

**True Up Order  
For  
Himachal Pradesh Power Transmission  
Corporation Limited (HPPTCL)  
For the period  
FY 2011-12 to FY 2013-14**



**Himachal Pradesh Electricity  
Regulatory Commission**

**APRIL 10, 2017**



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**BEFORE THE HIMACHAL PRADESH ELECTRICITY REGULATORY  
COMMISSION AT SHIMLA**

**PETITION NO: 43 of 2016.**

CORAM

**S.K.B.S. NEGI**

**In the matter of:**

True Up of FY 2011-12, FY 2012-13 & FY 2013-14 of Himachal Pradesh Power Transmission Corporation (HPPTCL) under Himachal Pradesh Electricity Regulatory Commission (Multi Year Tariff) Regulations, 2011 and Under Section-62 Read With Section 86 Of The Electricity Act 2003

AND

**In the matter of:**

Himachal Pradesh Power Transmission Corporation Limited

... APPLICANT

**ORDER**

(Passed on this 10<sup>th</sup> day of April, 2017)

The Himachal Pradesh Power Transmission Corporation Limited (hereinafter called the 'HPPTCL') has filed a petition with the Himachal Pradesh Electricity Regulatory Commission (hereinafter referred to as 'the Commission' or 'HPERC') for Truing-up of intra-state Transmission ARR for the MYT Control Period FY 2011-12 to FY 2013-14 under the HPERC (Multi Year Tariff) Regulations, 2011 and under Section-62 read with Section 86 of the Electricity Act 2003.

The Commission, after considering the Petition filed by the Applicant, the facts presented in its various submissions/filings, objections/suggestions received by the Commission from the HPPTCL, the issues raised in the hearing at Shimla, the responses of the Applicant to the objections/suggestions and documents available on record and in exercise of the powers vested in it under Section 62 and Section 86 of the Electricity Act, 2003 (Act No. 36 of 2003) read with HPERC (Terms & Conditions for Determination of Transmission Tariff) Regulations, 2011 passes the following Order for true up of ARR of HPPTCL for the Second Control Period FY 2011-12 to FY 2013-14.

The Commission has detailed the reasons for modifying/ disallowing any expenditure as per the attached detailed true-up order.

**Shimla**

**Dated: 10th April, 2017**

**(S.K.B.S. Negi)**

**Chairman**

# 1 Background

## 1.1 History of HPPTCL

1.1.1. The Himachal Pradesh Power Transmission Corporation Limited (hereinafter referred to as 'HPPTCL' or 'the Petitioner') is a deemed licensee under first, second and fifth provisions of Section 14 of the Electricity Act, 2003 (hereinafter referred to as 'the Act') for transmission of electricity in the State of Himachal Pradesh.

1.1.2. HPPTCL was formed through a notification by the Government of Himachal Pradesh (hereinafter referred to as 'GoHP') vide its notification No. MPP-A-(1)-4/2006-Loose, dated 11 September, 2008.

1.1.3. Through notification No. MPP-A-(1)-4/2006-Loose dated 3 December, 2008 read with the GoHP's earlier notification dated 31 October, 2008, the HPPTCL was entrusted with the following work / business with immediate effect:

- a) All new works of construction of Sub-Stations of 66 kV and above
- b) All new works of laying/ construction of transmission lines of 66 kV and above
- c) Formulation, updating, execution of Transmission Master Plan for the state for strengthening of Transmission network and evacuation of power including new works under schemes already submitted by the Himachal Pradesh State Electricity Board (HPSEB) under this plan to the Financial Institutions for funding and where loan agreements have not yet been signed
- d) All matters relating to planning and co-ordinations of the transmission related issues with CTU, CEA, Ministry of Power, State Government and HPSEBL
- e) Planning and co-ordination with the IPPs/ CPSUs/ State PSUs/ Other Departments or organizations or agencies of the Central Government and State Government, HPSEBL and HPPTCL with regard to all transmission related issues
- f) All other matter of subject that the State Government may specifically assign to the Corporation from time to time.

1.1.4. HPPTCL was declared the State Transmission Utility (STU) by the GoHP vide its order dated 10 June, 2010 and as a result thereof the Commission recognized HPPTCL as a deemed "Transmission Licensee" as per the Commission's Order dated 31 July, 2010 in Petition No. 32 of 2010 filed by HPPTCL under Sections 14 and 15 of the Act, for grant of Transmission License in the State of Himachal



Pradesh. Prior to FY11, the transmission tariff was being determined as a part of the tariff orders applicable to HPSEBL system.

1.1.5. The State Government also transferred and vested in HPPTCL the ownership, operation and maintenance of Transmission lines of 66 kV and above owned by the Himachal Pradesh State Electricity Board Limited (hereinafter referred to as 'HPSEBL') including the co-ordination of the lines owned and operated by Power Grid Corporation of India, (PGCIL), Independent Power Producers (IPPs), Haryana Vidyut Prasaran Nigam Limited (HVPNL) and Power Com (PSEB) vide its notification No. MPP-A (3)-1/2001-IV, dated 21 June, 2010 read with earlier notification of even number dated 10th June, 2010. In compliance of these orders of the State Government, HPSEBL provided the details of Transmission network along with the asset value which were transferred to HPPTCL vide letter No.-HPSEBL/CE (ES)/AU-4/2010-6220-25, dated 6 September, 2010.

## 1.2 Multi Year Tariff Framework

1.2.1. The Commission follows the principles of Multi Year Tariff (MYT) for determination of tariffs, in line with the provision of Section 61 of the Act. The Commission notified the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 (herein referred as "MYT Tariff Regulations, 2011") which were later amended on 1st November 2013 as (First Amendment) Regulations, 2013.

1.2.2. The Commission issued the first Multi-Year Tariff (MYT) Order for HPPTCL for the period FY 2011-12 to FY 2013-14 on 14th July, 2011. HPPTCL has now filed for truing-up of the Control Period FY 2011-12 to FY 2013-14 in line with Regulation 10 of the MYT Tariff Regulations, 2011 which state:

*"10. True Up*

*(1) The true up across various controllable parameters shall be conducted as per principles stated below:*

*(a) any surplus and deficit on account of O&M expenses shall be to the account of the transmission licensee and shall not be trued up in ARR; and*

*(b) at the end of the Control Period –*

*(i) the Commission shall review actual capital investment vis-à-vis approved capital investment;*

*(ii) depreciation and financing cost, which includes cost of debt including working capital (interest), cost of equity (return) shall be trued up on the basis of actual/audited information and prudence check by the Commission.”*

1.2.3. The current Order is related to truing-up of the ARR of HPPTCL for the Control Period FY 2011-12 to FY 2013-14 in line with provisions of the MYT Tariff Regulations.

### **1.3 Procedural Background**

1.3.1. The Petitioner has filed on 3<sup>rd</sup> November, 2016, the petition for approval of the Truing-up of the Aggregate Revenue Requirement (ARR) for intra-state transmission network for each year of the Second Control Period (FY 2011-12 to FY 2013-14) and approval for recovery of revenue gap which was registered with the Commission as Petition No. 43 of 2016. On initial scrutiny, the Commission observed some discrepancies in the true-up petition. The petitioner was advised to give reply on certain discrepancies observed vide letter No. HPERC/MYT/FY12-FY14/True-up/HPPTCL/2016-17-1982 dated 17th November 2016 and additional queries raised vide letter No. HPERC/MYT/FY12-FY14/True-up/HPPTCL/2016-17-2329-30 dated 24th December 2016 to submit the details of expenses such as O&M bills paid to HPSEBL etc.

1.3.2. Since the submission of the Petition, there have been a series of interactions between the Petitioner and the Commission, both written and oral, wherein the Commission sought additional information/clarifications and justifications on various issues, critical for the analysis of the Petition.

1.3.3. The Petitioner submitted the replies to the queries on the True up Petition vide M.A. No 116/ 2016 on 2<sup>nd</sup> December, 2016 and to the additional queries vide M.A. No 126/ 2016 on 29th December, 2016 as per the direction of the Commission.

1.3.4. The Petitioner has provided the details of the existing infrastructure as per the Transfer Scheme, 2010 which included 15 transmission lines that were transferred from HPSEBL to HPPTCL as part of the transfer scheme. As part of the true-up petition, the Petitioner has included the entire transmission network transferred from HPSEBL amounting to a total of Rs 10,263.37 Lakhs and an accumulated depreciation of Rs 4,141.21 Lakhs up to 13/06/2010 in line with the Transfer Scheme, 2010 dated 10.06.2010 and office letter no. HPSEBL/CE(ES)/AU-5/HPPTCL/2014-7401-05 and even no.6533-38 dated 18.10.2014 and 20.09.2014.

1.3.5. The Commission conducted a Technical Validation Session (TVS) of the Petition on 3<sup>rd</sup> March, 2017 in the office of the Commission during which the discrepancies and additional information requirements were highlighted.

1.3.6. Based on the detailed scrutiny of the petition, clarifications/ information sought by the Commission from time to time and submission was made by the petitioner in response there to, as detailed hereunder, have been taken on record:

**Table 1: Communication with the Petitioner**

Sl.	Letter from Commission	Response from Petitioner
1	HPERC/MYT/FY12-14/True-up/HPPTCL/2016-17-1982 dated 17.11.2016	Vide MA No. 116/2016 dated 02.12.2016
2	HPERC/MYT/FY12-14/True-up/HPPTCL/2016-17-2329-30 dated 24.12.2016	Vide MA No. 126/2016 dated 29.12.2016
3	HPERC/MYT/FY12-14/True-up/HPPTCL/2016-17 -3265-66 dated 06.03.2017	Vide MA No. 20/2017 dated 10.03.2017

## 1.4 Public Hearings

1.4.1. The interim order inter alia included direction to the Petitioner to publish the application in an abridged form and manner as per the "disclosure format" attached with the interim order for the information of all the stakeholders in the State. As per the direction, the Petitioner published the public notice in the following newspapers:

**Table 2: List of Newspapers in which salient features of the MYT Petition were published**

Sl.	Name of Newspaper	Date of Publication
1.	Hindustan Times (English)	15.12.2016 & 16.12.2016
2.	Dainik Bhaskar (Hindi)	15.12.2016 & 16.12.2016

1.4.2. The Commission published a public notice inviting suggestions and objections from the public on the tariff petition filed by the Petitioner in accordance with Section 64(3) of the Act which was published in the following newspapers:

**Table 3: List of Newspaper in which Notice inviting objections from Stakeholders were published**

Sl.	Name of News Paper	Date of Publication
1.	The Tribune (English)	23.12.2016

Sl.	Name of News Paper	Date of Publication
2.	Dainik Bhaskar (Hindi)	23.12.2016

1.4.3. Through the aforementioned publications, the interested parties/ stakeholders were asked to file their objections and suggestions on the Petition and rejoinders to the Replies filed by the Petitioner for which dates were specified by the Commission through the publications. The Commission received objections/ suggestions from the major stakeholder, HPSEBL. The Petitioner responded to the objections of the HPSEBL dated 3<sup>rd</sup> March, 2017 which was registered as M.A. no 18/2017.

1.4.4. The Commission issued a public notice in the following newspapers, to inform the public about the public hearing to be held on 28<sup>h</sup> February 2017 at the Court Room in Shimla:

**Table 4: List of Newspaper in which Notice for Public Hearing was published**

Sl.	Name of News Paper	Date of Publication
1.	The Tribune (English)	23.12.2016
2.	Dainik Bhaskar (Hindi)	23.12.2017

The public hearing date was later changed to 04<sup>th</sup> March 2017. The public notice regarding the change of date was published in The Hindustan Times(English) and Dainik Bhaskar(Hindi) on 18.02.2017.

1.4.5. A public hearing was held at Commission's court room at Shimla on 04.03.2017 for providing adequate opportunity to all the stakeholders for expression of their opinions, suggestions and objections in the matter.

1.4.6. The objections, issues and concerns raised by the HPSEBL along with the submissions of the Petitioner and the views of the Commission are detailed in Chapter 3 of this Order.

## 2 Summary of the True-Up Petition for the 2nd Control Period (FY12 to FY14)

### 2.1. Introduction

2.1.1. This chapter summarizes the highlights of the True up Petition filed by the HPPTCL for determination of revenue gap as per the actual expenses and revenue components for the 2nd MYT Control Period (FY 12 to FY 14) based on the audited annual accounts.

### 2.2. Background

2.2.1. HPPTCL had filed a petition with the HPERC for approval of its MYT petition and Aggregate Revenue Requirement (ARR) for the second MYT Control Period (FY12 to FY14) under Section 62, 64, 86 of the Act, read with the HPERC (Terms and conditions for Determination of Transmission Tariff), Regulations, 2011.

2.2.2. The MYT petition was filed on 29th December, 2010. At the notification of the HPERC Tariff Regulations 2011, HPPTCL submitted revised Petition on 16th April, 2011 incorporating changes as per the new MYT Regulations, 2011.

2.2.3. HPERC had approved the ARR for Second Control Period with reference to the past fillings vide Commission's Order in petition No.245/2010.

2.2.4. The MYT framework mandates the fillings of True-up petition for MYT Control Period. Since the financial years of FY2011-12 to FY2013-14 are already completed and the audited annual accounts are also available, HPPTCL has filled the present petition for truing up as per the actual expenses incurred for FY11-12, FY12-13 and FY13-14.

2.2.5. Existing infrastructure details of HPPTCL as per the Transfer scheme notified by the Himachal Pradesh State Government on 10.06.2010 and office letter no. HPSEBL/CE(ES)/AU-5/HPPTCL/2014-7401-05 and even no.6533-38 dated 18.10.2014 and 20.09.2014, the petitioner has calculated INR 4141.21 lakhs as depreciation on the revised capitalized value of 15 number transmission lines. The

net book value of the assets is INR 6122.16 lakhs on capital cost of INR 10263.37 lakhs. The details of the same is given in the following table:

**Table 5: Existing Infrastructure Details of HPPTCL transferred as per Transfer Scheme, 2010**

Sr. No.	Name of Line and Line Length in Kms	Commercial Operation Date	Capitalized Cost (INR Lakhs)	Depreciation upto 13/06/2010 (INR Lakhs)	Net Book Value of Assets on 13/06/2010
1	66 KV S/C Line from Pinjore to parwanoo-8.23 Kms	1950	21.10	18.99	2.11
2	66 KV line from Shanan to Bijni-35 Kms	10/1968	10.5	9.45	1.05
3	132 KV Bassi Shanan Line-5 Kms	1970	218.80	196.92	21.88
4	132 KV S/C Giri Kulhal Line-17.40 Kms	04/1978	170.69	133.15	37.54
5	132 KV S/C Line from PSEB SS-Kangra to HPSEB SS-Kangra-0.135 Kms	02/1979	36.78	28.69	8.09
6	132 KV S/C Line from Giri to Abdullapur-16.22 Kms	1982	43.49	29.58	13.91
7	220 KV LILO of Ckt No. lind fo Baira suli Pong Dam line-0.24 Kms	09/1985	65.97	39.92	26.05
8	220 KV D/C Line from Kunihar to Panchkula	05/1989	2520.23	1272.89	1247.34
9	220 KV S/C Line from Khodri to Majri-70.04 Kms	09/1989	3674.43	1855.84	1818.59
10	66 KV S/C Line from Pong to Sansarpur Terrace-6.3 Kms	10/1990	55.55	26.67	28.88
11	132 KV Line from Dehar to Kangoo	12/1998	41.90	11.73	30.17
12	220 KV S/C Line from Dehar to Kangoo	06/1999	68.93	17.58	51.35
13	220 KV S/c Line from Thein Dam to Jassure	03/2001	2114.33	486.44	1627.89
14	66 KV trans line from Bhakra to Una with LILO at Gothai	03/2006	127.18	13.36	113.82
15	220 KV D/C Line on 400 KV towers from PGCIL Reru to 220/66 KV SS-Uperia Nangal (Nalagarh)	07/2010	1093.49	0.00	1093.49
	<b>Total</b>		<b>10263.37</b>	<b>4141.21</b>	<b>6122.16</b>

### 2.3. Approach for Filing of Petition

2.3.1. The Petitioner stated that it has adopted approach for filling the petition as per the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011.

2.3.2. The petitioner also has quoted the provision with respect to truing-up of contained in the HPERC MYT Regulations, 2011:

*"10. True Up*

*(1) The true up across various controllable parameters shall be conducted as per principles stated below:*

*(a) any surplus and deficit on account of O&M expenses shall be to the account of the transmission licensee and shall not be trued up in ARR; and*

*(b) at the end of the Control Period –*

*(i) the Commission shall review actual capital investment vis-à-vis approved capital investment;*

*(ii) depreciation and financing cost, which includes cost of debt including working capital (interest), cost of equity (return) shall be trued up on the basis of actual/audited information and prudence check by the Commission.*

*(2) Notwithstanding anything contained in these regulations, the gains or losses in the controllable items of ARR on account of force majeure factors shall be passed on as an additional charge or rebate in ARR over such period as may be laid down in the order of the Commission."*

2.3.3. The Petitioner has specified certain provisions for incentive which are stated in the MYT Tariff Regulations, 2011:

*"29. Quality of Supply*

*(1) The Commission shall monitor the following quality of supply parameters during the control period: -*

*(a) Transmission system availability;*

*(b) transformer failure, across various capacities which represents the number of transformer failures as a percentage of the total number of transformers in that specified capacity within the transmission system, over a specified period of time.*

*(2) The transmission licensee in its business plan filings shall submit and propose the trajectory for the achievement of quality targets. The Commission will lay down the targets for each parameter in the MYT order. The transmission licensee shall submit its performance on each parameter in the form and manner laid down by the Commission."*

## **2.4. Operation & Maintenance expenses**

2.4.1. The petitioner has calculated the O&M expenses in line with the Regulation 13 of the HPERC MYT Regulations, 2011 for the transmission utilities as below:

"13. Operation and Maintenance (O&M) Expenses

(1) Operation and Maintenance (O&M) expenses shall comprise of the following:-

(a) salaries, wages, pension contribution and other employee costs;

(b) administrative and general expenses including insurance charges if any;

(c) repairs and maintenance expenses;

(d) other miscellaneous expenses, statutory levies and taxes (except corporate income tax).

(2) The transmission licensee shall submit the O&M expenses for the Control Period as laid down in the multi year tariff filing procedure. The O&M expenses for the base year will be approved by the Commission taking into account the latest available audited accounts, business plan filed by the transmission licensee, estimates of the actuals for the base year, prudence check and any other factors considered appropriate by the Commission.

(3) The O&M expenses for the nth year of the Control Period shall be approved based on the formula given below:-

$$O\&M_n = R\&M_n + EMP_n + A\&G_n$$

Where -

$$EMP_n = (EMP_{n-1}) * (1 + G_n) * (CPI\text{inflation})$$

....."

2.4.2. A comparison of the actual O&M expenses as submitted by the petitioner and the O&M expenses approved by the Commission are given in the table below:

**Table 6: O&M Expenses Claimed by HPPTCL**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	Approved	Actuals	Approved	Actuals	Approved	Actuals
Employee Cost	2.55	3.31	2.81	3.68	3.09	4.26
A&G Cost	0.51	1.76	0.56	1.88	0.61	1.84
R&M Cost	1.64	0.30	1.81	0.38	1.99	0.32
Other Statutory Levies	1.00	-	1.00	-	1.00	-
<b>Total O&amp;M Expense</b>	<b>5.70</b>	<b>5.37</b>	<b>6.18</b>	<b>5.93</b>	<b>6.69</b>	<b>6.41</b>

2.4.3. HPPTCL has requested the Commission to approve the actual total O&M expenses borne during the Control Period.

## 2.5. Depreciation

2.5.1. HPPTCL has calculated the depreciation as per the Regulation 23 of HPERC MYT Regulation, 2011.



"23. Depreciation

(1) The value base for the purpose of depreciation shall be the capital cost of the asset admitted by the Commission.

(2) The salvage value of the asset shall be considered as 10% and depreciation shall be allowed up to maximum of 90% of the capital cost of the asset.

....."

2.5.2. HPPTCL has claimed actual addition of assets as per the audited accounts for the calculation of depreciation as given in the table below:

**Table 7: Asset wise Depreciation Claimed by HPPTCL for FY12 to FY14**

S.No	Name of Line	Capitalized Cost (INR Lakhs)	Opening as on 01.04.11	Depreciation (INR Lakhs)		
				FY 12	FY 13	FY 14
1	66KV Pinjore-Parwnoo Line	21.1	2.1	-	-	-
2	66KV Shahan-Bijni Line	10.5	1.1	-	-	-
3	132KV D/C Shanan- Bassi Line	218.8	21.9	-	-	-
4	132KV Giri- Kulhal Line	170.7	34.1	4.3	4.3	4.3
5	132 KV S/C Kangra -Tap (PSEB-SS Kangra to HPSEB SS-Kangra)	36.8	7.4	0.9	0.9	0.9
6	132KV D/C Giri- Abdullapur Line	43.5	13.0	1.1	1.1	1.1
7	220 KV D/C Bairasuil pong Line (one ckt LILO at Jassure	66.0	24.7	1.7	1.7	1.7
8	66KV Pong-Sansarpur Terrace line	55.6	27.8	1.4	1.4	1.4
9	132KV S/C Dehar-Kangoo Line	41.9	29.3	1.1	1.1	1.1
10	220KV S/C line on D/C towers Dehar to Kangoo Line	68.9	50.0	1.7	1.7	1.7
11	66KV Bhakhra- Una - LILO Gothai	127.2	111.3	3.2	3.2	3.2
12	220KV D/C 400KV Towers from PGCIL Reru to 220/66KV SS-Uperia Nangal (Nalagarh) Line	1,093.5	1,071.7	27.3	27.3	27.3
13	220KV D/C Panchkula-Kunihar Line	2,520.2	1,197.1	63.0	63.0	63.0
14	220KV D/C Khodri-Majri Line	3,674.4	1,745.4	91.9	91.9	91.9
15	220KV S/C Jassure- Thein Line	2,114.3	1,585.8	52.9	52.9	52.9
	<b>Total</b>	<b>10,263.4</b>	<b>5,922.6</b>	<b>250.3</b>	<b>250.3</b>	<b>250.3</b>

2.5.3. The Petitioner has submitted that the depreciation has been calculated based on the average of opening and closing value of assets for the assets having commercial operation for only part of the year. The depreciation claimed by petitioner for FY12 to FY14 is as follows:

**Table 8: Depreciation (Rs Crs.) for FY12 to FY14 Claimed by HPPTCL**

Particulars	FY 2011-12	FY 2012-13	FY 2013-14
-------------	------------	------------	------------

	Approved	Actuals	Approved	Actuals	Approved	Actuals
Net Book of asset at beginning of year	-	59.23	-	56.72	-	54.22
Net Book of asset at closing of year	-	56.73	-	54.22	-	51.72
<b>Depreciation</b>	<b>5.02</b>	<b>2.50</b>	<b>5.02</b>	<b>2.50</b>	<b>4.49</b>	<b>2.50</b>

## 2.6. Interest on Loan Capital

2.6.1. HPPTCL has claimed no interest on loan.

## 2.7. Interest on Working Capital

2.7.1. HPPTCL has claimed the interest on working capital according to Regulation 22 of HPERC (MYT) Regulation, 2011 reproduced under:

*"22. Interest Charges on Working Capital*

*Rate of interest on working capital to be computed as provided hereinafter in these regulations shall be on normative basis and shall be equal to the Short Term Prime Lending Rate of the State Bank of India as on 1st April of the relevant year. The interest on working capital shall be payable on normative basis notwithstanding that the licensee has not taken working capital loan from any outside agency or has exceeded the working capital loan based on the normative figures."*

The interest on working capital claimed by HPPTCL as per actuals against the approved figures in the MYT order is as follows:

**Table 9: Interest on Working Capital Claimed by HPPTCL for FY12 to FY14**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	Approved	Actuals	Approved	Actuals	Approved	Actuals
1/12th of O&M Expense	0.48	0.45	0.52	0.49	0.56	0.53
Maintenance spares @40% of R&M expense of 1 month	0.05	0.01	0.06	0.01	0.07	0.01
2 month receivables	1.95	4.25	2.01	4.6	1.99	3.71
<b>Total Working Capital</b>	<b>2.48</b>	<b>4.71</b>	<b>2.59</b>	<b>5.11</b>	<b>2.62</b>	<b>4.25</b>
Interest rate as on April 1st of relevant year		13%		14.75%		14.45%
<b>Interest on Working Capital</b>	<b>0.33</b>	<b>0.61</b>	<b>0.34</b>	<b>0.75</b>	<b>0.35</b>	<b>0.61</b>

## 2.8. Return on Equity

- 2.8.1. HPPTCL has submitted that the Commission in the last MYT Order considered RoE as nil due to non-transfer of equity.
- 2.8.2. Petitioner has submitted that as per the Transfer scheme notified by the Himachal Pradesh State Government on 10.06.2010 and office letter no. HPSEBL/CE(ES)/AU-5/HPPTCL/2014-7401-05 and even no.6533-38 dated 18.10.2014 and 20.09.2014, it has calculated Rs 4141.21 lakhs as depreciation on the revised capitalized value of No.15 Transmission lines. The net book value of the assets is Rs 6122.16 lakhs out of the capital cost of Rs 10263.37 lakhs.
- 2.8.3. The Petitioner has stated that the transfer of assets to HPPTCL got completed by FY 2014-15 vide letter no. HPSEBL/F&A/A&R-55/R&M Works/2014-15 dated 27-10-2014. Corresponding amount of equity has to be reflected in its books from FY 2012. The average equity from FY12 to FY14 is estimated to be 61.22 Cr. based on existing transmission lines that were transferred from HPSEBL to HPPTCL and vide special secretary (Power) letter No. MPP-C(7)-3/2011 Govt. of Himachal Pradesh, Department of MPP & Power dated 27.02.2016 therefore, the amount of Rs 61.22 Cr. has been treated as an equity of Govt. of Himachal Pradesh.
- 2.8.4. HPPTCL has computed the Return on Equity as per the provisions of Regulation 18 and Regulation 19 of HPERC MYT Regulations, 2011 and grossed it up @23.48% considering 33.99% corporate tax.
- 2.8.5. The Return on Equity claimed by HPPTCL as per actuals against the approved figures in the MYT order is as follows:

**Table 10: Return on Equity (Rs Cr.) Claimed by HPPTCL for FY12 to FY14**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	Approved	Actuals	Approved	Actuals	Approved	Actuals
Opening Equity	-	61.2	-	61.2	-	61.2
Addition	-	-	-	-	-	-
Closing Equity	-	61.2	-	61.2	-	61.2
<b>RoE @ 23.48%</b>	-	<b>14.37</b>	-	<b>14.37</b>	-	<b>14.37</b>

## 2.9. Income Tax

- 2.9.1. HPPTCL has claimed the recovery of the advance income tax expense as per the provisions of Regulation 43 of HPERC MYT Regulations, 2011 as reproduced below:

*"43. Tax on Income*

*In view of pre-tax return on equity, tax on the income streams of the transmission licensee shall not be recovered from the beneficiaries:*

*Provided that the deferred tax liability, excluding Fringe Benefit Tax, for the period up to 31st March, 2011 whenever it materializes, shall be recoverable directly from the beneficiaries and the long-term customers."*

2.9.2. The advance tax expense for the second Control Period claimed by the petitioner is as follows:

**Table 11: Advance Income Tax Expense claimed by HPPTCL for FY12 to FY14**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	Approved	Actuals	Approved	Actuals	Approved	Actuals
Advance Income Tax	-	3.27	-	4.28	-	7.10

## 2.10. Non-Tariff Income

2.10.1. HPPTCL has submitted that it has considered non-tariff income comprising of income from Investment, Fixed & Call Deposits and miscellaneous charges from consumers.

2.10.2. HPPTCL has claimed the non-tariff income based on the audited accounts as per the Regulation 24 of HPERC MYT Regulations, 2011 read along with Regulation 25 for the provision of Other Income of Transmission Licensee as reproduced below:

*"24. Non-tariff Income*

*(1) All income being incidental to electricity business and derived by the licensee from sources, including but not limited to profit derived from disposal of assets, rents, delayed payment surcharge, income from investments (other than investment of equity), and miscellaneous receipts from the transmission customers excluding income to licensed business from the other business of the transmission licensee shall constitute non-tariff income of the licensee.*

*(2) The amount projected by the licensee on account of non-tariff income shall be deducted from the aggregate revenue requirement in calculating the net revenue requirement of the licensee.*

*25. Other Income of the Transmission Licensee*

*Where the transmission licensee is engaged in any other business, the income from such business will be calculated in accordance with the Himachal Pradesh Electricity Regulatory Commission (Treatment of Income of Other Businesses of Transmission Licensees and Distribution Licensees) Regulations, 2005 and shall*

*be deducted from the aggregate revenue requirement in calculating the revenue requirement of the transmission licensee:*

.....”

**Table 12: Non-Tariff Income Claimed by HPPTCL for FY12 to FY14**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	Approved	Actuals	Approved	Actuals	Approved	Actuals
Non-Tariff Income	-	0.64	-	0.19	-	8.77

2.10.3. In line with the above regulations, HPPTCL has computed Non-Tariff Income to be Rs. 64 Lacs, Rs. 19 Lacs and Rs. 8.87 Cr. for FY11-12, FY12-13 & FY13-14 respectively as shown in table above. However, Income from Other Businesses has been taken as nil as per Clause 25 of the above regulations.

2.10.4. HPPTCL has requested the Commission to approve the above Non-Tariff Income based on actuals. However, the Commission had not approved any Non-Tariff income earlier.

## 2.11. Aggregate Revenue Requirement and Tariff Determination for Second Control Period (FY12 to FY14)

2.11.1. Based on the above parameters, the Aggregate Revenue Requirement claimed by HPPTCL for the FY 2011-12, FY 2012-13 and FY 2013-14 against the approved figures under MYT Tariff order is summarized in the Table below:

**Table 13: ARR (Rs Cr.) Claimed by HPPTCL for FY12 to FY14**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	MYT Order	HPPTCL Petition	MYT Order	HPPTCL Petition	MYT Order	HPPTCL Petition
Operation & Maintenance Expense	5.70	5.37	6.18	5.90	6.69	6.41
Depreciation	5.02	2.50	5.02	2.50	4.49	2.50
Interest on Loan-term loan	0.66	-	0.51	-	0.39	-
Interest on Working Capital	0.33	0.61	0.34	0.75	0.35	0.61
Income Tax Expense Advanced	-	3.27	-	4.28	-	7.10
<b>Total Revenue Requirement</b>	<b>11.71</b>	<b>11.75</b>	<b>12.05</b>	<b>13.43</b>	<b>11.92</b>	<b>16.63</b>
Return on Equity	-	14.37	-	14.37	-	14.37
<b>Aggregate Revenue Requirement</b>	<b>11.71</b>	<b>26.13</b>	<b>12.05</b>	<b>27.81</b>	<b>11.92</b>	<b>31.01</b>
Less: Non-Tariff Income	-	0.64	-	0.19	-	8.77
<b>Aggregate Revenue Requirement</b>	<b>11.71</b>	<b>25.49</b>	<b>12.05</b>	<b>27.62</b>	<b>11.92</b>	<b>22.24</b>

2.11.2. HPPTCL has stated that the contracted capacity over the MYT period for the transmission network is based on the proposed increase in generation capacity that shall be transferred to the inter-state network.

**Table 14: Summary of Tariff Determination for 2nd Control Period**

Particulars	FY 2011-12	FY 2012-13	FY 2013-14
Aggregate Revenue Requirement (Rs. Cr.)	25.49	27.62	22.24
Transmission Capacity for both inter and intra state works (MW)	560	560	560
Transmission Charges (INR/MW/month)	37,930	41,100	33,091

# 3 Objections filed and issues raised by Consumers/ Stakeholders on True up Petition

## 3.1. Introduction

3.1.1. The interested parties/stakeholders were asked to file their objections and suggestions on the Petition by 20<sup>th</sup> January, 2017. Comments and suggestions from the sole beneficiary i.e. HPSEBL were received up to the due date. Subsequently, DOE had submitted its comments and suggestions on the date of public hearing and was accepted by the Commission.

3.1.2. A public hearing was held on 4<sup>th</sup> March, 2017 at the Commission's Court Room in Shimla where officials of HPSEBL, representative from DoE (GoHP) and consumer representative were present. HPSEBL and representative from DoE reiterated their written submission during the public hearing. Written comments of stakeholders, response of the Petitioner and Commission's views on the issues are detailed in the subsequent paragraphs.

## 3.2. Comments and Observations from HPSEBL on HPPTCL true up petition

Objector pointed out following issues related to the True-up petition filled by HPPTCL as follows:

### Depreciation

#### Stakeholder's Objections

3.2.1. No uniform method has been applied for working out the depreciation on the transmission assets. Further, 132kV S/C Giri Kulhal Transmission Line having COD in April, 1978 has completed its useful life of 35 years in FY 2012-13 and depreciation on the same for the FY 2013-14 is not applicable.

3.2.2. DoE submitted that no depreciation should be allowed on existing old transmission lines and only O&M charges for existing old transmission line should be considered as per orders of CERC. Also, the depreciation amount of Rs. 4141.21 Lacs should not be allowed to HPPTCL for further determination of tariff. Moreover, the objector has mentioned that CERC has capped the depreciation to 90% of the capital cost. Also, DoE has submitted that the entries corresponding to depreciation for tangible and intangible assets has been entered wrongly for FY 2013-14 in comparison to the submitted annual report of FY 2013-14.

**Petitioner's Reply:**

3.2.3. Petitioner has submitted that in absence of specific dates of commissioning of various assets supplied by HPSEBL, the depreciation for FY12-FY14 was calculated based on the average of opening and closing value of assets having commercial operation has been computed as Rs. 250.32 Lacs which is in order.

3.2.4. Petitioner has replied that the depreciation claimed is as per the regulations based upon the commercial date of operation of assets.

**Commission's View:**

3.2.5. The Commission has dealt with the issue of depreciation in Chapter 4. Depreciation has been worked out based on the HPERC (Terms and conditions for determination of Transmission Tariff) Regulations, 2011.

**Expenditure**

**Stakeholder's Objections**

3.2.6. DoE has mentioned that as per the expenditure statement for the year ending 31.03.2015, the prior period adjustment of Rs. 335.08 Lacs is not considered because of which the calculated net expenditure as on 31.03.2015 is of Rs. 917.47 Lacs instead of Rs. 1251.55 lacs. HPPTCL should re-submit the expenditure sheet after making necessary corrections.

**Petitioner's Reply:**

3.2.7. Petitioner has submitted net expenditure as on 31.03.2015 i.e. 1251.85 Lacs is correct which is incurred as capital expenditure of ongoing projects as per annexure whereas Rs. 335.08 Lacs pertained to Prior Period Income and Expense.

**Commission's View:**



3.2.8. The Commission has reviewed each parameter of the ARR separately while undertaking the truing-up for the Control Period FY12-FY14.

## **Return on Equity**

### **Stakeholder's Objections**

3.2.9. HPSEBL stated that HPERC (Terms and conditions for determination of Transmission Tariff) Regulations, 2011 in section 18 provides that:

*"For the purpose of determination of tariff, the equity and outstanding debt as determined for the base year by the Commission shall be considered as given. However, for any fresh capitalization of assets, the Commission shall apply a debt equity ratio of 70:30 on the capitalized amount as approved by the Commission for each year of the control period. Provided that where equity employed is in excess of 30%, the amount of equity for the purpose of tariff shall be limited to 30 % and balance amount shall be considered as loan. The interest rate applicable on equity in excess of 30% treated as loan has been specified in the regulations. Where actual equity employed is less than 30%, the actual equity shall be considered.*

*Further, section 20 (3) provide that the interest rate on the amount of equity in excess of 30% treated as notional loan shall be weighted average rate of the loans of the respective years and shall be further limited to the rate of return on equity specified in these regulations."*

3.2.10. From the above it is clear that the Hon'ble Commission has already clarified that there is no equity invested in the assets transferred to HPPTCL & therefore RoE shall be nil. Going by the contention of HPPTCL on the equity invested by GoHP, it can only be accepted to the extent of Rs 1836.64 lakhs i.e. 30% of the claimed amount of Rs 6122.12 lakhs. In such a case the Return on Equity allowed should be Rs 431.24 Cr.

### **Petitioner's Reply:**

3.2.11. Petitioner has submitted that the amount of Rs. 61.22 Cr. claimed by HPPTCL in the present true-up petition has been treated as equity of GoHP as per the decision conveyed by Special Secretary (Power), GoHP vide letter MPP-C(7)-3/2011 dated 27.07.2016.

### **Commission's View:**

3.2.12. Issue of return on equity has been dealt in Chapter 4.

### **Interest on Working Capital**

#### **Stakeholder's Objections**

3.2.13. Depending on the amount of equity allowed to be Rs 431.24 Cr. instead of Rs 1,437 Cr., the interest on working capital should also reduce to Rs 32.28 Cr., Rs 40.20 Cr., Rs 16.28 Cr. for FY12, FY13 and FY14 respectively.

#### **Petitioner's Reply:**

3.2.14. Petitioner has mentioned that all components in the true-up petition are correct.

#### **Commission's View:**

3.2.15. Commission has re-computed the working capital requirement and interest on working capital based on the trued-up ARR approved in Chapter 4.

### **Non-Tariff Income**

#### **Stakeholder's Objections**

3.2.16. DoE has commented that before Net ARR, the profit or surplus amount should be deducted along with the income from no tariff from the projected ARR.

#### **Petitioner's Reply:**

3.2.17. Petitioner has mentioned that non-tariff income has already been considered in the ARR and the same is not required to be deducted again from the profit of the Company.

#### **Commission's View:**

3.2.18. Commission has considered the non-tariff income as approved in Chapter 4.

### **Advance Income Tax expense**

#### **Stakeholder's Objections**

3.2.19. HPSEBL submitted that for the advance income tax expense in the subsequent reply to the Hon'ble Commission on the queries raised, HPPTCL has submitted that income tax of Rs 710.00 lakhs has been deposited during the Assessment Year 2014-15, out of which Rs 274.86 lakhs has been calculated proportionally as

Income Tax pertaining to Transmission Charges income for the FY 2011-12 to FY 2013-14. However, HPPTCL has claimed income tax expense of Rs 327 Cr., Rs 428 Cr., Rs 710 Cr. for FY12, FY13 and FY14 respectively.

3.2.20. DoE has submitted that the Income Tax benefits shouldn't be allowed in the calculation of ARR for FY 2011-12, FY 2012-13 and FY 2013-14 as this may add burden on the users of this network. Moreover, the document of Income Tax payment/ tax holiday has not been given in the petition.

**Petitioner's Reply:**

3.2.21. Petitioner has submitted that the correct details of Income Tax expenses has been re-submitted at page 3 & 4 along with Annexure L as per the compliance report submitted to the Hon'ble Commission on 1st December 2016.

3.2.22. Petitioner has responded that the Income Tax corresponding to the transmission charges income for FY 2011-12 to FY 2013-14 has only been claimed in the true-up petition.

**Commission's View:**

3.2.23. It is observed that the Petitioner has provided requisite details with respect to the applicability of income tax corresponding to the period FY12 to FY14 in responses to the queries of the Commission. The Commission has dealt with the issue of income tax in Chapter 4.

**STU Income**

**Stakeholder's Objections**

3.2.24. DoE has submitted that the income from STU charges has not been considered in the ARR.

**Petitioner's Reply:**

3.2.25. Petitioner has mentioned the income from STU charges has already been taken in the ARR in true-up petition.

**Commission's View:**

3.2.26. Commission has considered all income sources corresponding to the intra-state transmission network as approved in Chapter 4.

## Transmission Charges for GoHP

### Stakeholder's Objections

3.2.27. DoE has submitted that HPPTCL should refund the charges to GoHP as GoHP has not utilized its transmission network from ISGS stations.

### Petitioner's Reply:

3.2.28. Petitioner has submitted that STOA charges are being disbursed by NRLDC to State utility as per notified Regulations and Procedures. Since GoHP power is being also wheeled through intra-state transmission assets for which this true-up petition is under consideration with GoHP.

### Commission's View:

3.2.29. The current petition is with respect to true-up of the ARR for the Second Control Period (FY12-FY14) and the same has been undertaken as per the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 and audited accounts of the Petitioner for the respective period.

## Transmission Charges Invoices

### Stakeholder's Objections

3.2.30. HPSEBL submitted that it has received transmission charges bill from HPPTCL for the period of FY 2011-12 for Rs 1171.00 lakhs, for FY 2012-13 of Rs 1205.00 lakhs & for FY 2013-14 for Rs 1192.00 lakhs based on the MYT order dated 14.07.2011.

3.2.31. Further, it was submitted that HPPTCL has been contending that transmission charges for the period 10.06.2010 to 31.03.2011 are payable by HPSEBL. However, the transmission charges for this period have not been given by the Hon'ble Commission. HPSEBL is constrained to accept the contention of HPPTCL as long as transmission charges are approved by the Hon'ble Commission for the said period. It is requested that Hon'ble Commission allows the transmission tariff for this period as transfer of assets to HPPTCL w.e.f. 10.06.2010 to 31.03.2011 has already been completed and further Hon'ble HPERC on the True up for FY2010-11 & FY2011-12 for HPSEBL vide order dated 30.03.2015.

3.2.32. DoE has submitted that as per the profit & loss statement for the year ending on 31.03.2015, the figure corresponding to revenue from operation & revenue from

other income is Rs. 1246.83 Lacs and nil respectively. However, for the same column of the sheet for FY 2013-14 the figure are nil & 876.94 lacs.the figures need to be reconciled and needs clarification.

#### **Petitioner's Reply:**

3.2.33. The petitioner submitted that it has revised the bills for the transmission charges to HPSEBL for FY 2011-12 to FY 2014-15 based on the assets value of transferred assets to HPPTCL as revised by HPSEBL from Rs 199 Crore to Rs 102 Crore.

3.2.34. Also, petitioner submits that HPSEBL raised O&M charges bill for the period 10.06.2010 to 31.03.2011 amounting to Rs 1.39 Crore, whereas, as per final order dated 30.03.2015 passed by Hon'ble HPERC in favor of HPSEBL for the FY 2011-12 the ARR of HPPTCL shall be primarily an intercompany book adjustment and accordingly HPPTCL has raised the transmission charges bill for the said period amounting to Rs. 4.73 Crore. HPSEBL has not accepted the said transmission charges bill, although, HPPTCL has accepted the O&M charges bill raised by HPSEBL for said period and income from Transmission charges for the period 10.06.2010 to 31.03.2011 both have taken in books of account of HPPTCL.

3.2.35. In response to DoE comment, the Petitioner has submitted that in the books of account for FY 2013-14 Rs. 876.94 Lacs was taken inadvertently under the heading 'Other Income' instead of 'Revenue from Operation', which was later rectified in the accounts of FY 2014-15 and taken under the head 'Revenue from Operation'.

#### **Commission's View:**

3.2.36. The issue of transmission charges for the period FY12-FY14 has been considered in Chapter 4 while computing the revenue surplus/ gap. With respect to the ARR for the period 10.06.2010 to 31.03.2011, the Commission in its Order dated 30.03.2015 has already decided on the matter in favor of HPSEBL.

### **Connectivity with the Transmission Network**

#### **Stakeholder's Objections**

3.2.37. DoE has submitted that HPPTCL earns its revenue from the generators or Discom for utilizing its transmission network for carrying power from seller end to buyer end. HPPTCL has to figure out the detail of generators to be connected on its network for a particular year and demand charges for using its network as per

their contractual capacity. However, because of some reasons generator will not be able to connect its project with transmission network of HPPTCL on its schedule date then the penalty provision should be there. The tariff for that particular year should involve such factors. And, because of some reasons HPPTCL will not be able to evacuate the power of project through its network then penalties should also be there for HPPTCL.

**Petitioner's Reply:**

3.2.38. Petitioner has submitted that the issue is fully covered in the connectivity procedure notified by HPPTCL after due approval of HPERC.

**Commission's View:**

3.2.39. The current petition is with respect to true-up of the ARR for the Second Control Period (FY12-FY14) and the same has been undertaken as per the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 and audited accounts of the Petitioner for the respective period. HPPTCL is expected to take care of such aspects at their level.

**Transmission Losses**

**Stakeholder's Objections**

3.2.40. DoE has submitted that the STU has not mentioned the data regarding transmission losses for its transmission network. The kind of investment HPPTCL has made for reducing the transmission losses as per norms set by CERC for particular capacity of KV lines which may please be taken into consideration while determining the tariff for HPPTCL.

**Petitioner's Reply:**

3.2.41. Petitioner has submitted that in absence of transfer of entire existing transmission assets to HPPTCL, segregation of transmission losses between assets of HPPTCL & HPSEBL is not possible. Accordingly, the plan for reduction of transmission losses cannot be framed, neither HPPTCL has framed any proposal on this segment.

**Commission's View:**

3.2.42. The Petitioner is required to submit data with regard to the losses for which it has to take necessary action.

**Tariff for Other Transmission Works****Stakeholder's Objections**

3.2.43. DoE has submitted that cost plus tariff is allowed only from CoD of the project i.e. for the asset put in use and with respect to the assets under work in progress, no tariff is allowed.

**Petitioner's Reply:**

3.2.44. Petitioner has submitted that the petition 43/2016 which is pending adjudication before the Hon'ble Commission relates with the old assets vested with HPPTCL as per GoHP notification dated 10.06. 2010. HPPTCL shall file a separate petition as and when the new assets come in operation.

**Commission's View:**

3.2.45. Petitioner has adequately clarified the query of the objector.

# 4 Analysis of True-Up Petition for the 2nd Control Period (FY12 to FY14)

## 4.1. Background

4.1.1. The Commission has analyzed the Petition of HPPTCL for true-up of the ARR for the Second Control Period (FY 2011-12 to FY 2013-14).

4.1.2. This Chapter covers the item-wise analysis of ARR for each year of the Second Control Period including Depreciation, O&M expenses, Interest and Finance Charges and Working Capital Requirement, etc. Based on the true-up ARR and actual revenue, revenue surplus / gap for the Second Control Period (FY12-FY14) has been approved for recovery.

4.1.3. The Commission in the MYT Order for HPPTCL for the Control Period FY12-FY14 had stated the following:

*"5.10 As per Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 the base year for the Second Control Period means the financial year immediately preceding first year of the Control Period (i.e. FY11). The Regulations further provide that the baseline values (operating and cost parameters) for the base year of the Control Period shall be based on the latest audited accounts, estimate of the actual for the relevant year, prudence check and other factors considered appropriate by the Commission.*

*5.11 As stated above the Commission has considered the O&M expenses as provided by Petitioner in its additional submissions and other costs on the basis of the value of transferred transmission line and associated debts. The Commission, however, clarifies that all expense projections and the trajectory for the Control Period may be revised by the Commission as and when the audited accounts for FY11 are made available."*

4.1.4. Based on the details provided in the petition, audited accounts and subsequent submissions, it is observed that there are significant variations in the approved



and actual numbers of the various ARR components due to the reason that the ARR for the Control Period FY12-FY14 was approved without adequate information with respect to the base year. Further, the value of the GFA assessed as per the Final Transfer Scheme has also undergone a change.

- 4.1.5. Regulation 6 of the HPERC MYT Regulations 2011 provides for the redetermination of base line values in absence of audited accounts:

*"6. Determination of Baseline-*

*The baseline values (operating and cost parameters) for the base year of the control period shall be determined by the Commission and shall be based on the latest audited accounts, estimate of the actuals for the relevant year, prudence check and other factors considered appropriate by the Commission. The Commission may re-determine the baseline values for the base year based upon the actual audited accounts of the base year."*

- 4.1.6. In absence of any full year audited accounts for the base year i.e. FY 2010-11, the Commission has undertaken detailed review of each ARR parameter based on the audited accounts submitted by the Petitioner for the purpose of truing-up of the Control Period FY12-FY14 and revised the ARR for each year as discussed in the subsequent paragraphs.

- 4.1.7. For this purpose, the Commission held several rounds of technical discussions to validate the data submitted by the Petitioner and sought further clarifications on various issues. The Commission has considered all information submitted by the Petitioner as part of the Tariff Petition including responses to various queries raised during the discussions.

## **4.2. Transmission Infrastructure**

- 4.2.1. The Commission has issued the MYT Tariff Order for the MYT Control Period (FY 2011-12, FY 2012-13 and FY 2013-14) according to the facts available at that point of time and therefore the value of Gross Fixed Assets was considered at Rs. 199.43 Cr. based on the submission of the Petitioner. However, post finalization of the Transfer scheme notified by the Himachal Pradesh State Government on 10.06.2010 and office letter no. HPSEBL/CE(ES)/AU-5/HPPTCL/2014-7401-05 and even no. 6533-38 dated 18.10.2014 and 20.09.2014, it is observed that the revised capitalized value of 15 transmission lines transferred from HPSEBL has been ascertained at Rs 102.63 Cr. out of which depreciation of Rs 41.41 Cr. has

been claimed and net book value of the assets transferred stood at Rs. 61.22 Cr. as on 13.06.2010. Therefore, the revised value of assets and accumulated depreciation has been considered by the Commission for truing-up purposes.

- 4.2.2. It is observed that out of the 15 lines transferred to HPPTCL, three lines have been given the status of inter-state lines and tariff for which would form part of inter-state transmission charges to be approved by the Central Electricity Regulatory Commission (CERC). The Commission raised several clarifications for consideration of cost of these inter-state lines as part of truing-up exercise for the Second Control Period. In response, the Petitioner has submitted that the tariff for these lines was already included as part of the MYT Order for the Control Period FY12-FY14 and therefore the same should be considered for the purpose of truing-up.
- 4.2.3. Further, the petitioner also submitted that it had filed a petition before CERC for tariff determination of these three inter-state lines for the period of FY15-FY19 against which the Hon'ble CERC had issued an Order dated 16.05.2016. In this Order, while Hon'ble CERC has approved the tariff for the Control Period FY15-FY19, no truing-up for the past period was done as the tariff for these lines was already approved by the Commission in the MYT Order for FY12-FY14.
- 4.2.4. Based on the submission of the Petitioner that HPSEBL continues to be the primary beneficiary of the three lines, the Commission finds it prudent to consider the three lines as part of the truing-up exercise for the Control Period FY12-FY14. However, it is clarified that the three lines would not be considered in the truing-up for subsequent Control Period for which the tariff has already been approved by Hon'ble CERC.
- 4.2.5. The details of existing Transmission lines and net book value considered for truing up as on 13/06/2010 in line with the Transfer Scheme, 2010 are as follows:

**Table 15: Transmission Infrastructure as on 13/06/2010 transferred to HPPTCL**

Sr. No.	Name of Line and Line Length in Kms	Gross Value of Assets (INR Lakhs)	Depreciation upto 13/06/2010 (INR Lakhs)	Net Book Value of Assets on 13/06/2010
1	66 KV S/C Line from Pinjore to parwanoo	21.1	18.99	2.11
2	66 KV line from Shanan to Bijni	10.5	9.45	1.05
3	132 KV Bassi Shanan Line	218.8	196.92	21.88
4	132 KV S/C Giri Kulhal Line	170.69	133.15	37.54
5	132 KV S/C Line from PSEB SS-Kangra to HPSEB SS- Kangra	36.78	28.69	8.09

Sr. No.	Name of Line and Line Length in Kms	Gross Value of Assets (INR Lakhs)	Depreciation upto 13/06/2010 (INR Lakhs)	Net Book Value of Assets on 13/06/2010
6	132 KV S/C Line from Giri to Abdullapur	43.49	29.58	13.91
7	220 KV LILO of Ckt No. lind fo Baira suli Pong Dam line	65.97	39.92	26.05
8	220 KV D/C Line from Kunihar to Panchkula	2520.23	1272.89	1247.34
9	220 KV S/C Line from Khodri to Majri	3674.43	1855.84	1818.59
10	66 KV S/C Line from Pong to Sansarpur Terrace	55.55	26.67	28.88
11	132 KV Line from Dehar to Kangoo	41.9	11.73	30.17
12	220 KV S/C Line from Dehar to Kangoo	68.93	17.58	51.35
13	220 KV S/c Line from Thein Dam to Jassure	2114.33	486.44	1627.89
14	66 KV trans line from Bhakra to Una with LILO at Gothai	127.18	13.36	113.82
15	220 KV D/C Line on 400 KV towers from PGCIL Reru to 220/66 KV SS-Uperia Nangal(Nalagarh)	1093.49	0	1093.49
	<b>Total</b>	<b>10263.37</b>	<b>4141.21</b>	<b>6122.16</b>

### 4.3. Operation & Maintenance expenses

4.3.1. As per the MYT Transmission Regulations, 2011, O&M expenses are controllable and hence any surplus or deficit in the O&M expenses shall be to the account of the transmission licensee and therefore shall not be trued-up.

4.3.2. As per the submission of the Petitioner the employee cost, R&M expense and A&G expense for the each year of the Control Period as against the approved are as below:

**Table 16: Actual O&M expense Claimed by the Petitioner as against Approved for the Control Period FY12-FY14**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	MYT Approved	HPPTCL Petition	MYT Approved	HPPTCL Petition	MYT Approved	HPPTCL Petition
Employee Cost	2.55	3.31	2.81	3.68	3.09	4.26
A&G expense	0.51	1.76	0.56	1.88	0.61	1.84
R&M Expense	1.64	0.30	1.81	0.38	1.99	0.32
Other Statutory Levies & Duty	1.00		1.00		1.00	
<b>Total O&amp;M</b>	<b>5.70</b>	<b>5.37</b>	<b>6.18</b>	<b>5.93</b>	<b>6.69</b>	<b>6.41</b>

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	MYT Approved	HPPTCL Petition	MYT Approved	HPPTCL Petition	MYT Approved	HPPTCL Petition
<b>Expense</b>						

4.3.3. As per the submission of the Petitioner, it has been observed that there are differences in the elements of the O&M expense. In the MYT Order for HPPTCL for the Control Period FY12-FY14, the Commission had stated the following:

*"5.8 The Commission has, therefore, decided to approve the O&M expenses as per the information provided by the Petitioner. The Commission however, directs the Petitioner to mutually work out the O&M expenses payable to HPSEBL and submit the same along with the first APR.*

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.....

*5.11 As stated above the Commission has considered the O&M expenses as provided by Petitioner in its additional submissions and other costs on the basis of the value of transferred transmission line and associated debts. The Commission, however, clarifies that all expense projections and the trajectory for the Control Period may be revised by the Commission as and when the audited accounts for FY11 are made available."*

4.3.4. It has been observed that the transmission assets as identified in the transfer scheme were transferred to HPPTCL on 10 June, 2011. However, the responsibility of O&M expense of these lines continues to be retained by HPSEBL and HPPTCL is required to pay O&M expense to HPSEBL for maintenance of these lines. The Commission has directed HPPTCL to mutually work out the O&M expense payable to HPSEBL.

4.3.5. Based on the submission of the Petitioner, it is observed that no proper formulae has been agreed upon by the two parties. The O&M expense payable by HPPTCL to HPSEBL for the period FY12-FY14 has been agreed between themselves based on minutes of meeting held on 08.06.2016 in chamber of Sr. Accounts Officer O/O Chief Engineer (ES), HPSEBL, Hamirpur (HP). However, no basis for arriving at the maintenance charges is provided in the minutes of the meeting.

4.3.6. In absence of any past data, the Commission has considered the actual expense payable to HPSEBL towards maintenance of the transmission lines for the Control

Period. However, HPPTCL is directed to agree with HPSEBL on a formulae for such maintenance expense and submit the same for approval of the Commission along with the subsequent petition.

4.3.7. Also, HPPTCL in its claim for O&M expenses has considered the break-up of O&M charged by HPSEBL in separate heads of employee cost, administrative and general (A&G) expense and repair and maintenance (R&M) expenses. The Commission is of the view that the same is inappropriate as the total amount payable to HPSEBL for maintenance of the transmission lines forms parts of R&M expense. Accordingly, the amount payable to HPSEBL towards upkeep of the transmission lines have been considered as R&M expense in the ARR of HPPTCL.

4.3.8. In addition to the expense on account of maintenance of transmission lines, the Petitioner has considered 50% of corporate office expenses under employee cost and A&G expense towards intra-state transmission network and the balance expenses have been capitalized towards ongoing projects based on the minutes of the 29<sup>th</sup> Board of Directors meeting. The Commission asked the Petitioner to submit the basis for arriving at 50% of the corporate expense being allocated towards STU. The Petitioner could not provide any basis for the same and repeatedly provided reference to the approval of the Board. In absence of any reasonable basis provided by HPPTCL for allocation of 50% of the corporate level expenses towards intra-state transmission system and considering limited requirement for monitoring and upkeep of the transferred intra-state transmission lines, the Commission feels that the allocation of 25% of the corporate office expenses is adequate. Accordingly, 25% of the corporate level employee cost and A&G expense towards STU and intra-state transmission system has been considered for the Control Period FY12-FY14.

4.3.9. The STU related expense i.e. license fee, etc. have been considered based on actual as part of the A&G expense.

4.3.10. Based on the detailed review of each component, the Commission approves the following O&M expenses compared to the expenses claimed by petitioner.

**Table 17: Total O&M expenses (Rs Cr.) approved by Commission**

Particular	FY 2011-12		FY 2012-13		FY 2013-14	
	HPPTCL Petition	Approved	HPPTCL Petition	Approved	HPPTCL Petition	Approved
Employee Cost	3.31	0.94	3.68	1.09	4.26	1.25
A&G expense	1.76	1.40	1.88	1.53	1.84	1.49

Particular	FY 2011-12		FY 2012-13		FY 2013-14	
	HPPTCL Petition	Approved	HPPTCL Petition	Approved	HPPTCL Petition	Approved
R&M expense	0.30	2.03	0.38	2.18	0.32	2.35
<b>Total O&amp;M Expense</b>	<b>5.37</b>	<b>4.36</b>	<b>5.93</b>	<b>4.80</b>	<b>6.41</b>	<b>5.09</b>

#### 4.4. Depreciation

4.4.1. The accumulated depreciation and the net book value of the assets till 13<sup>th</sup> June, 2010 is given as per the Transfer Scheme, 2010 as shown in [Table 15](#).

4.4.2. It has been observed that HPPTCL has computed depreciation at 2.5% depreciation rate and has not considered the methodology for computing depreciation in line with Regulation 23 of Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 which is reproduced below:

"23. Depreciation

(2) The salvage value of the asset shall be considered as 10% and depreciation shall be allowed up to maximum of 90% of the capital cost of the asset.

(3) Depreciation shall be calculated annually based on Straight Line Method and at rates specified in Appendix-I to these regulations for the assets of the transmission system:

Provided that, the remaining depreciable value as on 31st March of the year closing after a period of 12 years from date of commercial operation shall be spread over the balance useful life of the asset.

(4) For transmission project which are in operation for less than 12 years, the difference between the cumulative depreciation recovered and the cumulative depreciation arrived at by applying the depreciation rates specified in this regulation corresponding to 12 years, shall be spread over the period up to 12 years, and the remaining depreciable value as on 31st March of the year closing after a period of 12 years from date of commercial operation shall be spread over the balance useful life of the asset.

(5) For the project in operation for more than 12 years, the balance depreciation to be recovered shall be spread over the remaining useful life of the asset."

4.4.3. Based on the above provisions of Regulation 23 of the MYT Tariff Regulations, 2011, the Commission approves the following depreciation expenses for true-up for the Control Period FY12-FY14:

**Table 18: Depreciation expense (Rs Cr.) approved for True-up of FY12, FY13 and FY14**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	HPPTCL Petition	Approved	HPPTCL Petition	Approved	HPPTCL Petition	Approved
Depreciation Expense	2.50	3.67	2.50	3.67	2.50	3.04

#### 4.5. Interest on Loan

4.5.1. Based on the submission of the Petitioner, the Commission approves NIL expense towards interest on loan for the Control Period FY12-FY14.

**Table 19: Interest Expense approved for True-up of Control period FY12-FY14 (Rs. Cr.)**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	HPPTCL Petition	Approved	HPPTCL Petition	Approved	HPPTCL Petition	Approved
Interest on loan	-	-	-	-	-	-

#### 4.6. Interest on working capital

4.6.1. The Commission has computed the working capital requirement in line with the Regulation 21 of the MYT Tariff Regulations, 2011.

4.6.2. The prevailing Short Term Prime Lending Rate of the State Bank of India as on 1st April of the relevant year has been considered for approving the interest on working capital as per provisions of Regulation 22.

**Table 20: Proposed and Trued-up Interest on working capital for the Control Period FY12-FY14 (Rs. Cr.)**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	HPPTCL Petition	Approved	HPPTCL Petition	Approved	HPPTCL Petition	Approved
Interest on working capital	0.61	0.22	0.75	0.28	0.61	0.13

## 4.7. Return on Equity

- 4.7.1. In the Petition, HPPTCL has submitted that all the existing transmission lines transferred from HPSEBL has been financed from equity and has therefore claimed Return on Equity @23.48%. The Petitioner has proposed equity amount of Rs. 61.22 Cr based on the value of the existing transmission lines that were transferred from HPSEBL to HPPTCL and vide Special Secretary (Power) letter No. MPP-C(7)-3/2011 Govt. of Himachal Pradesh , Department of MPP & Power dated 27.07.2016.
- 4.7.2. The Petitioner was asked to provide the details of original funding of the fifteen lines transferred from HPSEBL to HPPTCL. In response, the Petitioner was not able to provide any details regarding the funding (debt, equity, grant, etc.) of these lines. Further, it is observed that some of these lines are very old and have outlived their economic life. It is also observed that no investment / additional expense has been done by HPPTCL on the existing transmission lines which have been transferred to them and therefore the vesting of assets from HPSEBL to HPPTCL by issuance of shares to the GoHP was primarily an accounting entry.
- 4.7.3. In absence of any details with regard to original funding of the fifteen lines transferred from HPSEBL to HPPTCL and no corresponding transfer of liabilities with regard to these lines, the Commission feels that approving Return on Equity based on the transfer amount would lead to double charging the consumers for the same capital cost.
- 4.7.4. Therefore, the Commission does not allow any Return on Equity on the transferred assets as part of the truing-up for the Control Period FY12-FY14.

**Table 21: Return on Equity (Rs Cr.) approved by the Commission**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	HPPTCL Petition	Approved	HPPTCL Petition	Approved	HPPTCL Petition	Approved
Return on Equity	14.37	-	14.37	-	14.37	-

## 4.8. Income Tax

- 4.8.1. HPPTCL has claimed advance income tax expense of Rs 3.27 crores, 4.28 crores and 7.10 crores for the FY 2011-12, FY 2012-13 and FY 2013-14 respectively.
- 4.8.2. The Petitioner in one of its responses to the Commission has submitted that the income tax amounting to Rs. 274.86 Lakhs is applicable only during FY 2013-14



which has been calculated proportionately based on the income from transmission charges. The Petitioner was asked to provide the detailed working for arriving at the income tax of Rs. 274.86 lakhs which was submitted as below:

**Table 22: Calculation of Income Tax as submitted by HPPTCL for FY 2013-14 (Rs. lakh.)**

Particulars	FY 2011-12
Income from transmission and STOA	734.24
Income from Other Sources	1164.79
Total Income	1899.03
Gross Demand of Income Tax	710.90
<b>Tax on STU &amp; Transmission Portion</b>	<b>274.86</b>

4.8.3. The Commission observed that the tax liability of Rs 274.86 Cr. included an amount of Rs 0.65 Cr. towards interest on delay in submission of tax liability which cannot be recovered from the consumers. Therefore, the Commission has considered the tax liability of Rs 6.45 Cr. for the assessment year FY 2013-14 and has considered the allocation based on the methodology proposed by HPPTCL for approving the income tax for the Control Period.

**Table 23: Advance Income tax expense (Rs Cr.) Approved by commission**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	HPPTCL Petition	Approved	HPPTCL Petition	Approved	HPPTCL Petition	Approved
Income Tax expense	3.27	-	4.28	-	7.10	2.42

## 4.9. Non-Tariff Income

4.9.1. HPPTCL has included the connectivity fee and short term open access charges under the non-tariff income as per the actuals in the audited annual accounts for the respective years of the Control Period FY12-FY14.

4.9.2. It was observed that the petitioner has not included interest income. HPPTCL in its response clarified that Govt. equity and ADB loan interest was received for various projects which are under construction and the amount of interest received on these funds has been adjusted in pre-operative expenditure statement of concerned years.

4.9.3. Accordingly, the Commission allows the non-tariff income based on the claim of HPPTCL.

**Table 24: Non-Tariff income approved by the Commission (Rs Cr.)**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	HPPTCL Petition	Approved	HPPTCL Petition	Approved	HPPTCL Petition	Approved
Non-Tariff Income	0.64	0.64	0.19	0.19	8.77	8.77

#### 4.10. Trued-up Aggregate Revenue Requirement for the Control Period FY12-FY14

4.10.1. Based on the final truing-up of various parameters as per audited accounts of HPPTCL as discussed above, the revised ARR has been computed. The final approved ARR for the Control Period as against the claim of Petitioner and approved as per the MYT Order is summarized in the following table:

**Table 25: Trued-up ARR Approved by Commission for the Control Period FY12 -FY14 (Rs Cr.)**

Particulars	FY 2011-12		FY 2012-13		FY 2013-14	
	HPPTCL Petition	Approved	HPPTCL Petition	Approved	HPPTCL Petition	Approved
Operation & Maintenance Expense	5.37	4.36	5.93	4.80	6.41	5.09
Depreciation	2.50	3.67	2.50	3.67	2.50	3.04
Interest on Loan-term loan	-	-	-	-	-	-
Interest on Working Capital	0.61	0.22	0.75	0.28	0.61	0.13
Income Tax Expense Advanced	3.27	-	4.28	-	7.10	2.42
Return on Equity	14.37	-	14.37	-	14.37	-
<b>Gross ARR</b>	<b>26.13</b>	<b>8.25</b>	<b>27.81</b>	<b>8.75</b>	<b>31.01</b>	<b>10.67</b>
Less: Non-Tariff Income	0.64	0.64	0.19	0.19	8.77	8.77
<b>Net ARR</b>	<b>25.49</b>	<b>7.61</b>	<b>27.62</b>	<b>8.56</b>	<b>22.24</b>	<b>1.90</b>

#### 4.11. Revenue and Revenue Gap for the Second Control Period

4.11.1. As per the audited accounts of the Second Control Period (FY12-FY14), it is observed that the revenue provided was lower than the approved ARR for the Second Control Period. In response, HPPTCL has submitted that the invoice amount for the transmission charges to HPSEBL was revised based on the assets value of transferred assets to HPPTCL as revised by HPSEBL from Rs. 199 Cr. to Rs. 102 Cr.

4.11.2. The Commission has accordingly considered the amount recorded as revenue in the audited accounts of HPPTCL for the Control Period FY12-FY14 for truing-up. A summary of the revenue gap approved and amounts approved by the Commission on account of truing-up of each year of the Control Period FY12-FY14 are provided in the table below:

**Table 26: Revenue Gap (Rs Cr.) Approved by Commission for the Control Period FY12 - FY14**

Particulars	FY 2011-12	FY 2012-13	FY 2013-14
ARR	7.61	8.56	1.90
Revenue from Transmission Charges	5.86	6.03	5.96
<b>Revenue Surplus / (Gap)</b>	<b>(1.76)</b>	<b>(2.54)</b>	<b>4.06</b>

4.11.3. The Commission accordingly approves a revenue gap of Rs. 0.23 Cr. based on truing-up for the Second Control Period to be recovered from HPSEBL.

**Shimla**

**Dated: 10th April, 2017**

**(S.K.B.S. Negi)**

**Chairman**