Directors' Report for the year 2009-10

Members of the Board, shareholders and Presidential Nominee at the 34th AGM

Dear Members,

On behalf of the Board of Directors it is my privilege to present the 34th Annual Report on the performance of your Corporation during the Financial Year ended on 31st March, 2010 along with the audited Statement of Accounts, Auditors Report and Review of the Accounts by the Comptroller & Auditor General of India for the reporting period.

FINANCIAL PERFORMANCE

The overall financial performance of the Corporation for the year under report has been very good. The Corporation has maintained consistency in its operations this year also despite various constraints. In terms of the new regulations issued by the Central Electricity Regulatory Commission for tariff applicable with effect from 1st April 2009 for the period 2009-14, vide notification dated 19th January 2009, sales of ₹ 1022.13 crores includes provisional amount of ₹ 230.80 crores for the year ended 31st March 2010 arrived on the basis of principles enunciated in the said Regulation. The Corporation achieved Gross Revenue of ₹ 1114.35 Crores in the year 2009-10 against the previous year's figure of ₹ 971.89 Crores recording a growth of 14.66 %. The Corporation earned a profit before tax of ₹ 337.41 Crores as against ₹ 326.88 Crores of previous year recording a growth of 3.22 % and the profit after tax amounts to ₹ 289.38 Crores against previous year's figure

of ₹ 296.97 Crores. The decrease in profit after tax is due to increase in the Minimum Alternate Tax rate from 11.33% to 16.995% in 2009-10.The performance of the Corporation for the financial year ended 31st March 2010 is summarized below:

(₹ In crores)

Particulars	**2009-10**	**2008-09**
Gross Revenue	1114.35	971.89
Sale of Power	1022.13	857.83
Gross Margin	609.83	573.17
Depreciation	209.89	149.90
Deferred Revenue Expenditure	2.04	2.06
Gross Profit	397.90	421.21
Interest and Finance Charges	49.87	88.53
Write off	10.62	5.80
Provision for Taxes	48.03	29.91
Profit after Tax	**289.38**	**296.97**
Add: Balance of Profit from last year	0.13	0.62
Write back from Bond Redemption Reserve	45.80	4.86
Profit available for Appropriation	**335.31**	**302.45**

Appropriations:		
Bond Redemption Reserve	8.35	14.08
Proposed Dividend (including interim dividend)	86.81	89.10
Tax on Dividend	14.75	15.14
General Reserve	225.00	184.00
Balance carried over to Balance Sheet	0.40	0.13
Total	**335.31**	**302.45**

DIVIDEND

Your Directors recommended dividend of ₹ 86.81 Crores for the year 2009-10 including the interim dividend of ₹ 26.05 Crores, paid in January'2010, subject to your approval in the Annual General Meeting. The total dividend pay-out represents 30% of Profit after Tax (PAT) as per the guidelines of the Ministry of Power, Government of India.

Dividend cheque for the year 2009-10 being handed over to the Hon'ble Minister of Power

REVENUE REALISATION:

Sales for the year 2009-10 is ₹ 1022.13 crores which includes provisional amount of ₹ 230.80 crores arrived on the basis of principles enunciated in the new Regulations issued by CERC vide notification dt.19th January 2009. However, the Company continues to bill the beneficiaries from 1st April 2009 at the tariff approved by the CERC as applicable on 31st March 2009. During the year the Corporation realized an amount of ₹ 806.60 Crores from the beneficiaries against actual billing of ₹ 791.33 Crores.

FINANCIAL REVIEW:

A) CAPITAL STRUCTURE

The Authorised Share Capital of the Corporation as on 31.03.2010 stood at ₹ 5000 Crores and the Paid up Capital was ₹ 3232.76 Crores (Previous year ₹ 3197.76 Crores). Government of India has released equity in respect of Pare HEP, amounting to ₹ 35.00 Crores and issued sanction order for issue of equity shares against rescheduling of loan to equity amounting to ₹ 4.18 crores during the financial year 2009-10.

B) BORROWINGS

The Corporation has raised a loan of ₹ 247.80 Crores during the year 2009-10. In spite of that, the borrowings of the Corporation as on 31st March, 2010 have come down to ₹ 637.04 Crores from ₹ 834.24 Crores as on 31st March, 2009 through effective fund management.

C) NET WORTH

The Net Worth of the Corporation excluding committed reserve as on 31st March, 2010 was ₹ 4406.68 Crores against ₹ 4182.17 Crores as on 31st March, 2009 representing a growth of 5.4 %.

D) COST ACCOUNTING RECORD RULES

The Central Government has approved the appointment of M/S A.C.Dutta & Co., Cost Accountants as Cost Auditor of the Corporation for the financial year 2009-10. The Cost Audit for the year 2009-10 has since been completed and the Report is under finalization.

ISO 9001 & 14001
OHSAS 18001

PLANTS UNDER OPERATION:
POWER GENERATION

The generation during the year 2009-10 was 4549MU against MoU Target (RE) of 4600MU thereby registering an achievement of 98.89% against MoU Target (RE). The Plant wise generation vis-à-vis target for the year 2009-10 is as under:-

Power Station	Generation Target (MU) 2009-10 for "V-Good" MOU rating (RE)	Actual Generation (MU) 2009-10	Achievement in % age	P.A.F. Target (%) 2009-10 for "V-Good" MOU rating (RE)	Actual Plant Availability Factor for Hydro (%) 2009-10	Actual Plant Availability Factor for Thermal (%) 2009-10
Hydro						
Kopili H E Plant (275 MW)	967	931	96.28	63	63.37	--
Doyang H E Plant (75 MW)	188	180	95.74	65	62.39	--
Ranganadi H E Plant (405 MW)	1064	1025	96.33	85	94.89	--
Thermal						
AGBP (291 MW)	1725	1750	101.45	70	--	69.94
AGTP (84 MW)	656	663	101.07	85	--	89.26
NEEPCO (1130MW)	**4600**	**4549**	**98.89**			

Note: All Targets are as per MOU (RE) and comparison has been carried out w.r.t. RE only.

HYDRO ELECTRIC PLANTS:

A) Kopili Hydro Electric Plant (275 MW), Assam:

The Plant consists of three power stations namely, Kopili Power Station (4X50 MW), Khandong Power Station (2X25 MW) and Kopili Stage-II Power Station (1X25 MW). During the year 2009-10, total generation from the Plant was 931MU.

Lower generation from the Plant during the year is on account of frequent forced outage of the units due to failure of the cooling water pipes & cooler tubes and severe affect of corrosion/ erosion of the under water parts of the generating units due to acidification of

Over view of power house

the water of both Kopili and Umrong reservoirs resulting in increased wear and tear on the underwater metal parts of the units which has led to increase in the number of breakdowns. NEEPCO organized a National Level Seminar on "Acidity in reservoir water- A challenge to Kopili H.E. Plant" to evolve an effective solution duly optimizing time and cost parameter and accordingly has resorted to extensive modifications to the metallurgy, re-engineering of equipment etc. in consultation with Original Equipment Manufactures and other experts to withstand the acidic water.

B) Doyang Hydro Electric Plant (75 MW), Nagaland:

Doyang Hydro Electric Plant, with its Design Energy of 227MU, could generate 180MU during the year 2009-10. The primary reason for lower generation from the Plant is the unprecedented less rainfall in the Region. In order to facilitate raising of the reservoir level apart from meeting up the long standing demand of the local populace, the work of construction of Bailey bridge over Chubi Nallah has been restarted after a suspension of 8 (eight) years.

A view of Doyang Hydro Electric Project

C) Ranganadi Hydro Electric Plant (405 MW), Arunachal Pradesh:

Ranganadi Hydro Electric Plant, with its Design Energy of 1510MU, could generate 1025MU during the year 2009-10. The primary reason for lower generation from the Plant is attributable to unprecedented less rainfall in the Region. However, the Plant Availability Factor of the Plant was maintained at 95% against Normative Plant Availability Factor of 85 %.

Ranganadi Dam, RHEP

THERMAL PLANTS:

A) Assam Gas Based Power Plant (291 MW), Assam:

The generation from the Plant was 1750 MU during 2009-10 with Plant Load Factor of 69% and Plant Availability Factor of 70 %.

The quality and quantity of gas, including its calorific value, supplied by M/s OIL has progressively reduced over the years which in turn affected the generation from the Plant. Action has been initiated with M/S Assam Gas Company Limited (the gas transporter for the Plant) for supplying required quantity of quality gas at desired pressure for the Plant.

Bypass stock and Boiler Chimney, AGBP

B) Agartala Gas Turbine Plant (84 MW), Tripura:

Agartala Gas Turbine Plant has achieved generation of 663 MU during 2009-10 with PLF of 89%. The plant has been

Agartala Gas Turbine Power Project

progressively achieving higher generation since last few years and during the year, achieved an all time highest generation since its commissioning.

ONGOING PROJECTS:

A) Kameng H.E. Project (600 MW), Arunachal Pradesh:

The Kameng H.E. Project located in the West Kameng District of Arunachal Pradesh is planned as a Run-of-the River Scheme.
In view of change in design of certain major hydraulic structures resulting in upward variation in quantity and change in construction methodology, revised modalities

CMD at Kameng H.E. Project

are being opted for expeditious accomplishment of balance work and to adhere to the revised commissioning schedule of May, 2013.

B) Tuirial H.E. Project (60 MW), Mizoram:

All activities of Turial HEP were suspended w.e.f. 09/06/2004 due to adverse Law & Order situation arising out of the illegal demands for crop compensation in the riverine areas after completion of around 30% of the works. It was decided on 12.08.2004 by the Mandatory Review Committee of MOP that no further expenditure on the project may be incurred apart from safety and normal upkeep of assets already created till a decision on revival of the project. During the period, various options were explored for revival of the project and cost of the project were updated from time to time.

The PIB meeting based on the RCE at June, 2009 PL amounting to ₹ 836.14 Crores held on 19th March, 2010 observed that the RCE of the Project may be updated to March, 2010 PL and placed before PIB with approval of CEA on RCE. PIB in its meeting held on 4th June, 2010 recommended revival of the Project at a hard cost of ₹ 877.06 Crores at March, 2010 PL (₹ 913.63 Crores including IDC) for being placed before CCEA for approval subject to certain conditions. The PIB also asked NEEPCO to go ahead with resumption of project work subject to fulfillment of certain conditions. The Govt. of Mizoram has agreed to sort out the crop compensation issue separately including ensuring law and order in and around the project area, without having any financial implication on the project. Meanwhile, JICA loan availed against the Project has been terminated as per directives of the Govt. of India.

The project is scheduled to be commissioned within three years from receipt of CCEA Clearance.

C) Pare H.E. Project (110 MW), Arunachal Pradesh:

The Cabinet Committee on Economic Affairs (CCEA) accorded investment approval to Pare HEP vide letter dated 4th December, 2008. The Corporation has signed the Loan agreement with KfW, Germany for loan (ECB) of 80 Million Euros with soft rate of interest under Indo-German Financial Cooperation on 11.12.2008. The approved estimated cost of the project is ₹ 573.99 Crores including IDC & FC of ₹ 68.06 Crores at June'07 Price level.

Detailed Work order for Package–I (Civil works) was issued to M/S Hindustan Construction Co. Ltd. On 23/09/09 and

progress of works is in full swing. Also, Detailed Work Order for Design and Review Consultancy Work was issued to M/S SNC-Lavalin Inc., New Delhi on 16/02/2010. As far as Package II (Hydro Mechanical Works) and Package III (Electro Mechanical works) are concerned, evaluations of the Techno-commercial bids and Price bids have been completed and is expected to be awarded shortly. For Package IV (Transformer & Switchyard), NIB was floated on 24/02/2010 and the Techno-commercial bids were opened on 11/06/2010 and is presently under evaluation.

Civil Package contractor has mobilized resources and work in all the fronts are progressing well.

D) Tripura Gas Based Power Project (100 ± 20%), Monarchak, Tripura

The Project was conceived as a 500 MW Combined Cycle Gas Based Power Plant for which 2.0 MMSCUMD gas was allotted by Ministry of Petroleum in 2001. However, the Project was scaled down to 280 MW in 2003 and further to 100 MW in 2005 due to reduction of gas supply initially to 1.0 MMSCUMD and then to 0.5 MMSCUMD by ONGC.

The 100 MW Tripura Gas Based Power Project, Monarchak received clearance from Cabinet Committee on Economic Affairs (CCEA) on 14th Jul'2009 for execution at an estimated cost of ₹ 421.01 Crores including IDC of ₹ 27.47 Crores at Dec'2008 PL.

The EPC Contract for Main Plant Package was finalised with BHEL on 16.11.2009 after Tender invited through International Competitive Bidding (ICB) route was cancelled as the lone bidder participating in the tender did not fulfill the qualifying criteria. Central Electricity Authority (CEA) assisted in the negotiation with BHEL in freezing the scope, completion schedule, techno-commercial terms and conditions and prices.

Installation of transformer for drawing construction power

Based on the negotiated price, the project cost was revised to ₹ 623.44 Crores including IDC of ₹ 51.09 Crores at Nov'2009 price level. As the Revised Project Cost (RCE) exceeded the approved cost by more than 20%, fresh CCEA approval was required for award of contract to BHEL.

The RCE was submitted to the Ministry of Power on 05.01.2010 for fresh approval. The Standing Committee on time and cost over-run constituted by the Ministry of Power considered the time and cost overrun aspect of the Project during its meeting on 22.02.2010. PIB in its meeting held on 12th July, 2010 recommended revival of the Project at a project cost of ₹ 623.44 Crores at November, 2009 PL (i/c IDC of ₹ 51.09 Crores) for placing the proposal before CCEA for approval.

The EPC contract is being awarded to BHEL shortly. As per negotiated schedule with BHEL, the project shall be completed within 36 months.

PROJECTS OF NEEPCO IN PIPELINE/SURVEY & INVESTIGATION:

HYDRO:

A) Mawphu H.E Project (85 MW), Meghalaya :

The State Govt. of Meghalaya has forwarded approved draft MoA in line with the State Power Policy. The MoA is expected to be executed shortly after obtaining approval on draft MoA by the MoP, GoI, which has already been submitted. Survey & Investigation for preparation of DPR shall be taken up after signing of MoA.

B) Kameng-I H.E. Project (1120 MW), Arunachal Pradesh :

The MOA for execution of the Project was signed with Govt. of Arunachal Pradesh on 21st September, 2006. Survey & Investigation activities and preparation of DPR could not be taken up due to environmental issues involving submergence of a large portion of Pakke Tiger Reserve. As

per the stipulations of the TOR issued by MOEF for carrying out EIA / EMP studies, the pre-construction activities of the project could not be taken up. In order to reduce the impact of submergence of Pakke Tiger Reserve, NEEPCO proposed to the Govt. of Arunachal Pradesh for downsizing the project with alternative Installed capacity. Necessary action is being taken up by the Corporation in terms of the meeting held on 11th May, 2010 with Govt. of Arunachal Pradesh & M/s KSK (P) Ltd. (IPP engaged for development of Kameng Dam Project located u/s of Kameng-I) for firming up of project parameters which would allow optimum utilization of water resources along with minimum impact on Wildlife Sanctuary.

C) Projects in Mizoram :

NEEPCO signed MOA with the Govt. of Mizoram on 26.03.2010 for carrying out survey & investigation and subsequent implementation of following three projects, subject to techno commercial viability.

- Lungreng HEP (815 MW)
- Chhimtuipui HEP(635 MW)
- Mat HEP (76 MW)

As per the PFR prepared, Lungreng and Chhimtuipui Projects are proposed respectively across River Tiau and Chhimtuipui, forming the international boundary between India (Mizoram) and Myanmar. MOP has been requested to concur the MOAs signed with the Govt. of Mizoram. Applications for clearances of the Ministries of External Affairs, Defence and Home, GOI are under process.

THERMAL:

A) Agartala Gas Turbine Plant- Combined Cycle Extension Project (2x20 MW)

Agartala Gas Turbine Plant (4X21 MW) is operating on OPEN CYCLE. Conversion to combined cycle plant with conventional cooling system could not be taken up due to non-availability of sufficient perennial surface water near the plant. Conversion to Combined Cycle Plant using Air Cooled Steam Condensing System (ACC) instead of conventional wet cooling system was explored as the water requirement for ACC system is very nominal and additional generation to the tune of 40 MW (2x20 MW) is found feasible with adoption of such system.

Central Ground Water Board has indicated that the water requirement may be met from ground water resources. The State Government has also been approached for according permission to draw 4 lakh CUM water per year from River Haora during the high river inflow period i.e. mid-Apr to mid-Oct.

B) Garo Hills Thermal Power Project (500 MW), Meghalaya

The State Govt. of Meghalaya has forwarded approved draft MoA in line with the State Power Policy. The MoA is expected to be executed shortly after obtaining approval on draft MoA by the MoP, GoI, which has already been submitted.

Preliminary activities like identification of Project Site, preliminary survey, tendering for EIA/EMP studies, empanelment of consultants for preparation of Detailed Project Report has been completed. However, all activities are kept on hold until signing of fresh MOA.

C) West Khasi Hills Thermal Power Project (240 MW), Meghalaya

Clearance on the draft MoA submitted to the Government of Meghalaya on Jul'2007 is awaited. Setting up of the Project in Joint Venture mode with the State Government was also proposed by the Corporation during Aug'2008. Response of the State Government in this aspect is awaited.

INFORMATION TECHNOLOGY:

Information Technology is not only a strategic necessity but a major enabler of strategic competitiveness. With this in view, NEEPCO has constantly strived to introduce, upgrade and procure hardware and software technologies in all its functional areas with the ultimate objective of having a totally networked Corporation with all applications running in an online system.

An IT road map has also been prepared with assistance from IIT, Guwahati as the consultant. This road map encompasses all the IT requirements of NEEPCO for present and also the requirement in the next five years. The roadmap provides guidance on the most suitable hardware, network, software solution, security, backup and disaster recovery for NEEPCO. A major application, namely MATFIN has been running across seven locations including the Corporate Office. It encompasses Material