BEFORE THE GUJARAT ELECTRICITY REGULATORY COMMISSION

AHMEDABAD

Filing No. _____

Case No. /2004

IN THE MATTER OF

The Ahmedabad Electricity Co. Ltd.
Electricity House, Lal Darwaja,
Ahmedabad 380 001
(PETITIONER)

AND

IN THE MATTER OF

Approval of Power Purchase Agreement between The Ahmedabad Electricity Company Limited (AEC) and
Torrent Power Generation Limited (TPGL)

The Ahmedabad Electricity Company Limited (AEC) respectfully submits as under:

1.00 BACKGROUND

1.01 The Ahmedabad Electricity Co. Ltd., (AEC) was a licensee under section 3 of the Indian Electricity Act, 1910. The Company operates under the Ahmedabad and District License 1944 as amended by Notification dated 27/05/1969 issued by the Government to include the capital city of Gandhinagar in the company's licensed area of supply. As per the provisions of section 14 of The Electricity Act 2003 "any person engaged in the business of supply of electricity under provision of repealed laws shall deem to be a licensee under this Act". This confers upon AEC the title of a licensee. The Gujarat Electricity Industry (Reorganization and Regulation) Act, 2003 in Section 19(1)(d) preserves the entity of AEC as a licensee under the Act on the same terms and conditions as the grant of the sanction.

1.02 The area of license admeasures 293 sq. kms. in the city of Ahmedabad and 63 sq. kms. in the capital city of Gandhinagar, totaling an area of 356 sq.kms.

1.03 At present, total installed generating capacity of the company is 500 MW. AEC has its own Transmission and Distribution network in the licensed area and it supplies power to nearly 12 lacs consumers. AEC expects that around 2 lacs new consumers will be added to the system by the year 2007-08.

1.04 Torrent Power Generation Limited (TPGL), promoted by Torrent Group is incorporated under the provisions of The Companies Act, 1956.The Torrent group has track record of successfully implementing a 655 MW Dual Fuel Combined Cycle Power Project in Bharuch, Gujarat. Torrent Group now under the aegis of TPGL is setting up 1095 MW Gas Based Combined Cycle Mega Power Project near Surat. The project is expected to be completed during 2006-07. The copy of Memorandum Of Association and Article of Association of TPGL is enclosed herewith and marked as **Annexure - A** for the ready reference.

1.05 The Electricity Act, 2003 ("Act") came into force in the state of Gujarat with effect from December 10, 2003. The Preamble of the act reads as follows:
" to consolidate the laws relating to Generation, Transmission, Distribution Trading and use of electricity and generally for taking measures conducive to development of electricity industry."

2.0 POWER SECTOR

2.01 National

The figures of The Government of India's 8th five-year plan and 9th five-year plan clearly show that India has fallen well short of its capacity addition targets during these plan years.

	8th Five-year Plan (1992-1997)			9th Five-year Plan (1997-2002)			10th plan (2002-07)
In MW	Target	Achievement	Deficit	Target	Achievement	Deficit	Target
Central	12858	6442	50%	11909	4504	63%	**22832**
State	14870	6834	55%	10748	9450	13%	**11157**
Private	2808	1430	50%	17588	5061	72%	**7121**
Total	**30536**	**14706**	**52%**	**40245**	**19015**	**53%**	**41110**

The shortfall in the 8th and 9th plan target capacity addition has been due to lack of significant capacity additions by all sectors. This can be attributed to the poor financial health of the SEBs, and the inability of private sector to achieve financial closure due to inadequate payment security

mechanisms. The Central Government also did not earmark sufficient resources for power generation.

The addition during the first two years of the 10th five year plan is a meager 3500 MW, the achievement on a pro-rata basis being 42%. Considering the projects under construction of 13300 MW, the achievement in 10th five year plan would be around 40%. This figure would improve at best to around 60% if some other projects identified by MOP also fructify.

The current demand supply scenario is also not encouraging and there continues to be energy shortage as well as peak demand shortage. In 2003 the peak shortage has been around 12.2%. As per the CEA report for the period of April 2003 to January 2004, at the national level, the peak demand shortage and energy shortages were in the region of 10.7% and 7.0% respectively.

2.02 Western Region

The Western region is one of the most industrialized regions of India. Maharashtra and Gujarat, two leading industrialized states of India are in this region. The Power scenario in the Western region is not that encouraging.

Poor financial health of State electricity boards, particularly that of Madhya Pradesh State Electricity Board & Maharashtra State Electricity Board, and the failure of Enron's Dabhol Power Project has affected the supply position adversely. Ongoing industrialization and urbanization of the region has increased the demand over the years. This increase in demand coupled with slow supply growth over the years has widened the demand - supply gap in this region.

The unrestricted demand, in the western region, for the FY 2003 has been indicated by CEA to be in the range of 190,745 MUs while the supply was only to the extent of 166,687 MUs indicating an energy shortage of 12.6%. The position has not improved much during FY 2004. Up to the end of January 2004, the western region could supply only 140,571 MUs against unrestricted demand of 156,810 MUs indicating a shortage of 10.4%. Similarly, for FY 2003, the peak demand and supply were 28,677 MW and 22,853 MW indicating a capacity shortage in excess of 20%. This shortage has marginally gone up to 20.4% as at the end of January, 2004.

2.03 Gujarat

The golden corridor of Gujarat i.e. Surat – Ankleshwar – Bharuch – Vadodara – Ahmedabad is one of the highly industrialized stretches in India. The per capita consumption of power in Gujarat is 834 kWh as compared to the all India average of 356 kWh, indicating significantly high power consumption.

Gujarat has a total installed capacity of 8861 MW. This includes 4713 MW of the State sector, 1538 MW of the central sector and 2610 MW of the private/corporate sector. The actual generation in the past few years has always fallen short of the requirement. The peak demand for the corresponding period is estimated to be at 10,605 MW and 14,031 MW respectively. In FY 2003 energy shortage was 11.40% and the peak demand shortage was 15%. As at the end of January 2004 against the unrestricted energy requirement of 47121 MUs, supplies were only to the extent of 41559 MUs indicating a shortage of 11.8%. The peak demand met was only 7196 MW against a requirement of 9820 MW indicating a shortage of 26.7%.

Some of the main reasons for the shortfall include:

- The restricted availability of gas and the infrastructure constraints in movement of coal by rail.
- The financial position of the SEBs restricted the amount of energy that the SEBs can purchase from the independent power producers.

16th EPS estimates that the total energy requirement for Gujarat as at the end of FY 2007 to be in the range of 61,683 MUs, which would further increase to 81,615 MUs by 2012.

3.00 REFORMS

3.01 The Government of India, under the advice of Minister of Power & Secretary of Power has concluded that the solution lies in encouraging competition and reforming the distribution end. To this end, the Government has enacted the Electricity Act 2003, extended the Mega Policy coverage and put in place an Accelerated Power Development and Reforms Programme (APDRP).

The salient features of India's Electricity Act 2003 are as follows:

- Generation delicensed and captive generation freely permitted
- A generating company may supply electricity to any licensee.
- Open access to transmission from the outset.
- Metering of all electricity supplies made mandatory.
- Stringent measures for power theft

3.02 The Government of India has also put into place a High Level Task Force led by planning commission member Shri N. K. Singh to prepare the national tariff policy, the national electricity policy and the national electricity plan. The Task force has also been mandated to prepare a financial package to attract more investments in the power sector. The task force submitted its recommendations to the Ministry on February 4, 2004. Some of the measures recommended by the task force, as reported, are:

- Extension of 80 (IA) benefits to power projects commissioned till 2012 which is currently available to plants commissioned before March 2006.
- Facilitate borrowing through the ECB route
- SLR status for power sector bonds.
- Priority sector status to investments in rural electrification.
- Duty reduction on import of LNG and coal for power projects.
- Open access of power to retail consumer to be initiated at a higher threshold of over 1 MW in less than 5 years.
- A post-tax return on equity of 14 per cent for generation and transmission projects and 16 per cent for distribution. It has also suggested a periodical review of the rate of return in line with capital market conditions.
- It also recommends alignment of depreciation rates according to section XIV of the Companies Act 1956, as per which all generating stations would be treated as "continuous process plants".

3.03 Under the mega power policy, the beneficiary is entitled to exemption from customs duty as well as countervailing duty. All domestic supplies to such a project are treated as deemed exports, under which the local excise duty is waived. The policy also envisages waiver of sales tax and local levies such as Octroi at the sole discretion of the State Government.

3.04 Under the APDRP programme, which aims to reduce the Aggregate Technical and Commercial losses to 15% and improve the quality of network, the Central Government has sanctioned schemes of Rs.10,000 Crores. The reforms envisaged include metering of all connections, setting up of Regulatory Commissions, unbundling and corporatisation of SEBs and privatization of distribution cos.

3.05 CERC has issued a large number of regulations to ensure the transition of the power sector from a monopoly state to a more open and competitive state. On January 30, 2004 it has come up with the regulations on Open Access in Inter-state Transmission where it has ordered that all transmission service providers would have to provide non-discriminatory open access for inter-state transmission to any distribution company, trader, generating company or even a permitted consumer, with immediate effect. CERC, has also issued regulations on power trading. The Commission, in its tariff regulation dated 26th March 2004, has consciously moved from the actual cost based tariff structure to a more norm based structure. The commission has also recommended providing incentives to the companies, which improve on these norms.

3.06 Not to be outdone, the Government of Gujarat has recently enacted two reforms legislations, the significant features of which are as follows:

- Unbundling of the generation, transmission and distribution assets
- Deterrent measures for power theft.
- Generation Company allowed to distribute power on certain conditions.

3.07 GEB has been unbundled to form four Distribution Companies, one Transmission Company and one Generation Company. It has also invited Expression of Interest from interested qualified parties for participation in power distribution business. It has decided to offer certain circles on franchise basis. The State Regulatory Commission has also issued a number of draft regulations as regards the standards of performance for a licensee, grid code, open access and power trading. The commission has invited comments on such draft regulations from all stakeholders.

3.08 Conclusions derived from the above are :

- The demand – supply gap is widening due to the lower achievement of capacity addition targets.
- Increase in inter-region and inter-state transmission capacity by Power Grid Corporation of India will facilitate the transfer of power as well as trading of the power across the regions/States.
- Most of the planned projects have not progressed much on account of inadequate payment security mechanism and /or agreement on pricing of the main fuel source.
- The slew of new policies are expected to give a fillip to generation and thereby reduce the demand-supply gap, more particularly through measures such as delicensing, opening up of bulk market and strengthening of the network and financial capability of SEBs through additional investments, 100% metering and deterrence of theft.

4.00 TORRENT POWER GENERATION LTD. (TPGL)

4.01 Promoters

The Torrent Group founded by Late Shri. U.N. Mehta in 1959 and currently managed by Shri Sudhir Mehta and Shri Samir Mehta, is one of the major groups in Gujarat having interests in the Power and Healthcare Sectors. The group's turnover, which was Rs.596 Crores in Financial Year 1995 increased to Rs.2674 Crores by Financial Year 2003.

The group managed more than Rs.2620 Crores in assets, spread over 6 companies, in Financial Year 2003 as against assets of Rs.583 Crores in Financial Year 1995 indicating a CAGR of 21%. The turnover of the group has shown a CAGR of 21% between Financial Year 1995 and Financial Year 2003, while the net worth at Rs.1120 Crores as at end of Financial year 2003 has a CAGR of 11% over the corresponding period.

4.01.1 The Main Group Companies

The main group companies comprise Torrent Private Limited (TL), the holding Company, SEC,AEC, Torrent Power Generation Ltd, Torrent Pharmaceuticals Ltd. Gujarat Torrent Energy Corporation Ltd. another company in Generation was divested in 1999.

4.01.2 Torrent Private Limited (TL)

The Holding Company of the Torrent Group, other than monitoring the group's investments in various companies, is involved in strategy formulation and promotion of the corporate image of Torrent. The investee companies are managed by their respective Board of Directors and professional CEOs.

4.01.3 Torrent Power Generation Ltd. (TPGL)

The proposed 1095 MW gas based combined cycle mega power project has an estimated cost of Rs.3256 Crores. TPGL has an authorized capital of Rs.1000 Crores of which Rs.102 Crores has been issued to AEC, SEC and TL. AEC, SEC and TL, forming part of the Torrent Group, would be holding at least 51% of the equity of the Company. Also AEC and SEC will be the main offtakers of the power generated.

4.01.4 Torrent Pharmaceuticals Ltd.(TPL)

TPL is the flagship company of the group and one of the leading players in the Cardiovascular and Psychotropic segments. It has a significant presence in Gastro-intestinal, Anti-infective and Diabetology areas. Twelve brands of the company enjoy leadings positions in their respective segments.

4.01.5 Gujarat Torrent Energy Corporation Ltd.(GTEC)

The Torrent Group successfully implemented GTEC, a 655 MW dual fuel combined cycle power plant, in a still evolving scenario at a cost of Rs.2247 Crores. It was one of the fastest commissioned projects in India. Though not termed as a fast track project, the project was commissioned a month and a half ahead of schedule, saving approximately Rs.51.2 Crores from the CEA approved cost. The configuration comprised 3 gas turbines of 138 MW each, 3 heat recovery boilers of 275 TPH capacity and a steam turbine generator of 241 MW. This project was implemented in joint venture with multinationals, viz. Siemens (Germany), PowerGen(UK) and a Government of Gujarat undertaking. It was also the first private IPP of this size to be commissioned after liberalization and that too without a counter guarantee from the Government of India. Being one

of the first few projects implemented under the liberalized Government of India policy, the project had to overcome several regulatory delays. GTEC successfully implemented various agreements including the Power Purchase Agreement with Gujarat Electricity Board. The group divested GTEC (now known as GPEC) in 1999 for strategic reasons, in the largest merger and acquisition transaction of the 20th century.

4.02 Project Description

TPGL has an authorized capital of Rs.1000 Crores of which Rs.102 Crores has been subscribed to by Torrent Group Companies. The plant site is located at Akhakhol Village, about 28 kms north from the city of Surat. The site is connected by road to the ports of Mumbai and Magdhala (Surat). River Tapi, which will be the source of water for the project is at a distance of 2.5 kms from the site. The LNG terminal at Hazira is at a distance of 50 kms and LNG terminal at Dahej is at a distance of 100 kms from the site.

The Government of Gujarat has approved the setting up of this 1000 + MW power project. On the recommendation of the Government of Gujarat, the Government of India has granted in principle mega power status to the subject project. The Gujarat Pollution Control Board has issued its "No Objection Certificate" (NOC) to the project. A presentation was also made to the MOEF Expert Committee for Thermal Power Plants (comprising of 13 eminent members, including external persons) for approval of the project on 19th March 2004.

Encouraged by the pace of implementation of the project, Government of Gujarat and Government of India have also included the Company's project for completion under the 10th plan period.

The main land admeasuring around 250 acres (100 hectares) has been procured by TPGL at market rate with a full and unqualified consent of the sellers. The land is adequate, not only for the currently proposed plant but also for the future expansion.

4.03 Engineering Procurement and Construction (EPC) Works

EPC Works comprises generating plant, cooling water system, switchyard, DM Plant and Control Room.

4.03.1 Generating Plant

Gas Turbine Power Plants using Natural Gas and Regasified Liquefied Natural Gas have been in operation for a long time. There has been a considerable improvement in the design of gas turbine generators, resulting in significant enhancement in their reliability, capacity and thermal efficiency. The thermal efficiency attainable in combined cycle power plants is much higher than the efficiency of the best available fossil fuel fired thermal power plants.

Each block of the proposed combined cycle power plant at Akhakhol would comprise one advance class gas turbine(GT), one heat recovery steam generator(HRSG), one steam turbine (ST) with a common generator .

4.03.2 Cooling Water System

The plant will be provided with a circulating cooling water system with cooling tower. The required water for the plant will be drawn from the river Tapi through a buried MS/CI pipeline and stored in the plant raw water storage reservoirs with a planned capacity of 27 million gallon, to cover water requirement of 3 days.

4.03.3 Switchyard

The power station switchyard would be of 220 kV and 400 kV with two Main Bus and one Transfer Bus scheme and one and half breaker scheme for 400 kV system. This scheme is reliable and provides for continuous evacuation of power even during outage of the one bus and allows for maintenance of line breakers. 16 bays of 220 kV and 2 bays of 400 kV will be provided to evacuate 1095 MW power.

4.03.4 DM Plant

The DM Plant will provide DM water to meet the make up requirements of the HRSG, ACW system and GT evaporative cooling water system for the entire 1095 MW gas based CCPP. The water treatment plant consists of a filtration plant and demineralization plant. The plant will be a semi automatic one, controlled through Programmable Logic Controller.

4.04 Non EPC Works

4.04.1 Energy Evacuation

The power generated in the CCPP is proposed to be evacuated by TPGL by one 400 kV double circuit line and three 220 kV double circuit lines.

4.04.2 Raw Water Intake System

Water is required primarily for cooling of condenser, cooling of various GTG & STG auxiliaries, production of DM water, etc. Total water required for the plant is estimated at 9 MGD at the maximum capacity. The availability of required quantity of water from the perennial Tapi river (which is 2.5 km from the site) is confirmed. Water management plan, including construction of intake well, pump house and conveyance pipeline to site, has already been finalized. Request for drawal of required quantity of water from the river has already been made and "in-principle" approval has been received for 15 MGD.

4.05 Fuel Selection

Various options for fuel viz. imported coal, indigenous coal, natural gas and RLNG were considered. Many other fuels like Naphtha, Lignite, Petroleum Coke, LSHS/FO were not considered because of either their high/undefined cost or their adverse impact on the plant and environment as a whole or their non-availability.

The pros and cons of various fuels are tabulated as under:

Factor	**Natural Gas**	**LNG**	**Imported coal**	**Domestic coal**
Availability	Would depend on new gas finds	Available due to new LNG projects	Available	Abundant. Mine development could be an issue
Flexibility of operation	High	High	Need to be operated as base load	Need to be operated as base load

			plant with few starts and stops	plant with few starts and stops
Infrastructure	Can be located anywhere	Can be located anywhere	Need port, and abundant water and need to be located away from cities	Need railway line, land for ash disposal and abundant water and need to be located away from cities
Environmental	Cleanest fuel along with LNG	Cleanest fuel alongwith Natural gas	Better than domestic coal	Rank the least

Domestic coal has high ash content, low calorific value, lacks guarantees by Railway against transportation risks and is uncertain of availability in future, thus rendering it unsuitable. Imported coal option requires incurrence of extra costs on account of dedicated port facilities and desulphurization unit and thus becomes uncompetitive. Natural gas availability is poor as even the existing commitments are not been met. LNG is established commercially and suited environmentally. At a competitive price this is the best option. Availability would not be a constraint as Petronet LNG has already commissioned its LNG terminal and Shell Hazira will be completing its terminal construction by November 2004 and the project site is located conveniently near to both the terminals and the main gas pipelines LNG is therefore, the chosen fuel for this project.

5.00 GROUNDS FOR THE PETITION

5.01 The Hon'ble Commission is well aware of the fact that AEC has been continuously striving to reduce its cost of supply through various means over the last couple of years and is committed for future years also. At the same time, AEC is totally committed not only to maintain but also enhance reliability and quality of supply of power to its consumers.

5.02 Section 86 (1) (b) of the Act, interalia casts duty on the Hon'ble Commission to "Regulate electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from the generating companies or licensees or from other sources through agreements for purchase of power for distribution and supply within the state".

5.03 Section 17 (a) & (b) of the Gujarat Electricity Industries (Reorganization and Regulation) Act, 2003 also empowers the State Commission:

a) "to regulate purchase, transmission, distribution, supply and utilization of electricity" and

b) "to regulate the procedure for purchase and procurement of electricity from any source for transmission, sale, distribution and supply thereof in the state and for the determination of the price for such purchase or procurement".

5.04 To take advantage of liberalized Government of India policy coupled with slow supply growth in Gujarat Region, Torrent Power Generation Ltd. is setting up 1095 MW Gas Based Combined Cycle Mega Power Project near Surat. The project is being implemented under the Special Purpose Vehicle (SPV). Regasified Liquefied Natural Gas (RLNG) is chosen as fuel for this project. The project is environmental friendly, as RLNG being a clean fuel does not result in any emission of sulphur dioxide and objectionable level of NOx. The project can be termed as Fast Track Project as it is proposed to be implemented in a shorter time with lower cost. At present the work is going on very fast and the project is expected to be commission during by the year 2006-07.

5.05 AEC has been meeting demand from the consumers in the license area by its own generation as well as import of power from GEB. The total power imported by AEC from GEB is given herebelow :

Year	Total Demand(MU)	Generation (MU)	Import (MU)	Demand (MW)
1999-00	3703	3393	310	621.9
2000-01	3798	3361	437	668.2
2001-02	3761	3134	627	657.7
2002-03	3929	3169	760	693.5
2003-04	4092	2952	1140	708.8

5.06 AEC has undertaken the exercise of long term forecasting with reference to its own Generation, System Demand and Import of power required to meet its system demand for next six years i.e. up to 2009-10.The result of this long term forecasting has indicated that system peak demand will increase from 708 MW in 2003-04 to 910 MW in 2009-10.

5.07 Increase in demand is mainly attributed to additional requirements of power. The Hon'ble Commission is well aware of the fact that at present, AEC meets its additional power requirement through the purchase of power from GEB. In fact, GEB itself also faces gap in meeting peak demand. Therefore, as an alternative, AEC thought of scouting for supply of power from sources other than GEB/Gujarat State Electricity Corporation Ltd (GSECL). Basically this option will serve two purposes viz. it would not only not burden GEB/GSECL with extra load but even may relieve GEB/GSECL from existing supply thereby helping them to meet other requirements and that AEC will be able to secure its future requirement at a competitive rate.

5.08 AEC has examined alternate options for sourcing power mainly through arrangement with power traders such as PTC as well as bilateral arrangement with other State Electricity Boards. However, the input cost from such sources has to be competitive as compared to other sources of power. The analysis conducted by AEC conclude that on the one hand this option has limitation for supply over a long period and on the other hand it would continue to be an expensive source of power for meeting the requirement.

AEC has another option to procure power directly from a dedicated generating station. AEC believes that in the given situation of unavailability of long term committed source of electricity, it may be prudent to move ahead with securing supply from a dedicated power station.

AEC believes that as long as it can be ensured that the power procured from the generating station is competitively priced as compared to the alternative sources, the Hon'ble Commission should consider this as an acceptable power procurement solution.

AEC proposes to procure power to service its future needs through a 1095 MW combined cycle gas turbine (CCGT) based power proposed by TPGL. With the object of minimizing the ultimate tariff to the consumers, the power project is proposed to be established as a mega power project in order to avail the following benefits:

- Import of capital equipment for the power project would be free of custom duty.
- Income tax holiday of 10 years for the SPV.
- Possibility of getting incentives from the State Government for the Power Project from sales tax and local levies.

Such benefits would result in reduction of the cost of constructing the power project, leading to lower project cost and hence lower tariff.

5.09 AEC believes that, in the prevailing scenario in the power sector, techno commercial prudence will always find its rightful place. Today, in the changing scenario the bulk purchasers are free to source their requirements from any generating companies, as also the generating companies are free to supply the power to bulk purchaser including licensees. Therefore, need to make long term arrangement of procurement of power is emphasized due to the several reasons inter-alia due to the fact that AEC can secure its long term requirements at a competitive rates with high degree of reliability.

5.10 TPGL an SPV is setting up 1095 MW Gas Based Combined Cycle Mega Power Project, with estimated cost of Rs.3256 Crores. The debt equity ratio has been assumed as 70 : 30. The Torrent Group would hold 51% of the equity stake in the TPGL. AEC as a part of Torrent Group is participating in the equity of TPGL and proposes to invest an amount of Rs.100 crores in the equity of TPGL with an objective of assured allocation of power from TPGL at competitive rates.

As the Engineering, Procurement, Construction (EPC) forms a substantial proportion of total cost of this power project, TPGL has undertaken the process of International Competitive Bidding (ICB) to select an EPC contractor. This would ensure that the cost of power generated is competitive, resulting in lower power procurement cost for the buyers including AEC and thereby competitive retail tariffs for consumer in its licensed area.

For this purpose, TPGL has invited bids from companies or consortia of companies. The objective is to select a company, or a consortium of companies, which has suitable experience and financial strength to successfully undertake the EPC services for the Project, and which offers the best financial and commercial terms towards the EPC Contract.

The ICB process include the following phases:

- International Advertisement and Notification of the Bid
- Preparation and issue of the Bid Document
- Receipt of comments from the Bidders and Pre-bid conference (for clarification of issues)
- Bid submissions
- Bid opening
- Bid Evaluation; and
- Award of Contract.

At present the procedure up to Bid opening is completed. After the bidders provide complete information and all received bids are brought at par, TPGL will evaluate the bids. Based on the result of the evaluation, TPGL would enter into discussion with the "preferred bidder" and seek to finalize the contract with him.

Basically this process will ensure the best deal for EPC Contract and will result into saving in EPC cost.

5.11 **In order to secure the supply of power continuously and consistently at competitive price, AEC has entered into a long term Power Purchase Agreement on 8th May 2004 with TPGL. This will enable AEC to continue to maintain its high reliability of supply to its own consumers over a long period at economic price. AEC submits the said PPA for the approval of Hon'ble Commission under section 86 of the Electricity Act 2003.**

5.12 The copy of the PPA is enclosed herewith marked as **Annexure - B** for ready reference of the Hon'ble Commission.

5.13 The salient features of the PPA are enumerated as under: -

1. PPA will be for a period of 20 years from the date of commencement of commercial operation of the Project.

2. AEC will buy 25% of the generating capacity and energy from TPGL during the tenure of this Agreement.

3. The tariff will be calculated as per CERC Notification No.L-7/25(5)/2003-CERC dated 26/3/04 applicable to the generating companies. Tariff is based on the following principles:

    a. The capacity charge will be calculated with reference to the approved capital cost of the Project.

    b. Capacity charge will comprise of:

        i) Interest on long capital
        ii) O & M expenses as per Notification
        iii) Depreciation at the rates specified in the Notification and Additional Depreciation as per Notification
        iv) Interest on working capital calculated on normative basis
        v) Return on equity
        vi) Taxes on income
        vii) Foreign exchange rate variation

    c. The capacity charge will be calculated with reference to target availability of 80%.
    d. For energy drawn beyond 80% PLF, no capacity charge will be payable but an incentive @ Rs.0.25/kwh will be payable in addition to the Energy charge.
    e. Energy charge will be based on the actual cost of fuel on the basis of normative heat rate and normative auxiliary consumption as prescribed by CERC Notification.
4. AEC will have to open a Letter of Credit for an amount equal to 1.5 months of tariff payment and an Escrow Account to provide for security of payment.
5. The bills will be raised every month and the payment will have to be made within 30 days from the date of meter reading.

5.14 Besides this, the PPA provides for normal clauses like the commissioning of the Project, declaration of availability and capacity, metering, interconnection and transmission facility, dispatch procedures, insurance, the events of default by either party and consequences thereof, force majeure events and consequences thereof, mechanism for dispute resolution, etc.

Based on estimated project cost, completion schedule and assumption of fuel prices along with rate of interest, etc., the tariff on the basis of the above principles works out to Rs. 2.18/kwh in the first year of operation. The levelised tariff over the period of PPA will come to Rs.2.38/kwh. Adding thereto an estimated cost of wheeling from TPGL busbar to AEC receiving station an estimated cost of Rs.0.25/kwh, the cost of power delivered at AEC receiving station would be in the region of Rs.2.43 to Rs.2.63/kwh over the period of PPA, which compares quite favourably with the current purchase price of Rs. 3.35/kwh paid by AEC.

5.15 The purchase of power is one major element of cost of supply for AEC. This procurement at a competitive price will help AEC in lowering its cost of supply. This will lead to reduction of Annual Revenue Requirement (ARR) for AEC. This will in then benefit all 1.2 million consumers of AEC by way of consistently economic tariff over a long period. This agreement to purchase of power from TPGL will therefore be in the long-term interest of AEC.

5.16 As premised above, AEC requests the Hon'ble Commission to approve Power Purchase Agreement with TPGL.

6.00 PRAYERS

6.01 AEC prays that the Hon'ble Commission may grant the following prayers :

a) Approve the Power Purchase Agreement with TPGL

b) Any other relief that the Hon'ble Commission may deem fit.

SUDHIR SHAH
DIRECTOR

Date: 12th May, 2004
Place: Ahmedabad

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AHMEDABAD

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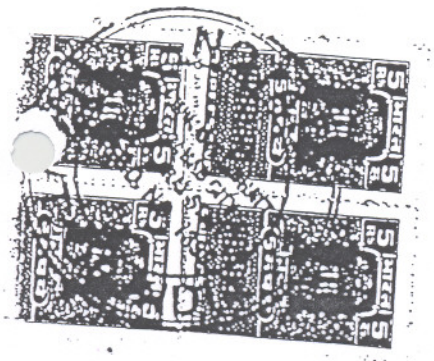

SR.NO 3897 /2004

Affidavit supporting the Petition

R. S. Bhatt
NOTARY
12 MAY 2004

I, Sudhir Shah, son of Shri Shantilal Shah, aged 53 years residing at A-701, Kaushambi, Near Mahalaxmi Cross Roads, Ahmedabad 380 007, do solemnly affirm and state as follows:

1. I am Whole-time Director of The Ahmedabad Electricity Company Limited, the petitioner in the above matter and am duly authorized by the said petitioner to make this affidavit.

2. The statements made in the body of the petition are true to my knowledge and I believe the same to be true.

Solemnly affirmed at Ahmedabad on this 12th day of May 2004 that the contents of the above affidavit are true to my knowledge and belief, no part of it is false and nothing material has been concealed there from.

Identified before me

Deponent

GUJARAT ELECTRICITY REGULATORY COMMISSION

NOTARY
RAJNIKANT S. BHATT
AHMEDABAD CITY
OF GUJARAT STATE
REGD. NO. 1390
GOVT.

SOLEMNLY AFFIRMED
BEFORE ME
12/5/04

R. S. BHATT
NOTARY
GOVT. OF INDIA