

Lucknow; Dated: 16th Oct, 2007