

6.20 Keeping all these factors in view, we have decided in favour of providing a post-tax return @ 14% for the Central Power Sector Utilities and @ 16% in case of IPPs. In case, IPPs are provided same payment security mechanism like the Central Power Sector Utilities, ROE in their case shall also be reduced to 14%. The return on equity is based on post-tax and accordingly, the income-tax shall be reimbursed by the beneficiaries as per the provisions discussed in the section relating to income-tax.

Depreciation and Advance against Depreciation

6.21 During the tariff period 2001-2004, the Commission provided for depreciation on a straight line basis, spread over the entire life of the asset. It should be noted that the practice of allowing depreciation has been changed from time to time. Prior to 1992, depreciation was being allowed over the useful life of the asset. In 1992, the provision for depreciation was changed to provide a higher rate of depreciation, thus de-linking the life of the asset from the rate of depreciation. This imbalance between the useful life of the asset and the depreciation rate was further aggravated by the increase in the depreciation rate to yield an over all depreciation rate of 7.5% for thermal power generating stations. This change in rate had altered the depreciation rates for the transmission system as well. However, the depreciation rates in case of the hydro power generating stations remained static and the hydro power generating stations were allowed to recover their depreciation over their useful life of 35 years and for meeting cash flow requirements for debt repayments, advance against depreciation was provided. The change in the depreciation rates had resulted in the high front loading of tariff and issues like interest of the investor after 12 years by which time the 90% depreciation is recovered came to the fore and became an issue for debate in many private power