



དབལ་ལྷན་འབྲུག་གཞུང་།
འབྲུག་གློག་ལྷགས་དབང་འཛིན།
Royal Government of Bhutan
Bhutan Electricity Authority
Thimphu : Bhutan



BEA/ECO/TARIFF/2010-2011/99

August 12, 2010

The Managing Director
Druk Green Power Corporation Limited
Thimphu

Subject : Tariff Approval for the period from 1st August 2010 to 30th June 2013

Dear Dasho,

This has reference to your proposal for revision of domestic generation tariff submitted vide letter no. 42/DGPC/BEA/MD/2010/187 dated 25th March 2010.

In this regard, based on the comprehensive review undertaken by the Bhutan Electricity Authority (BEA), the BEA is pleased to approve the domestic generation tariff/additional price of **Nu. 1.20/kWh** and a royalty price of **Nu. 0.13/ kWh**.

A summary of the key decisions taken by the BEA Commission is attached as **ANNEXURE-I**.

The detailed tariff review report will be made available as and when ready.

Please note that the tariffs have been approved for the period of two years and eleven months. The revised tariffs shall come into effect from 1st August 2010 till 30th June 2013.

Thanking you,

Yours sincerely,

(Sonam Tshering)
Chairman
Bhutan Electricity Authority



དབལ་ལྷན་འབྲུག་གཞུང་།
འབྲུག་གློག་ལྷགས་དབང་འཛིན།
Royal Government of Bhutan
Bhutan Electricity Authority
Thimphu : Bhutan



ANNEXURE – I

Summary of key decisions taken by the BEA Commission with regard to the Druk Green Power Corporation Limited (DGPC's) tariffs for the period from 1st August 2010 to 30th June 2013

The Bhutan Electricity Authority (BEA) hereby issues the following decisions on the DGPC's Domestic Generation Tariff to be effective from 1st August 2010 to 30th June 2013:

1. Tariff period of two (2) years and eleven (11) months is approved.
2. A Cost of Debt of 8.85% as proposed by the DGPC is approved.
3. A post-tax Cost of Equity of 12% is approved. However, the cost of equity is allowed only on half of the actual equity i.e. on 30% of the total DGPC's equity.
4. A gearing ratio of 40% as proposed by the DGPC is approved.
5. The prevailing company tax rate of 30% is approved.
6. Based on the above, a pre-tax Weighted Average Cost of Capital (WACC) of 8.68% is approved.
7. The inflation rate for the tariff period of 5% as proposed by the DGPC is approved.
8. The gross asset value has been reduced by Nu. 1,264 million and depreciations by Nu. 21.437 million for the Tala Hydropower Plant (THP) buildings which are no longer owned by the DGPC.
9. The DGPC's Corporate Office net asset values of Nu. 102.1 million (land Nu 80.54 million; vehicles Nu 9.07 million; loose tools Nu 1.29 million; office equipment Nu 12.5 million), and depreciations of Nu 4.7 million (vehicles Nu 1.62 million; loose tools Nu 0.22 million; office equipment Nu 2.85 million) are not directly linked to any specific Plant or Project. Therefore, one-third (1/3) of these net asset values and depreciations were only allocated to the existing power plants.
10. The following investments have been removed from the DGPC investment plans for 2010-2013 since these investments are not directly related to the existing power plants or are covered through the inventories and O&M allowances:
 - a. Corporate Office – Consultancy for Phuentsholing Complex – Nu. 0.96 million (2010)
 - b. Corporate Office – R&D equipment (Study on GLOF) – Nu. 15 million (2011-13)
 - c. Corporate Office – Gelephu Workshop Construction – Nu. 518 million (2013)



དབལ་ལྷན་འབྲུག་གཞུང་།
འབྲུག་གློག་ལྷགས་དབང་འཛིན།
Royal Government of Bhutan
Bhutan Electricity Authority
Thimphu : Bhutan



- d. Corporate Office – Hydro Power Construction Unit – Nu. 500 million (2013)
 - e. Tala, Chukha & Basochhu – Purchase of spare runners – Nu. 377.2 million (2010-2013)
 - f. Chukha – Registration of land in Phuentsholing – Nu. 60 million (2011)
 - g. Chukha – Regional Office and Transit Stores and Residential Units for all Hydro Power Projects on Amochhu & Wangchhu Basin – Nu. 101.2 million (2013)
 - h. Kurichhu – Development of sites (Road, Electricity, Water, Sewerage, Drainage) justified by the construction of national highway from Gyelpozhing to Nganglam and the proposed construction of Kuri-Gongri and Rotpashong hydropower projects – Nu. 100.7 million (2012)
11. From the other Corporate Office investment plans which are included in the DGPC's proposal (land, building, vehicles, tools, office equipment, IT, ERP, disaster management & safety) worth Nu. 476.14 million, only one-third (1/3) is allocated to the existing power plants.
 12. Only 50% of the investments for Basochhu Hydropower Plant (BHP) new colony and Chukha Hydropower Plant (CHP) new Corporate office at lower terrace have been included since these investments relate to replacement of existing assets.
 13. The BEA viewed the DGPC's investment plan to be quite optimistic, and hence allowed only 85% of the remaining planned investments in the period 2010-2013 to be included in the tariff calculations.
 14. Only one-third (1/3) of the Corporate Office's historical Operation & Maintenance (O&M) costs have been considered for determination of the O&M allowance.
 15. The CHP royalty payments, donations, community welfare expenses, incomes from rental and hire charges, regulatory fees and the double accounting of Tala insurance have been deducted from the historical O&M costs for determination of O&M allowance.
 16. Based on the above deductions, an O&M allowance for 2009 of Nu. 789.88 million is approved.
 17. An O&M efficiency gain target of 2% is approved since the DGPC has targeted many investments to improve efficiency and that the efficiency gain is also expected through the amalgamation of the four power plants as a single company.
 18. The return on assets is approved based on the approved asset schedule, investments and a WACC of 8.68%.



དབལ་ལྷན་འབྲུག་གཞུང་།
འབྲུག་གློག་ལྷགས་དབང་འཛིན།

**Royal Government of Bhutan
Bhutan Electricity Authority
Thimphu : Bhutan**



19. Arrear of fifty seven (57) days is approved based on the weighted average arrears for the four power plants.
20. The average inventories in the three year period 2010/11 – 2012/13 of Nu. 471 million is approved considering a linear trend of the development of the inventories, starting at Nu. 229 million at the end of 2009 and ending at the proposed level of Nu. 592 million by the end of 2012/13 as proposed by the DGPC.
21. The design energy as proposed by the DGPC is used since it is in line with the Regulation. The design energy is adjusted for an auxiliary consumption of 1.2% and availability of 98%.
22. The import costs have been deducted from the DGPC's O&M allowance and is included as part of energy purchase cost in the BPC's tariff.
23. Based on the above allowances, the total cost of supply and the energy volumes, a **domestic generation tariff/Additional Price of Nu. 1.20/kWh for the DGPC for the period from 1st August 2010 to 30th June 2013 is approved.**
24. As per the decisions of the Minister/Lhengye Zhungtshog to allocate total subsidy amount of Nu. 3291.415 million for the tariff period from 2010/11-2012/13 and the available Royalty Energy volume of 1028.268 GWh, the **Royalty Price of Nu. 0.13/kWh** is approved.