BEFORE THE HIMACHAL PRADESH ELECTRICITY REGULATORY COMMISSION SHIMLA

Petition No:	**163 of 2026**
Date of Filing:	01.09.2026
Arguments Heard on:	14.10.2026
Decided on:	**28.10.2026**

CORAM

SHASHI KANT JOSHI
MEMBER-cum-CHAIRMAN

In the matter of:-

The Himachal Pradesh State Electricity Board Ltd.
Vidyut Bhawan, Shimla-171004.

…….Petitioner

Miscellaneous Application (MA) for In-principle approval for Additional Capitalization of Rs. 47.85 Crore excluding IDC in respect of (3x40 MW) SVP Bhaba Hydro Electric Project (HEP).

Present:
Sh. Rajesh Kashyap, Ld. Counsel for the Petitioner.

ORDER

This Petition has been filed by the Himachal Pradesh State Electricity Board Limited (HPSEBL/ Petitioner for short) under Regulation 8 of the HPERC (Terms and Conditions for Determination of Hydro Generation Tariff) Regulations, 2024 ('MYT Regulations, 2024' for short), seeking approval of the Commission and inclusion of the Scheme for "Procurement and Installation of new Pelton Runner, VT & Submersible Pump, Stator Bars, Comprehensive overhauling of Generating Unit Nos.

I, II & III, Battery Bank, Mechanical over speed device and up-gradation of ventilation and Air Conditioning System for the 3x40 MW SVP Bhaba Hydro Electric Project (HEP)" with an estimated cost of Rs. 47.85 Crore (excluding IDC) in the Capital Investment Plan for the Fifth Control Period (FY 2024-25 to FY 2028-29).

2. The Petitioner has submitted that the Bhaba Power House is situated on the Right Bank of river Satluj in district Kinnaur of Himachal Pradesh. Practically, it is a run of the river scheme, harnessing the water potential of Bhaba Khad, a tributary of river Satluj, but it also has a nominal pondage for running the powerhouse at the installed capacity for 3 hours for peaking purposes. Its entire water conductor system (WCS), power house and switchyard are underground and are thus immune to the vagaries of nature e.g. snowfall, glaciers and landslides. During the year 2001-02, water of Sarchoo Khad was added to Bhaba Khad, thus augmenting its annual generation capacity by another 15 to 20% during the lean period.

3. The Petitioner has apprised that the three Generating Units, each of 40 MW, of Bhaba Power House were commissioned on the following dates: -

1st Unit = 20.5.1989
2nd Unit = 14.6.1989
3rd Unit = 27.7.1989

4. As per the Petitioner, the performance of the Bhaba Power House has been satisfactory since its commissioning. Since the old equipments have been in operation from 1989 and the useful life of the Project is almost over, so the replacement of the damaged equipments with the new state of art technology shall be the best alternative for extending the life of the Project for another 20-25 years.

5. The Petitioner has submitted the details of the proposed works under the scheme for the 3x40 MW SVP Bhaba Hydro Electric Project (HEP)" as under: -

(a) Supply and Erection of 3 Nos. 21-Bucket Fully Forged HP-HVOF Coated Pelton Runner for 40 MW Generator (+10% overload) at 3x40 MW SVP Bhaba Power House (Estimated cost of Rs. 27.42 Crore);

The supply and installation of three Pelton runners for 40MW Generator (+10% overload) at the Bhaba Power House are required. These runners are to be equipped with 21 buckets each, made of high-quality, fully forged material. The runners will be coated with High-Pressure High-Velocity Oxygen Fuel (HP-HVOF) coating. This coating ensures enhanced performance and durability under the harsh operational conditions of the power plant.

(b) Supply of 04 Nos. VT Pumps and supply, testing, assembling and commissioning of 01 No. Non-clog submersible pump i/c discharge pipe with suitable reducer/expender & VFD Starter

Control Panel of 3x40MW SVP Bhaba Power House (Estimated cost of Rs. 2.55 Crore);

This involves the supply of Vertical Turbine (VT) & Non-clog Submersible Pumps including discharge pipe with suitable reducer/expender & VFD Starter Control Panel for the 3x40 MW capacity plant. In addition to supplying the pumps, testing procedures for Non-clog Submersible Pumps will be performed to ensure the pumps meet operational standards.

(c) Providing and Supplying Mechanical Over Speed Device for Governing System of 3x40 MW SVP Bhaba HEP (Estimated cost of Rs. 0.24 Crore);

The supply of a mechanical over speed device for the governing system of the turbine is required. This safety device will regulate the speed of the turbine, ensuring that it does not exceed operational limits, which could otherwise damage the turbine or related equipment.

(d) Procurement and supply of Stator bars, Universal Pole Field Coils and Pole keys of 3x40MW Bhaba Power House (Estimated cost of Rs. 6.34 Crore);

This task involves the Procurement and supply of Stator bars, Universal Pole Field Coils and Pole keys. These spares are critical for maintaining uninterrupted power generation by minimizing outage periods, avoiding costly emergency procurement and delays in case of failure. It will enhance the reliability and safety of plant operations by complying with OEM(BHEL) recommendations.

It will further ensure the protection of long-term asset health of the power house, which has already surpassed 35 years of service life.

(e) Comprehensive overhauling of Generating units No.I,II&III of 3x40MW Bhaba Power House (Estimated cost of Rs. 6.27 Crore);

This task involves the comprehensive overhauling of Generating Units No. I, II & III. This overhauling is vital to restore the design parameters and operational clearances of the units within permissible limits, prevent forced outages and unplanned shutdowns due to potential equipment failures, enhance the reliability, performance and efficiency of the generating unit, extend the service life of the machines, which has already surpassed 35 years of operation.

(f) Providing, supplying, installation, testing and complete commissioning of 2 Nos. 220 V DC, 1070 Ah Tubular Battery Bank in 3x40 MW SVP Bhaba HEP (Estimated cost of Rs. 0.96 Crore);

This task involves the supply, installation, testing, and commissioning of a 220 V DC, 1070 Ah Tubular Battery Bank. The battery bank is a critical backup power source for the plant's control systems and emergency operations.

(g) Providing, Supplying, Installation, Testing, and Complete Commissioning of 48 V, 400 Ah Battery Bank in 3x40 MW SVP Bhaba HEP (Estimated cost of Rs. 0.09 Crore);

Similar to the previous task, this involves the supply, installation, testing and commissioning of a 48 V DC, 400 Ah battery bank**.**

(h) Dismantling of Existing Fresh Air Blower System and Installation of New Ventilation System in 3x40 MW Bhaba HEP of SVP Bhaba Power House, HPSEBL, Bhabanagar (Estimated cost of Rs. 1.72 Crore); and

The dismantling of the existing fresh air blower system and the installation of a new ventilation system is required to improve the cooling efficiency of the power plant. The new ventilation system will help in maintaining optimal operating temperatures for the plant's critical components, such as turbines and generators.

(i) Dismantling of Existing AC Plant System and Installation of New AC Plant System in 3x40 MW Bhaba HEP of SVP Bhaba Power House, HPSEBL, Bhabanagar (Estimated cost of Rs. 2.27 Crore).

This involves the dismantling of the existing air conditioning (AC) plant system and the installation of a new AC system to maintain appropriate temperature and humidity levels within control rooms, instrumentation areas, and other critical zones in the power house.

6. As per the Petitioner, the Commission, vide Clause 4.2.10 of the Multi Year Tariff Order dated 19.03.2025 ('MYT Order' for short) for 5th Control Period (FY 25- FY 29) for Generation Business of the HPSEBL, has directed the Petitioner to seek fresh approval of the Commission for additional capitalisation works post finalization of DPR and approval of the same from competent authority of the HPSEBL.

7. In compliance of the directions of the Commission, the Petitioner has prepared the DPR alongwith corresponding approval of the Whole Time Directors (WTD) for the said Scheme.

8. Thus, the instant Petition has been filed by the HPSEBL before the Commission for allowing the Additional Capitalization of Rs. 47.85 Crore excluding IDC in respect of 120 MW Bhaba Power House for the scheme "Procurement and Installation of new Pelton Runner, VT & Submersible Pump, Stator Bars, Comprehensive overhauling of Generating Units No. I, II & III, Battery Bank, Mechanical over speed device and the up-gradation of ventilation and Air Conditioning System for the 3x40 MW SVP Bhaba Hydro Electric Project (HEP)"during 5th MYT Control Period.

REPLY OF THE RESPONDENTS

9. During the course of the proceedings, the Commission gathered that since the Petition/Application is related to the approval of CAPEX by the Petitioner and shall have an impact on tariff of the electricity Consumers and accordingly, the Commission issued notice to the major Stakeholders to file their objections /suggestion, if any, in the matter.

10. No objections/suggestions have been received from the Stakeholders in the matter.

SUBMISSIONS OF THE PARTIES

11. Heard Shri Rajesh Kashyap, Ld. Counsel for the Petitioner and have pursued the entire record with minute care.

POINTS FOR DETERMINATION

12. The Commission has gone through the submissions filed by the Petitioner and perused the record carefully. On the basis of the pleadings and submissions, the following points arise for determination:-

Point No. 1: Whether the Petitioner can be accorded in principal approval for additional Capitalization of Rs. 47.85 Crore excluding IDC in respect of 120 MW Bhaba Power House for the scheme “Procurement and Installation of new Pelton Runner, VT & Submersible Pump, Stator Bars, Comprehensive overhauling of Generating Units No. I, II & III, Battery Bank, Mechanical over speed device and the up-gradation of ventilation and Air Conditioning System for the 3x40 MW SVP Bhaba Hydro Electric Project (HEP)” during 5th MYT Control Period?

Point No. 2: Final Order.

13. For the reasons to be recorded hereinafter in writing, our point-wise findings are as under:-

Point No. 1: Yes.

Point No. 2: The Petition allowed per operative part of the Order.
(Final Order)

REASONS FOR FINDINGS

Point No. 1:

14. The Commission has examined the submissions made by the Petitioner, the nature and necessity of the proposed works, their estimated costs, and the justification furnished for their inclusion in the Capital Investment Plan.

15. The Commission noted that three generating units of the SVP Bhaba HEP were commissioned in the year 1989 and have completed more than 35 years of operation. It is recognized that prolonged operation of hydroelectric generating equipment may result in progressive deterioration of mechanical, electrical and auxiliary systems due to wear, fatigue, erosion, ageing of insulation and other operational factors.

16. The Commission is of the view that timely refurbishment, replacement and modernization of ageing equipment are important for maintaining the operational reliability, safety and efficiency of hydroelectric generating stations. Such investments may also reduce the risk of forced outages and consequential loss of generation.

17. However, the Commission emphasizes that the age of equipment or completion of its normative useful life cannot, by itself, be regarded as sufficient justification for its replacement. The necessity and reasonableness of each proposed investment must be established

through appropriate technical assessment, operational records, condition-monitoring reports, cost-benefit analysis and examination of available alternatives.

18. The Commission also considers it necessary to distinguish between expenditure of a capital nature and expenditure ordinarily attributable to repair, maintenance or routine overhauling, so that only admissible expenditure is considered for capitalization in accordance with the applicable regulatory framework. In this background, the Commission has examined the individual components of the proposed scheme in the subsequent paras.

(A) <u>Supply and Erection of Three Pelton Runners — ₹27.42 Crore:</u>

19. The Petitioner has proposed procurement and installation of three fully forged Pelton runners, each having 21 buckets and suitable for operation with 40 MW generating units having an overload capacity of 10%. The proposed runners are to be provided with High-Pressure High-Velocity Oxygen Fuel (HP-HVOF) coating for improving resistance to erosion and wear.

20. The Commission observed that the Pelton runner constitutes one of the most critical components of a hydroelectric generating unit and directly influences its operating efficiency, reliability and performance.

21. Considering the prolonged operation of the generating units and the possibility of erosion, cavitation-related damage, fatigue and deterioration of runner surfaces, the proposed replacement may be justified, subject to establishment of the actual condition of the existing runners and the technical necessity for replacement.

22. The Commission is of the view that replacement of the existing runners with appropriately designed and technologically improved runners may contribute to improve turbine efficiency, reduce maintenance requirements and enhance operational reliability.

23. However, considering that the proposed expenditure of ₹27.42 crore constitutes the largest component of the scheme, the Commission considers it necessary that the Petitioner undertake a detailed technical and financial appraisal, including evaluation of the feasibility of refurbishment of the existing runners vis-à-vis their replacement.

24. Accordingly, the Commission accords in-principle approval for inclusion of this work in the Capital Investment Plan, subject to the Petitioner furnishing the following information/details at the time of seeking approval of actual capitalization:-

(i) Detailed condition-assessment reports of the existing runners, supported by inspection records, photographs and relevant test results;

(ii) Technical justification for replacement instead of repair, refurbishment or life-extension treatment of the existing runners;

(iii) Comparative techno-economic analysis of the available alternatives;

(iv) Design specifications, performance parameters and technical compatibility of the proposed runners with the existing turbines and associated equipment;

(v) Details of the anticipated improvement in efficiency, availability and reduction in maintenance expenditure;

(vi) Cost estimates supported by market assessment, benchmark prices or comparable procurement data;

(vii) Details of the competitive bidding process and the final awarded cost; and

(viii) Details of the treatment, disposal or salvage value of the existing runners.

25. The Commission clarifies that the final admissibility of the expenditure shall be subject to verification of the necessity, reasonableness and prudence check of the actual expenditure incurred.

(B) <u>Procurement of VT Pumps and Non-Clog Submersible Pump — ₹2.55 Crore:</u>

26. The Petitioner has proposed procurement of four Vertical Turbine (VT) pumps and one non-clog submersible pump along with discharge

piping, suitable reducers/expanders, a Variable Frequency Drive (VFD) starter control panel and associated accessories.

27. The Commission observed that pumping systems are essential auxiliary equipment for ensuring proper drainage, dewatering and safe operation of an underground power house.

28. Failure or inadequate performance of such systems may adversely affect the operation of the generating station and, in certain circumstances, pose risks to electrical equipment and personnel.

29. The Commission considered that replacement or augmentation of pumping equipment may be justified where the existing installations have deteriorated, become unreliable or are inadequate to meet operational requirements.

30. Accordingly, the Commission accords in-principle approval for the proposed work, subject to the Petitioner establishing the condition and adequacy of the existing pumping system, the basis for determining the number and capacities of the proposed pumps, and the reasonableness of the estimated cost.

31. The Petitioner shall also ensure that the proposed equipment is compatible with the existing infrastructure and that the procurement is undertaken through a transparent and competitive process.

(C) Mechanical Overspeed Protection Device — ₹0.24 Crore:

32. The Petitioner has proposed procurement of a mechanical overspeed protection device for the governing system of the generating units.

33. The Commission observed that overspeed protection constitutes an important safety feature of hydroelectric generating equipment, intended to protect the turbine-generator assembly against abnormal operating conditions.

34. The Commission recognized the importance of maintaining reliable and independent protection systems for preventing equipment damage and ensuring operational safety.

35. Accordingly, the Commission accords in-principle approval for the proposed work, subject to verification of the existing protection arrangements, technical necessity, scope of installation, compatibility with the governing system and reasonableness of the cost.

36. The Petitioner shall ensure that the proposed system is tested and commissioned in accordance with applicable technical standards and the recommendations of the Original Equipment Manufacturer (OEM).

(D) Procurement of Stator Bars, Universal Pole Field Coils and Pole Keys — ₹6.34 Crore:

37. The Petitioner has proposed procurement of stator bars, universal pole field coils and pole keys as critical spares for the generating units.

38. The Petitioner has submitted that these components are necessary for maintaining uninterrupted power generation, minimizing outage periods, avoiding emergency procurement and ensuring the long-term health of the generating units.

39. The Commission recognized that availability of critical spares for ageing hydroelectric generating equipment may significantly reduce the duration of forced outages and prevent prolonged interruption of generation.

40. However, the Commission observed that procurement of spare parts does not necessarily constitute capital expenditure merely because such parts are technically important or have substantial value.

41. The regulatory treatment of such expenditure shall depend upon the nature of the spares, their intended use, applicable accounting standards, capitalization criteria and the relevant provisions of the MYT Regulations, 2024.

42. Accordingly, the Commission accords in-principle approval for inclusion of the proposed procurement in the Capital Investment Plan, subject to the following conditions:-

(i) The Petitioner shall furnish the inventory position of the existing spares and justify the proposed quantities;

(ii) The Petitioner shall submit the recommendations of the OEM or other competent technical authority;

(iii) The Petitioner shall demonstrate the criticality of the proposed spares and the consequences of their non-availability;

(iv) The Petitioner shall ensure that the proposed procurement does not result in avoidable duplication or excessive inventory;

(v) The Petitioner shall maintain separate records of the procurement, utilization and capitalization of the spares; and

(vi) The expenditure shall be considered for capitalization only to the extent admissible under the applicable Regulations and accounting principles.

43. The Commission clarifies that procurement of spares for inventory purposes shall not automatically qualify for addition to the capital cost of the Project.

(E) <u>Comprehensive Overhauling of Generating Units I, II and III — ₹6.27 Crore:</u>

44. The Petitioner has proposed comprehensive overhauling of all three generating units at an estimated cost of ₹6.27 crore.

45. According to the Petitioner, the proposed overhauling is intended to restore design parameters and operational clearances, minimize forced outages, improve efficiency and extend the service life of the generating units.

46. The Commission recognized that comprehensive overhauling of ageing generating units may be necessary for ensuring continued reliable operation, particularly where prolonged service has resulted in deterioration of components and deviation from prescribed operating tolerances.

47. At the same time, the Commission observed that routine and periodic overhauling ordinarily forms part of operation and maintenance activities, and expenditure on such activities cannot automatically be treated as capital expenditure.

48. The Petitioner shall, therefore, clearly segregate the scope and cost of works relating to routine maintenance from those involving major refurbishment, replacement, life extension or improvement of the generating units.

49. Thus, the Commission accords in-principle approval for inclusion of the proposed comprehensive overhauling work in the Capital Investment Plan, subject to the following conditions:-

(i) Submission of detailed unit-wise scope of work;

(ii) Identification of components proposed to be repaired, refurbished or replaced;

(iii) Technical justification for the proposed works, supported by inspection and condition-assessment reports;

(iv) Separate identification of expenditure of a capital nature and expenditure attributable to routine operation and maintenance;

(v) Submission of expected benefits in terms of operational reliability, efficiency and extension of service life; and

(vi) Compliance with the applicable regulatory provisions governing capitalization and operation and maintenance expenditure.

50. However, the Commission clarifies that expenditure attributable to routine overhauling, repair and maintenance shall not be admitted as additional capitalization merely on account of its inclusion in the approved Capital Investment Plan.

(F) <u>Installation of Two 220 V DC, 1070 Ah Battery Banks — ₹0.96 Crore:</u>

51. The Petitioner has proposed supply, installation, testing and commissioning of two 220 V DC, 1070 Ah tubular battery banks.

52. The Commission observed that DC battery banks are essential for ensuring uninterrupted operation of protection, control, switching and emergency systems in a hydroelectric generating station.

53. Considering the critical nature of these systems, the Commission is of the view that replacement of ageing or deteriorated battery banks may be necessary for maintaining the reliability and safety of the generating station.

54. Accordingly, the Commission accords in-principle approval for the proposed work, subject to verification of the age, condition, residual capacity and performance of the existing battery banks, alongwith the technical justification for the proposed capacity and configuration.

55. The Petitioner shall ensure proper testing, commissioning and safe disposal of the replaced battery banks in accordance with applicable statutory requirements.

(G) <u>Installation of 48 V DC, 400 Ah Battery Bank — ₹0.09 Crore:</u>

56. The Petitioner has proposed installation and commissioning of a 48 V DC, 400 Ah battery bank.

57. The Commission observed that the reliability of auxiliary DC supply systems is important for uninterrupted operation of the associated control, communication and other essential equipment.

58. Accordingly, the Commission accords in-principle approval for the proposed work, subject to technical justification, verification of the condition of the existing system and reasonableness of the proposed expenditure.

(H) <u>Replacement and Upgradation of Ventilation System — ₹1.72 Crore:</u>

59. The Petitioner has proposed dismantling of the existing fresh-air blower system and installation of a new ventilation system in the underground power house.

60. The Commission observed that adequate ventilation is essential in an underground powerhouse for maintaining acceptable environmental conditions, dissipating heat generated by electrical and mechanical equipments and ensuring the safety and comfort of operating personnel.

61. Inadequate ventilation may result in increased ambient temperatures, deterioration of equipment performance and adverse working conditions.

62. The Commission considered that replacement and modernization of an ageing ventilation system may be justified where the existing system is inadequate, inefficient or unreliable.

63. Accordingly, the Commission accords in-principle approval for the proposed work, subject to submission of the technical assessment of the existing ventilation system, the design basis of the proposed system, energy-efficiency considerations and cost justification.

64. The Petitioner shall ensure that the proposed system is appropriately designed for the specific requirements of the underground power house and that energy-efficient equipment is selected, wherever technically feasible and economically justified.

(I) <u>Replacement and Upgradation of Air Conditioning System — ₹2.27 Crore:</u>

65. The Petitioner has proposed dismantling of the existing air conditioning plant and installation of a new air conditioning system.

66. The Commission observed that maintaining appropriate temperature and humidity conditions in control rooms, instrumentation areas and other critical installations is essential for ensuring reliable functioning of electrical and electronic equipments.

67. The Commission recognized that modernization of an ageing air conditioning system may improve operational reliability, energy efficiency and environmental control within the power house.

68. Accordingly, the Commission accords in-principle approval for the proposed work, subject to verification of the condition and performance of the existing system, assessment of actual cooling requirements, evaluation of energy-efficient alternatives and reasonableness of the estimated cost.

69. The Petitioner shall ensure that the proposed system is appropriately sized and that avoidable oversizing, duplication or unnecessary expenditure is prevented.

Financial Prudence and Regulatory Treatment:

70. In exercise of the powers conferred under section 181 of the Act, the Commission has notified the MYT Regulations, 2024 on 05.06.2024. Regulation 27 of the MYT Regulations, 2024 provides as under:-

> ***"27. Additional Capitalisation within the original scope and after the cut-off date****.*
> *27.1 The additional capital expenditure incurred or projected to be incurred in respect of an existing project or a new project on the*

following counts within the original scope of work and after the cut-off date may be admitted by the Commission, subject to prudence check:

(a) Liabilities to meet award of arbitration or for compliance of the directions or order of any statutory authority, or order or decree of any court of law;

(b) Change in law or compliance of any existing law;

(c) Liability for works executed prior to the cut-off date;

(d) Force Majeure events;

(e) Liability for works admitted by the Commission after the cut-off date to the extent of discharge of such liabilities by actual payments; and

(f) Any additional capital expenditure which has become necessary for efficient operation:

Provided that the approval of additional capital expenditure for efficient operation shall be subject to submission of report on impact assessment done by any reputed third-party technical expert/agency on the benefits realised from previous investments under this head in the last five years.

27.2 In case of replacement of assets deployed under the original scope of the existing project after cut-off date, the additional capitalization may be admitted by the Commission, after making necessary adjustments in the gross fixed assets and the cumulative depreciation, subject to prudence check on the following grounds:

(a) The useful life of the assets is not commensurate with the useful life of the project and such assets have been fully depreciated in accordance with the provisions of these Regulations;

(b) The replacement of the asset or equipment is necessary on account of change in law or Force Majeure conditions;

(c) The replacement of such asset or equipment is necessary on account of obsolescence of technology; and

(d) The replacement of such asset or equipment has otherwise been allowed by the Commission:

Provided that the claim shall be substantiated with the technical justification duly supported by documentary evidence like test results carried out by an independent agency in case of deterioration of assets, damage caused by natural calamities, obsolescence of technology, up-gradation of capacity for the technical reason such as increase in fault level:

Provided that any claim of additional capitalisation with respect to the replacement of assets under the original scope and on account of obsolescence of technology, less than Rs. 20 lakhs shall not be considered as part of Capital cost and shall be met by Generating company through normative O&M expenses."

71. The Commission noted that the proposed investment covers replacement of assets deployed under the original scope of the existing project and is primarily intended to maintain and improve the reliability, safety, efficiency and operational availability of the existing generating station.

72. The Commission is of the view that timely capital investment in ageing hydroelectric generating stations may be necessary to prevent deterioration of operational performance and avoid major equipment failures. However, such investment must be justified with reference to the technical condition of the existing assets, the availability of economical alternatives and the expected benefits.

73. The Commission emphasizes that in-principle approval of a capital investment scheme is distinct from approval of the actual capital expenditure for tariff purposes.

74. Accordingly, the in-principle approval granted through this Order shall not be construed as final approval of the estimated expenditure or as an assurance that the entire expenditure incurred under the scheme shall be admitted in the capital cost of the Project.

75. The actual expenditure incurred shall be subject to prudence check by the Commission at the appropriate stage, in accordance with the applicable regulatory provisions.

76. The Commission shall examine, inter alia, the following aspects while considering the actual expenditure for capitalization:-

(a) Technical necessity and justification of the expenditure;

(b) Reasonableness of the cost incurred;

(c) Compliance with applicable procurement procedures;

(d) Extent of competition and transparency in procurement;

(e) Availability and evaluation of alternative technical solutions;

(f) Actual scope and quantity of works executed;

(g) Achievement of intended operational benefits;

(h) Treatment of replaced assets, salvage value and corresponding adjustments in the existing capital cost, wherever applicable;

(i) Classification of expenditure as capital expenditure or operation and maintenance expenditure;

(j) Compliance with the applicable Regulations and accounting standards; and

(k) Any other matter considered relevant and necessary for determining the admissibility of expenditure.

77. The Commission further observed that the estimated cost of the scheme excludes IDC. Any claim towards IDC, if made subsequently, shall be examined separately in accordance with the applicable Regulations and shall not be deemed approved by virtue of this Order.

78. The Commission, also made it clear that any escalation in the estimated cost or material modification in the approved scope of the scheme shall require appropriate justification and, where required under the applicable regulations, prior approval of the Commission.

Findings of the Commission

79. Having considered the submissions of the Petitioner and the nature of the proposed works, the Commission is of the view that the proposed scheme is broadly aimed at addressing ageing-related deterioration of the generating equipments and associated systems of the SVP Bhaba Hydro Electric Project.

80. The Commission recognized that the generating station has been in operation since 1989 and that timely refurbishment and replacement of critical equipments may be necessary for maintaining its continued safe and reliable operation.

81. The Commission further observed that the proposed works relating to Pelton runners, pumping systems, overspeed protection, battery banks, ventilation and air conditioning systems are connected with the operational reliability and safety of the generating station.

82. With regard to procurement of stator bars, universal pole field coils, pole keys and comprehensive overhauling of generating units, the Commission considered it necessary to ensure proper segregation of capital expenditure from routine maintenance expenditure and procurement of inventory spares.

83. The Commission is of the considered view that the proposed investment scheme may be permitted for inclusion in the Capital Investment Plan for the Fifth Control Period, subject to detailed scrutiny of the individual works, reasonableness of costs and prudence check and compliance with the applicable regulatory provisions.

84. The Commission also considered it appropriate that the Petitioner undertake the proposed works in a phased and coordinated manner, keeping in view the availability of water, generation requirements, planned shutdowns and the need to minimize avoidable loss of generation.

85. The Commission is therefore satisfied that there are sufficient grounds for granting conditional in-principle approval for inclusion of the

proposed scheme in the Capital Investment Plan, without prejudging the admissibility of the actual expenditure for tariff purposes.

86. In view of the foregoing discussions, examination and findings, the Commission hereby accords in-principle approval for inclusion of the scheme titled “Procurement and Installation of New Pelton Runners, VT and Submersible Pumps, Stator Bars, Comprehensive Overhauling of Generating Units No. I, II and III, Battery Banks, Mechanical Overspeed Device, and Upgradation of Ventilation and Air Conditioning Systems for 3 × 40 MW SVP Bhaba Hydro Electric Project” in the Capital Investment Plan for the Fifth Control Period (FY 2024-25 to FY 2028-29), at the proposed estimated cost of ₹47.85 crore (excluding IDC), subject to reconciliation of the component-wise cost discrepancy and the conditions stipulated in this Order.

87. The in-principle approval is further accorded subject to the following conditions and directions:-

(i) **Technical Justification**

The Petitioner shall maintain and furnish detailed technical justification for the proposed works, including condition-assessment reports, inspection records, recommendations of the OEM or competent technical authority and evaluation of available alternatives.

(ii) **Competitive Procurement:**

The Petitioner shall ensure that procurement of equipment, materials and services under the scheme is carried out through

transparent, competitive and economical procedures in accordance with applicable procurement rules and guidelines.

(iii) **Cost Control:**

The Petitioner shall exercise due diligence to ensure that the expenditure is restricted to the minimum necessary for achieving the intended objectives and that avoidable cost escalation is prevented.

(iv) **Segregation of Capital and Revenue Expenditure:**

The Petitioner shall separately identify and account for expenditure of a capital nature and expenditure attributable to routine repair, maintenance, overhauling or inventory procurement. Only expenditure admissible under the applicable regulatory framework shall be considered for capitalization.

(v) **Treatment of Replaced Assets:**

The Petitioner shall maintain proper records of the assets replaced under the scheme, including their original cost, accumulated depreciation, net book value, salvage value and disposal proceeds, wherever ascertainable and applicable.

(vi) **Phased Implementation:**

The Petitioner shall prepare a detailed implementation schedule for the proposed works, indicating the year-wise expenditure, procurement timelines, planned shutdowns and expected completion dates.

(vii) **Minimization of Generation Loss:**

The Petitioner shall schedule the execution of the works, particularly the replacement of Pelton runners and comprehensive overhauling of generating units, in a manner that minimizes avoidable generation loss and ensures optimum utilization of available water resources.

(viii) **Performance Monitoring:**

The Petitioner shall maintain appropriate records of the operational performance of the generating station before and after implementation of the scheme, including generation, availability, forced outages, efficiency and other relevant parameters.

(ix) **Reporting of Progress:**

The Petitioner shall submit periodic progress reports to the Commission, indicating the physical and financial progress of the scheme, expenditure incurred, works completed, deviations from the approved scope and reasons for delays, if any.

(x) **Cost Escalation and Scope Modification:**

Any material change in the scope of the proposed works or substantial escalation in the estimated cost shall be brought to the notice of the Commission, together with detailed justification, for consideration in accordance with the applicable Regulations.

(xi) **Regulatory Admissibility:**

The expenditure incurred under the scheme shall be subject to detailed prudence check and determination of admissibility by the

Commission at the appropriate stage in accordance with the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Hydro Generation Tariff) Regulations, 2024, as amended from time to time.

(xii) **No Automatic Tariff Pass-Through:**

The in-principle approval granted through this Order shall not confer any automatic entitlement upon the Petitioner for recovery of the estimated or actual expenditure through tariff.

(xiii) **Interest During Construction:**

No amount towards IDC is approved through this Order. Any claim towards IDC shall be considered separately, subject to the applicable regulatory provisions and supporting documentary evidence.

(xiv) **Compliance with Statutory Requirements**

The Petitioner shall ensure compliance with all applicable technical, safety, environmental, statutory and regulatory requirements during procurement, installation, testing and commissioning of the proposed equipment.

88. The in principle approval granted herein is limited to inclusion of the proposed scheme in the Capital Investment Plan for the Fifth Control Period and shall not be treated as final approval of the capital cost or additional capitalization for tariff determination purposes.

89. The Petitioner shall ensure that the actual expenditure incurred under the scheme is duly supported by documentary evidence and is separately identifiable in its books of account.

90. The Commission shall have the powers to examine, modify, restrict or disallow any part of the expenditure at the time of tariff determination or true-up, based on the outcome of the prudence check and compliance with the applicable regulatory provisions.

91. The Commission further made it clear that the in-principle approval granted herein shall be subject to the provisions governing additional capitalization under the HPERC (Terms and Conditions for Determination of Hydro Generation Tariff) Regulations, 2024, particularly Regulation 27, wherever applicable. The Petitioner shall establish that the expenditure proposed to be capitalized satisfies the relevant regulatory requirements. Any expenditure which is in the nature of routine repair and maintenance, inventory procurement or acquisition of minor assets not eligible for additional capitalization shall not be admitted merely by virtue of this in-principle approval. This qualification is important to preserve the Commission's authority to undertake a detailed prudence check without creating an unconditional entitlement to capitalization or tariff recovery.

92. The Commission further directs the Petitioner to explore the possibility of capacity enhancement for the project.

93. As such, the Point No. 1 is accordingly decided in favour of the Petitioner.

FINAL ORDER

94. In view of the above said discussions and findings on Point No. 1, the Petition succeeds and allowed subject to the conditions stipulated in this Order.

95. Let a copy of the order be supplied to the parties forthwith.

The file after needful be consigned to the records.

Announced
28.10.2026

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(Shashi Kant Joshi)
Member-cum-Chairman

HPERC