

Reliance Infrastructure Limited v. State of Goa

(2024) 1 SCC 479

Pankaj Suthar*

Introduction

This case exemplifies the tension between arbitral finality and judicial oversight in India's arbitration regime. The core issues involved the interpretation of complex contractual provisions relating to fuel pricing, plant capacity downrating, and payment reconciliation mechanisms. The arbitral tribunal ruled largely in favor of Reliance, awarding a substantial sum including interest. The state challenged the award, and the Bombay High Court partially set it aside. The Supreme Court's subsequent intervention reaffirmed the principles of minimal judicial interference and clarified the threshold for "patent illegality" as grounds for setting aside arbitral awards.¹ The judgment is a significant milestone in India's arbitration jurisprudence, reinforcing the autonomy of arbitration and providing guidance on contractual interpretation and judicial review.

Background

The dispute between Reliance Infrastructure Limited "Reliance" and the State of Goa "State", arose from a Power Purchase Agreement (PPA) executed in 1997, under which Reliance agreed to supply electricity from its gas-based power plant to the State's grid for a period of 15 years. The PPA was supplemented by agreements in 1997, 2000, and 2001, reflecting evolving operational and commercial terms. Over time, changes in fuel availability, plant configuration, and market conditions led to disagreements regarding tariff calculations, capacity adjustments, and payment

* Student of VIII Semester, B.A., LL.B. (Hons.), School of Legal Studies, CMR University

¹ Reliance Infrastructure Ltd. v. State of Goa, Civil Appeal No. 3615 of 2023, (India May 10, 2023)

obligations. These disputes culminated in arbitration proceedings, which became a test case for the scope of judicial review of arbitral awards under the Arbitration and Conciliation Act, 1996², especially in light of the 2015 and 2019 amendments aimed at limiting court interference.

Facts

Reliance Infrastructure Limited entered into a Power Purchase Agreement (PPA) with the State of Goa in 1997 for the supply of electricity from its gas-based power plant. The plant's rated capacity was initially 62 MW. Due to technical issues, the plant was downrated to 58 MW in 2000. Reliance began using Regasified Liquefied Natural Gas (RLNG) as an alternative fuel, with variable charges linked to fuel costs and exchange rates.

The State of Goa accepted this arrangement and continued to procure power. However, it defaulted on payments amounting to approximately ₹119.32 crore. Reliance issued multiple demand notices, but the State failed to clear the dues. Consequently, Reliance approached the Joint Electricity Regulatory Commission, which referred the dispute to arbitration under the PPA's arbitration clause.

The arbitral tribunal, after examining the evidence and contractual provisions, awarded Reliance ₹278.29 crore, comprising principal dues and interest at 15% per annum from the date of the award until payment. The State challenged the award under Section 34 of the Arbitration and Conciliation Act, 1996, before the District Court, which dismissed the challenge. The State then appealed to the Bombay High Court under Section 37, which partially set aside the award by reducing the amount payable and lowering the interest rate to 10%. Reliance subsequently filed a Special Leave Petition before the Supreme Court challenging the High Court's judgment.

Issues

1. Whether the High Court exceeded its jurisdiction under Section 37 by reappraising evidence and substituting its findings for those of the arbitral tribunal?
2. Whether "patent illegality" constitutes a valid ground for setting aside an arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996?

² The Arbitration and Conciliation Act, No. 26 of 1996, INDIA CODE (1996)

3. Whether the contractual clauses concerning variable charges for alternative fuel (RLNG), downrating of plant capacity, and the netting-out principle for mutual financial adjustments were correctly interpreted by the arbitral tribunal?
4. Whether the arbitral tribunal's award of a 15% interest rate appropriate and in accordance with established legal principles?

Arguments

Arguments by the Appellant – Reliance Infrastructure Ltd.

Reliance contended that the Bombay High Court exceeded its jurisdiction under ³Section 37 of the Arbitration and Conciliation Act, 1996, by conducting a de novo review of evidence and substituting its own findings for those of the arbitral tribunal. The appellant emphasised that such an approach contravened the principle of minimal judicial intervention, as laid down in precedents like *Ssangyong Engineering v. NHAI*⁴ and *MMTC v. Vedanta*⁵. Reliance argued that the High Court's interference in factual determinations violated the autonomy of arbitration proceedings.

Reliance maintained that the arbitral tribunal correctly interpreted Clause 12.1.9 of the Power Purchase Agreement (PPA), which governed variable charges for electricity generated using alternative fuel (RLNG). It argued that clauses 12.1.4 to 12.1.7, cited by the State, were inapplicable as they pertained exclusively to naphtha-based generation. Reliance further demonstrated that the State had accepted its formula-based pricing mechanism for RLNG through multiple correspondences and continued payments, thereby affirming mutual consent.

On the issue of plant downrating, Reliance asserted that there was no contractual obligation to reduce the rated capacity from 62 MW to 58 MW due to technical modifications. It argued that the arbitral tribunal's findings were based on a reasonable interpretation of the PPA and supported by evidence, which should not have been disturbed by the High Court.

Reliance defended the tribunal's application of the netting-out principle under Clause 9.1 of the PPA, which allowed for adjustment of mutual financial obligations between the parties. It

³ Arbitration and Conciliation Act, No. 26 of 1996, Acts of Parliament, 1996 (India).

⁴ *Ssangyong Eng'g & Constr. Co. v. Nat'l Highways Auth. of India*, (2019) 15 SCC 131 (India).

⁵ *MMTC Ltd. v. Vedanta Ltd.*, (2019) 4 SCC 163 (India).

contended that this mechanism was a valid contractual provision and had been appropriately applied by the tribunal.

Reliance argued that the tribunal's award of interest at 15% per annum was neither exorbitant nor unconscionable, given market conditions and contractual provisions. It cited precedents like *Hyder Consulting v. State of Orissa*⁶ to support its claim that interest rates must reflect commercial realities and compensate for delays in payment.

Arguments by the Defendant – State of Goa

The State contended that the arbitral award was vitiated by patent illegality as it failed to consider relevant provisions of the PPA, particularly clauses 12.1.4 to 12.1.7 governing fuel pricing and tariff adjustments. It argued that these omissions rendered the award contrary to public policy under Section 34(2)(b) of the Arbitration Act⁷.

The State claimed that Reliance's entitlement to variable charges for RLNG was not established under the PPA's terms and conditions. It alleged that Reliance's formula-based pricing mechanism lacked documentary substantiation and deviated from agreed contractual norms.

The State argued that technical modifications necessitated a reduction in rated capacity from 62 MW to 58 MW, as reflected in a draft notification issued by the Ministry of Power⁸. It contended that Reliance was not entitled to compensation for this downrating under the PPA.

The State also disputed Reliance's claim for variable charges on an additional supply of 4 MW beyond contracted capacity, asserting that such charges were not contractually authorized.

The State challenged the tribunal's award of 15% interest as excessive and inconsistent with prevailing market rates or contractual provisions. It urged a reduction to a more reasonable rate, aligning with judicial precedents like *Vedanta Ltd v. Shenzhen Shandong Nuclear Power Construction Co.*⁹

⁶ *Hyder Consulting (U.K.) Ltd. v. State of Orissa*, (2015) 2 SCC 189 (India).

⁷ Arbitration and Conciliation Act, 1996, § 34(2)(b), No. 26, Acts of Parliament, 1996 (India).

⁸ Ministry of Power, *Power Sector at a Glance – All India*, Government of India (2023), <https://powermin.gov.in/en/content/power-sector-glance-all-india>.

⁹ *Vedanta Ltd. v. Shenzhen Shandong Nuclear Power Constr. Co.*, (2018) 15 SCC 1 (India)

The State contended that the arbitral award suffered from patent illegality and violated public policy. It argued that the tribunal failed to consider relevant PPA clauses and that the rated capacity should have been reduced as per a draft government notification. The State disputed Reliance's entitlement to variable charges on additional power supplied and challenged the netting-out adjustments. It also claimed that the 15% interest rate was excessive and not supported by the contract.

Proceedings

Joint Electricity Regulatory Commission Referral

Reliance Infrastructure Limited filed a petition before the Joint Electricity Regulatory Commission (JERC) seeking recovery of unpaid dues amounting to ₹119.32 crores for electricity supplied to the State of Goa under a Power Purchase Agreement (PPA)¹⁰. The JERC referred the matter to arbitration as per the dispute resolution clause in the PPA.

Award by the Arbitral Tribunal

The sole arbitrator ruled in favor of Reliance Infrastructure Limited, awarding ₹278.29 crores, which comprised of principal dues amounting to ₹119.32 crores for unpaid invoices from May 2013 to August 2014, Interest amounting to ₹158.98 crores calculated at 15% per annum until October 31, 2017, and future interest amounting to 15% per annum from November 1, 2017, until payment realisation¹¹.

The arbitrator upheld Reliance's claims for variable charges based on fluctuating RLNG fuel prices and dollar exchange rates under Clause 12.1.9 of the PPA and rejected the State's contention regarding downrating compensation and netting-out adjustments.

Judgments

Judgment of the District Court

¹⁰ Petition No. 46 of 2014, *Reliance Infrastructure Ltd. v. State of Goa*, Joint Elec. Regulatory Comm'n (Feb. 4, 2015) (referring dispute to arbitration pursuant to PPA), <https://jercuts.gov.in>.

¹¹ *Reliance Infrastructure Ltd. v. State of Goa*, Final Award, Arbitral Tribunal (Feb. 16, 2018), available at <https://jusmundi.com/en/document/decision/en-reliance-infrastructure-limited-v-state-of-go-a-award-friday-16th-february-2018>.

The State challenged the arbitral award under Section 34 of the Arbitration and Conciliation Act, 1996, before the Principal District & Sessions Judge, North Goa.¹² The court dismissed the challenge, affirming that the arbitral award did not suffer from patent illegality or procedural irregularities.

Judgment of the Bombay High Court

The Bombay High Court partially set aside the arbitral award by reducing the amounts awarded for variable charges by ₹24.66 crores, downrating compensation by ₹18.53 crores, variable charges on additional power supply by ₹3.94 crores, and netting-out adjustments by ₹2.36 crores. The Court also reduced the interest rate from 15% to 10% per annum, effective from the date of the award until payment. The High Court held that the award suffered from patent illegality as the arbitrator failed to consider certain contractual provisions governing fuel pricing and capacity adjustments¹³.

Judgment of the Supreme Court of India

The Hon'ble Supreme Court, in a landmark ruling, restored the arbitral award in its entirety, overturning the Bombay High Court's partial setting aside. The Court held that the High Court had exceeded its jurisdiction under Section 37¹⁴ by reappraising evidence and substituting its own findings, which is impermissible¹⁵. It clarified that judicial interference under Section 34 is limited to cases where the award is "patently illegal," a high threshold requiring the award to be irrational or perverse, or to have ignored vital evidence or considered irrelevant material.

On the contractual issues, the Court accepted Reliance's interpretation that the parties had agreed on a variable pricing formula for RLNG under clause 12.1.9, rendering clauses 12.1.4 to 12.1.7 inapplicable. It affirmed that the downrating of capacity was not contractually required and upheld the netting-out principle as a valid contractual adjustment mechanism. The Court also upheld the 15% interest rate, finding it neither exorbitant nor unconscionable given the contract terms and

¹² *Reliance Infrastructure Ltd. v. State of Goa*, Judgment, Principal District & Sessions Judge, North Goa (Sept. 12, 2019).

¹³ *Reliance Infrastructure Ltd. v. State of Goa*, Judgment, Bombay High Court (Mar. 8, 2021).

¹⁴ The Arbitration and Conciliation Act, No. 26 of 1996, § 37, INDIA CODE (1996)

¹⁵ *Reliance Infrastructure Ltd. v. State of Goa*, Civil Appeal No. 3615 of 2023, arising out of SLP(C) No. 8493 of 2021, and SLP(C) No. 16778 of 2021, decided on 10 May 2023,

https://api.sci.gov.in/supremecourt/2021/11728/11728_2021_5_1501_44361_Judgement_10-May-2023.pdf

market realities. Significantly, the Court imposed costs of ₹50 lakh on the State for pursuing frivolous and vexatious appeals, signaling judicial intolerance for unwarranted challenges to arbitral awards.

Analysis

The origin of the dispute lies in a Power Purchase Agreement (PPA) executed in 1997 between Reliance and the State of Goa, wherein Reliance undertook the obligation to supply electricity¹⁶. The contentious issues involved default in payment obligations by the State, entitlement to variable charges linked to RLNG fuel costs, and compensation for the downrating of plant capacity, along with disputes over financial adjustments based on the netting-out principle. Upon meticulous examination, the arbitral tribunal issued an award favoring Reliance, granting a total sum of ₹278.29 crores inclusive of principal dues and interest at a rate of 15% per annum. The tribunal's findings were rooted in a reasoned interpretation of the PPA and the application of commercial and technical standards relevant to the electricity sector.

The State of Goa subsequently invoked Section 34 of the Arbitration and Conciliation Act, 1996, to challenge the award. The trial court, however, dismissed the challenge, unequivocally upholding the award in its entirety. In its analysis, the trial court reaffirmed the restrictive mandate of judicial interference under Section 34, underscoring that courts are not appellate forums empowered to revisit or reassess the factual or legal determinations of arbitral tribunals, particularly when such determinations are within the scope of the parties' contractual framework¹⁷. In this trial court's deference to arbitral reasoning, the Bombay High Court, in proceedings under Section 37, intervened and partially modified the award. The High Court reduced the compensatory amount by ₹49.49 crores and altered the interest rate from 15% to 10%, anchoring its decision on the alleged presence of "patent illegality"¹⁸. It opined that the arbitrator had inadequately addressed crucial contractual provisions relating to fuel pricing and plant capacity obligations, thereby constituting a fundamental legal error. This intervention represented a substantive departure from

¹⁶ Gary B. Born, *International Commercial Arbitration* (Kluwer Law International, 2nd ed. 2014).

¹⁷ John B. Humphrey, "Judicial Review of Arbitration Awards in India: A Commentary on the Arbitration and Conciliation Act, 1996," 28 *Indian Journal of International Arbitration* 42 (2018).

¹⁸ S. S. Patel, "Patently Illegal? The High Bar for Setting Aside Arbitration Awards in India," *Journal of Arbitration Law* 55 (2020).

established judicial norms, as the High Court effectively re-evaluated the evidentiary matrix and supplanted the arbitrator's interpretive conclusions with its own.

Upon appeal, the Supreme Court of India categorically reversed the High Court's judgment, reinstating the arbitral award in full. The apex court delineated the narrow contours within which "patent illegality" may be invoked, emphasizing that such a defect must be facially evident in the award and cannot be predicated upon a mere divergence in interpretive or factual assessments. The Court further held that absent perversity or manifest disregard for the law, judicial forums must refrain from revisiting the arbitrator's determinations, especially in complex contractual and technical disputes. The Court upheld the reasonableness of the arbitrator's conclusions on all core issues, variable charges, downrating compensation, and netting-out and restored the original interest rate of 15%. In a move that strongly signaled judicial intolerance toward obstructionist litigation, it imposed exemplary costs of ₹50 lakhs on the State of Goa for initiating and prolonging frivolous proceedings.

The trial court's decision effectively reaffirmed the minimal judicial interference principle embedded in Section 34 of the Arbitration and Conciliation Act, 1996,¹⁹ aligning with the established doctrine that judicial review of arbitral awards must be restricted to the most limited grounds, particularly where factual and legal findings are rooted in contractual interpretations. The Bombay High Court's partial modification, while invoking "patent illegality," represents a troubling departure from this principle, as it entailed a substantive reappraisal of the arbitral tribunal's findings: an exercise that is beyond the permissible scope of judicial intervention. The Supreme Court's judgment decisively corrected this overreach, reiterating the high threshold required for invoking "patent illegality," which must be manifestly apparent on the face of the award. The Court's decision underscores the judiciary's reluctance to substitute its own judgment for that of the arbitrator, particularly in cases involving technical and commercial expertise.

A notable aspect of the judgment is the Supreme Court's imposition of costs on the State for pursuing frivolous litigation. This serves as a strong signal that the judiciary will not tolerate vexatious challenges to arbitral awards, reinforcing the notion that arbitration is meant to be a final

¹⁹ P. C. Sharma, "Arbitral Awards and Judicial Review under the Arbitration and Conciliation Act, 1996," *National Law Review* 28 (2017).

and efficient dispute resolution mechanism. By emphasising the need to respect arbitral finality and penalising the state for obstructive litigation, the judgment solidifies India's pro-arbitration stance and aligns with international best practices. The imposition of costs also acts as a deterrent against parties seeking to undermine arbitral proceedings through unnecessary delays, thus enhancing the integrity of India's arbitration ecosystem.

This trilogy of judgments trial court, the High Court, and the Supreme Court, reflects the judiciary's calibrated effort to reinforce arbitral finality while demarcating the permissible boundaries of judicial intervention, thereby consolidating India's pro-arbitration ethos in alignment with global best practices²⁰.

Conclusion

The Supreme Court's judgment in *Reliance Infrastructure Limited v. State of Goa* (2023) is a Landmark Judgment of the principle of minimal judicial intervention in arbitration under the Arbitration and Conciliation Act, 1996. By restoring the arbitral award in its entirety and overturning the Bombay High Court's partial setting aside, the Court reinforced the autonomy and finality of arbitral proceedings, which are essential for an effective dispute resolution framework.

The Court clarified the high threshold for "patent illegality" as a ground for setting aside awards, emphasising that mere disagreement with the arbitrator's interpretation or the existence of alternative views does not suffice. This aligns Indian arbitration law with international standards, enhancing predictability and reducing frivolous challenges. The judgment also upheld the arbitrator's reasoned interpretation of complex contractual provisions relating to variable charges, plant capacity downrating, and netting-out mechanisms, demonstrating judicial deference to the expertise of arbitral tribunals in commercial and technical matters. The validation of the 15% interest rate further reflects a pragmatic approach to compensating delayed payments in infrastructure disputes.

Importantly, the imposition of substantial costs on the State for pursuing vexatious litigation sends a strong deterrent message, encouraging parties to respect arbitral awards and discouraging

²⁰ V. V. Veeder, *The Law and Practice of International Commercial Arbitration* (Oxford University Press, 2nd ed. 2017).

protracted judicial battles that undermine arbitration's efficiency. The crux of this decision strengthens India's pro-arbitration stance, providing clarity on the limits of judicial review and reinforcing arbitration as a reliable, final, and efficient mechanism for resolving complex commercial disputes. It serves as a critical precedent for practitioners, arbitrators, and courts, fostering confidence in arbitration and supporting India's ambition to become a global arbitration hub.