

**True Up Order for FY11 and FY12
For
Himachal Pradesh State Electricity Board
Limited (HPSEBL)**



**Himachal Pradesh Electricity
Regulatory Commission
March 30, 2015**

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

CASE NO: 76/2014.

CORAM

SUBHASH CHANDER NEGI

IN THE MATTER OF:

Second Annual Performance Review (APR) Order for the MYT Period (FY09-FY11) & Determination of Tariff for FY 2010-11 Dated 10.06.2010 (*Tariff Order for FY 2010-11*)

MYT Order for the MYT Period (FY 12-FY 14) & Determination of Tariff for FY 2011-12 Dated 19.07.2011. (*Tariff Order for FY 2011-12*)

Second Annual Performance Review (APR) Order for the MYT Period (FY12-FY14) & Determination of Tariff for FY 2013-14 Dated 24.04.2012 (*Provisional True-Up Order for FY 2010-11*)

Second Annual Performance Review (APR) Order for the MYT Period (FY12-FY14) & Determination of Tariff for FY 2013-14 Dated 27.04.2013 (*Provisional True-Up Order for FY 2011-12*)

AND

IN THE MATTER OF:

Himachal Pradesh State Electricity Board Limited

... APPLICANT

ORDER

(Passed on this 30th day of March, 2015)

The Himachal Pradesh State Electricity Board Limited (hereinafter called the 'HPSEBL') has filed a petition with the Himachal Pradesh Electricity Regulatory Commission (hereinafter referred to as 'the Commission' or 'HPERC') for final review of the Order dated 10th June, 2010 for the Aggregate Revenue Requirement (ARR) for FY11 and Order dated 19th July, 2011 for the Aggregate Revenue Requirement (ARR) for FY12 under Sections 94 (1) (f) of the Electricity Act, 2003 (hereinafter referred to as "the Act"), read with Regulation 63 of the

Himachal Pradesh Electricity Regulatory Commission (Conduct of Business) Regulations, 2005. The ARR of FY11 and FY12 have already been true up on the basis of provisional accounts of these years along with the Tariff Orders of FY13 dated 24th April, 2012 and FY14 dated 27th April, 2013 respectively.

The Commission having heard the applicant, interveners, consumers, consumer representatives of various consumer groups on November 13, 2014 at Shimla, and having had formal interactions with the officers of the HPSEBL and having considered the documents available on record, herewith accepts the applications with modifications, conditions and directions specified in the following Tariff Order.

The Commission has made modifications in the true-up numbers in the ARR for FY11 and FY12 based on the efficient and reasonable operating parameters and prudent expenditure that can be passed on the consumers of the State. The Commission has detailed the reasons for modifying/ disallowing any expenditure as per the attached detailed true-up order.

The Commission has already allowed the difference in the approved ARR and the provisional figures of FY11 & FY12 in the ARR of FY13 & FY14 in its tariff Orders dated 24th April, 2012 & 27th April, 2013 and some additional amount has been allowed in the Review Order dated 23rd October, 2012, Review Order dated 26th December, 2013 and 3rd MYT Order dated 12th June, 2014. The deficit amount that has emerged from the final true up of FY11 and FY12 which shall be allowed during the 1st Annual Performance Review for 3rd MYT Control Period while determining the Aggregate Revenue Requirement for FY16.

Shimla
Dated: 30th March, 2015

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(Subhash C. Negi)
Chairman

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1. BACKGROUND

- 1.1 The Himachal Pradesh State Electricity Board Limited (hereinafter referred to as 'HPSEBL' or 'Licensee' or 'Petitioner') is a deemed licensee under the first proviso to Section 14 of the Electricity Act, 2003 (hereinafter referred to as 'the Act') for distribution and supply of electricity in the State of Himachal Pradesh.
- 1.2 In accordance with provisions of the Act, the functions, assets, properties, rights, liabilities, obligations, proceedings and personnel of Himachal Pradesh State Electricity Board (HPSEB) were vested with the Government of Himachal Pradesh vide Notification No. MPP-A(3)-1/2001-IV dated 15 June 2009. These functions, assets, properties, rights etc earlier vested with the Government of Himachal Pradesh were re-vested into corporate entities namely Himachal Pradesh State Electricity Board Limited (HPSEBL) and Himachal Pradesh Power Transmission Corporation Limited (HPPTCL) vide the 'Himachal Pradesh Power Sector Reforms Transfer Scheme in accordance with the provisions of the Act and were notified vide No. MPP-A(3)-1/2001-IV, dated 10 June 2010. The HPSEBL, thus, came into being with effect from the date of re-vesting i.e. 13th of June, 2010. In the said transfer scheme the functions of generation, distribution and trading of electricity have been entrusted with the HPSEBL
- 1.3 This Order relates to the Truing up of ARR for FY11 and FY12 for HPSEBL under the Multi Year Tariff regime.
- 1.4 The Commission has already allowed the difference in the approved ARR and the provisional figures of FY11 & FY12 in the ARR of FY13 & FY14 in its tariff Orders dated 24th April, 2012 & 27th April, 2013 and some additional amount has been allowed in the Review Order dated 23rd October, 2012, Review Order dated 26th December, 2013 and 3rd MYT Order dated 12th June, 2014. The Commission has now reviewed the operational and financial performance of the Petitioner and has finalized this Order based on the audited accounts of HPSEBL for FY11 & FY12, review and analysis of the past records, information filed by the Petitioner in the petition and other submissions in response to queries raised by the Commission and views expressed by the stakeholders.
- 1.5 The Commission vide notification dated 10th October, 2007 had specified the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2007. Subsequently, the Commission vide notification dated 1st April, 2011, specified the Himachal Pradesh

Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011.

- 1.6 As per Clause 11 of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011:

“

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

(a) Variation in revenue / expenditure on account of uncontrollable sales and power purchase shall be trued up every year. Truing-up shall be carried out based on the actual/audited information and prudence check by the Commission:

Provided that if such variations are large, and it is not feasible to recover in one year alone, the Commission may take a view to create a regulatory asset, as per the guidelines provided in clause 8.2.2 of the National Tariff Policy;

Provided further that under business as usual conditions, the Commission, to ensure tariff stability, may include the opening balances of uncovered gap / trued-up costs in the subsequent control period's ARR instead of including in the year succeeding the relevant year of the control period after providing for transition financing arrangement or capital restructuring.

(b) for controllable parameters –

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

(ii) 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.

Notwithstanding anything contained in these regulations, the gains or losses in the controllable items of ARR on account of force majeure factors after adjusting for proceeds from any insurance scheme, if any, shall be passed on as an additional charge or rebate in ARR over such period as may be specified in the order of the Commission .”

1.7 Accordingly, the Commission has trued-up the ARR for the FY11 as per the HPERC (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2007 while the ARR for FY12 has been trued-up as per the provisions of HPERC (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011.

1.8 Interaction with the Petitioner

1.8.1 Since the submission of the application by HPSEBL, there have been a series of interactions between the HPSEBL and the Commission, both written and oral, wherein the Commission sought additional information/ clarification and justifications on various issues, critical for the analysis of the application.

1.8.2 The Commission held various technical validation sessions during which the discrepancies and additional information requirement in the Application were highlighted.

1.8.3 Additional information/clarifications and details, based on the queries of the Commission and validation sessions, were submitted on 4th September, 2014 and 24th January, 2015 vide M.A. No. 176/2014 and M.A. No. 10/2015. However non submission of various queries/ complete information has been a cause of concern.

1.8.4 This Order has been finalised based on the review and analysis of the information submissions, necessary clarifications submitted by the Licensee and views expressed by the stakeholders.

1.9 Public Hearings

1.9.1 The Commission issued an interim order to the HPSEBL, after admitting the petition on 27th September, 2014, for publishing a disclosure of the salient features of the petition for the information of all the stakeholders in the State. Accordingly HPSEBL published the salient features of the petition in the following newspapers:

(i) The Tribune (Chandigarh edition) on 15th October, 2014.

(ii) Amar Ujala (Chandigarh edition) on 15th October, 2014.

(iii) Hindustan Times (Chandigarh edition) on 16th October, 2014.

- (iv) Divya Himachal (Chandigarh edition) on 16th October, 2014.
- 1.9.2 The Commission invited suggestions and objections from the public on the true-up petition filed by the HPSEBL, in accordance with Section 64 (3) of the Act, subsequent of the publication of the initial disclosure by the HPSEBL. The public notice inviting objections/ suggestions was published on 17th October, 2014 in the following newspapers:
- (i) The Tribune (Chandigarh, Jalandhar and Bathinda editions)
 - (ii) Amar Ujala (Chandigarh and Dharamshala editions)
- 1.9.3 The interested parties/ stakeholders were asked to file their objections and suggestions on the petition by 5th November, 2014. The date of filing replies by HPSEBL was fixed as 13th November, 2014 and rejoinders were to be filed by 20th November, 2014. The Public Hearing in the matter was conducted on 20th November, 2014.
- 1.9.4 The Commission received no objections on the petition.

2 TRUE-UP FOR FY 2010-11 UNDER 1ST MYT CONTROL PERIOD (FY09-FY11)

2.1 This Chapter details the analysis of the True-up Petition filed by the HPSEBL for determination of Annual Revenue Requirement for the FY11 i.e. last year of the First Control Period.

BACKGROUND

2.2 HPSEBL has submitted a true-up petition for FY11 based on the audited accounts for the periods 1st April, 2010 to 13th June, 2010 and 14th June, 2010 to 31st March, 2011. The Commission had undertaken a provisional true-up for FY11 based on the provisional un-audited accounts for the periods 1st April, 2010 to 13th June, 2010 and 14th June, 2010 to 31st March, 2011 at the time of issuance of Order dated 24th April, 2012 on 'First Annual Performance Review (1st APR) Order for 2nd MYT Control Period (FY12-FY14) & Determination of Tariff for FY13'. Under Clause 5.6 of the mentioned Order, the Commission had stated the following:

*"5.6 Therefore, the Commission finds merit in provisionally approving expenses and revenue on the basis of the accounts submitted by HPSEBL. **The Commission wishes to highlight that since this true-up is based on provisional accounts for the period 14.6.2010 to 31.3.2011, this is a provisional true-up and may be reviewed once the audited accounts are made available for the entire period of FY11 and discrepancies are fully settled/addressed.**"*

2.3 Accordingly, HPSEBL has filed this true-up petition as per the audited accounts for the periods 1st April, 2010 to 13th June, 2010 and 14th June, 2010 to 31st March, 2011.

2.4 As per Clause 11 of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2007:

"The true up across various controllable and uncontrollable parameters shall be conducted as per principles stated below: -

(1) Variation in revenue / expenditure on account of uncontrollable sales and power purchase shall be trued up every year;

(2) For controllable parameters,

(a) any surplus or deficit on account of O&M expenses shall be to the account of the 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.”

2.5 The following sections contain details of true-up for FY11, based on the audited accounts of HPSEBL:

Energy Sales and Revenue

2.6 HSPEBL in its true-up petition has submitted that there is slight variation in the final sales figures of FY11 as against the sales approved at the time of provisional truing-up by the Commission. The provisionally approved, proposed as per actual and now approved sales is provided in the following table:

Table 1: Provisionally Approved, Proposed and Finally Approved Sales for FY11 (in MUs)

Categories	Approved in Provisional True-Up	Actuals	Now Approved
Domestic	1282.5	1282.5	1282.5
Non Domestic Non Commercial	89.54	89.54	89.54
Commercial	356.53	356.53	356.53
Public Lighting	12.55	12.55	12.55
Small Power	201.45	59.46	59.46
Medium Power		142.5	142.5
Large Supply	3993.21	3993.71	3993.71
Irrigation & Agriculture	445.09	35.14	35.14
Govt. Irrigation & Water Pumping		409.95	409.95
Temporary	24.64	24.64	24.64
Bulk Supply	235.57	235.61	235.61
Total Energy Sales	6641.08	6642.13	6642.13

Revenue from sale of Power

2.7 HPSEBL has submitted that based on the audited accounts for FY11, there is an increase in revenue generated from sale of power within the state as against the provisional trued-up. The Commission observes that the Petitioner has claimed an amount of Rs. 2466.40

Crore against sale of power within the state for FY11 which has been considered for final truing-up.

- 2.8 The detail of revenue from sale of power, as submitted by the petitioner, is provided in the following table:

Table 2: Provisionally Approved, Proposed and Finally Approved Revenue for FY11 (Rs. Crore)

Consumer Category	Provisional True-up	Actual	Now Approved
Domestic	347.37	346.84	346.84
Commercial	182.13	181.98	181.98
Small Supply	25.78	25.75	25.75
Medium Supply	59.92	59.67	59.67
Large Supply	1461.51	1483.23	1483.23
Agriculture/Irrigation	16.90	16.89	16.89
Public Lighting	6.02	6.01	6.01
Bulk and Grid Supply	97.45	97.00	97.00
Common Pool	1.35	1.35	1.35
NDNC	51.27	50.78	50.78
Other (Water Works and Sewerage)	185.10	184.88	184.88
Temporary Metered Supply	12.05	12.04	12.04
TOTAL	2446.84	2466.40	2466.40

- 2.9 Further, the petitioner has submitted that there is no variation in the revenue from sale of power from outside the State.

- 2.10 As per the data validated from the audited accounts, the Commission approves the revenue from various sources as proposed by the petitioner. The revenue for FY11 as per provisional true-up, proposed revenue in the final truing up and now approved by the Commission are provided in the following table:

Table 3: Provisionally Approved, Proposed and Now Approved Total Revenue for FY11 (Rs. Crore)

Particulars	Provisional True-up Order	Actual as per Audited Accounts	Now Approved
Revenue at existing tariff	2,446.84	2,466.40	2,466.40
Revenue from sale outside state	264.29	264.29	264.29
GoHP Subsidy	0.05	0.05	0.05
GoHP Roll back subsidy (Receivable)	-	-	-
Revenue at existing tariff +GoHP Subsidy	2,711.18	2,730.74	2,730.75

Power Purchase

- 2.11 HPSEBL in its petition has submitted Power Purchase expense of Rs. 2074.20 Cr. as against the provisionally approved Rs. 2064.40 Cr. The details of source-wise quantum and cost has been provided and the petitioner has submitted that the difference is primarily on account of GoHP free power from Baira Suil, Chamera –I and Chamera-II stations.
- 2.12 The power purchase as per the audited accounts is inclusive of power purchased under banking which is to be recognized as a cashless transaction. Therefore, power purchase cost from banking has been reduced from the total power purchase cost as per audited accounts which also validates with the claim of the petitioner.
- 2.13 The power purchase cost as approved by the Commission for provisional truing-up, as submitted by the petitioner for final truing-up and now approved by the Commission while undertaking final truing-up for FY11 is provided in the following table:

Table 4: Provisionally Approved, Proposed and Now Approved Power Purchase Cost for FY11 (Rs Crore)

Particulars	Provisional True-up Order	Actual as per Audited Accounts	Now Approved
Power Purchase Expenses	1,680.65	1,689.59	1,689.59
PGCIL Charges	169.45	169.45	169.45
Other Charges including arrears except Baspa arrears	111.21	111.21	111.21
Baspa Arrears	103.09	103.95	103.95
Total Power Purchase Cost	2,064.40	2,074.20	2,074.20

Renewable Power Obligation

- 2.14 The petitioner has submitted the following compliance to the renewable power obligation for FY11:

Table 5: Compliance to RPO as submitted by the Petitioner for FY11

Renewable Power Purchase Obligation Requirement	Requirement	Actuals
Sale within the state	6642	
T&D Losses within the state	11.95%	
Power Requirement within state	7543	
RPPO Requirement - Non Solar (10%)	754	942
RPPO Requirement - Solar (0%)	0	0

2.15 HPSEBL has submitted that it has been successful in complying with the solar as well as non-solar obligation during FY11. The Commission observes that the petitioner has purchased sufficient renewable energy to meet its RPO compliance during FY11.

Energy Balance

2.16 The Petitioner has submitted actual loss level of 11.95% for FY11 as against the Commission approved loss of 12.49% and has requested the Commission to allow incentive for the performance. The petitioner has submitted the energy balance for FY11 as follows:

Table 6: Energy Balance submitted by the Petitioner for FY11

Energy Balance (MUs)	Provisional True-Up	Actuals
Power Availability		
Net Power Purchase Sources (CGS, Inter-state etc.)	9308	9248
Total Availability	9308	9248
Sales within the State (MUs)	6641	6642
Proposed T&D Loss % within the State	12.66%	11.95%
Power Requirement for sale within the State (MUs)	7604	7543
Inter-State Sale (MUs)	1705	1705
Total Sale within & Outside the State (MUs)	8346	8347
Overall Losses (MUs) - Total availability less Total Sale	962	901

2.17 It is observed that in provisional truing-up for FY11, a T&D loss of 12.66% was computed which was higher than the target T&D loss but considering the reduction of 1.92% in FY11, the Commission had not imposed any penalty on account of underachievement in T&D loss reduction.

2.18 Based on the examination of the energy balance submitted for final truing-up, it is observed that the petitioner has submitted lower quantum of power availability at the periphery resulting in reduction of actual T&D losses, without providing any reasons for this significant change. Further, various irregularities were noticed in the source-wise inter-state transmission losses and the petitioner was asked to provide clarification along with documentary evidence regarding the same. In spite of multiple reminders, the HPSEBL has not provided any clarification to the Commission. The Commission is

therefore constrained to determine the actual T&D loss for FY11 and has therefore not considered any incentive or penalty for FY11 truing-up.

True-up of Controllable Parameters

O&M expenses

Employee Cost

- 2.19 In the APR Order for FY11, the Commission had provisionally allowed Rs. 168.82 Crore on account of 5th Pay Commission revision which were subject to true-up based on the actual payouts/audited accounts. Further, in the provisional truing-up an additional amount of Rs. 76.71 Cr. was considered by the Commission towards incremental employee expenses separately.
- 2.20 The petitioner has claimed an amount of Rs. 1014.83 Crore on account of employee cost in the final truing-up as against the approved amount of Rs. 892.57 Crore. The Commission observed that the amount of 5th Pay Commission arrears has increased from Rs.122.61 Crore in the provisional accounts to Rs. 161.06 Crore in the final accounts. The amount appearing in the employee expenses relating to prior periods has increased from Rs. 77.35 Crore in the provisional accounts to Rs. 115.80 Crore in the final accounts which has resulted in the increase in arrear amount. The Commission requested HPSEBL to provide reasons for this increase in the employee cost along with supporting documents. However HPSEBL could not provide satisfactory reasons for the same. Therefore the Commission has restricted the amount against employee expenses relating to prior periods to Rs. 77.35 Crore at this stage. In case HPSEBL provides justified reasons, the same shall be considered at later stage. The Commission also observed that the employee expenses also include an amount of Rs. 15 Crore on account of Leave Encashment Fund. Since these expenses are being allowed as per actual, the Commission has not considered this amount in the final true-up.

During the provisional truing-up the Commission had observed the *following*:

“As per the information available with the Commission the actual Gross Employee Expenses for the Petitioner were Rs 957.90 Cr. The Employee cost capitalized was Rs 60.76 Cr. The Commission further observed that Employee Cost of new project wing and CE (Project & Arbitration) wing was not fully capitalized, thus resulting in under

capitalisation by Rs 4.57 Cr. The Commission has considered Employee Cost capitalisation of Rs 65.33 Cr.”

2.21 Since the Petitioner has not provided the information with respect to the capitalization of employee cost pertaining to the Project Wing, the Commission has continued with the approach adopted in the provisional true-up and adjusted the amount of Rs. 4.57 Crore in the employee cost capitalization.

2.22 The employee cost now approved in the final true-up as against the claimed employee cost and the approved employee cost in the 1st APR Order is provided in the following table:

Table 7: Provisionally Approved, Proposed and Now Approved Employee Expense for FY11 (Rs. Crore)

Particulars	Approved in 2nd APR of 1 st MYT	Provisional True-up Order	Claim for Final True-Up	Amount Considered for Final true-up
Employee Cost (without Arrears) Net	695.46	957.90		
Provision for New Recruitments	7.97		899.03*	899.93
Additional Employee Expenses	----			
Impact of 5th Pay Commission	168.82		115.80	122.61
Less: Capitalization	56.39	65.33		65.73
Total Employee Cost	815.86	892.57	1,014.83	956.81

*net employee cost after capitalization

R&M Expense

2.23 R&M expense is a controllable parameter as per the MYT Regulations, 2007. In the final true-up petition, HPSEBL has accordingly claimed R&M expense of Rs. 46.44 Crore and additional R&M expense of Rs. 11.18 Crore, as approved by the Commission in the provisional true-up for FY11 on account of Hon'ble ATE Order dated 11th July, 2011 on appeal no 186 of 2009.

2.24 R&M expense is a component of O&M cost which is deemed to be a controllable parameter and is not subject to true-up as per Regulation 11 of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling

Tariff and Retail Supply Tariff) Regulations, 2007. Therefore, the Commission allows the R&M expense as approved in the provisional True-up for FY 11.

2.25 R&M expense now approved in the final true-up as against the claimed R&M expense, the approved R&M expense in the MYT Order and provisional true-up Order is provided in the following table:

Table 8: Provisionally Approved, Proposed and Now Approved R&M Expense for FY11 (Rs. Crore)

Particulars	Approved in 2nd APR of 1 st MYT	Provisional True-up Order	Actuals (as per audited accounts)	Claim for Final True-Up	Amount Considered for Final true-up
Repair & Maintenance Expenses	46.44	46.44	44.00	46.44	46.44
Additional Repair & Maintenance Expenses	-	11.18	-	11.18	11.18
Total R&M Expenses	46.44	57.62	44.00	57.62	57.62

A&G Expense

2.26 The Petitioner has submitted an actual A&G expense of Rs. 49.97 Crore against which it has claimed A&G expense of Rs. 41.16 Crore for FY11 in line with the MYT Regulations, 2007. Since A&G expense is also controllable component of the O&M expense, the Commission approves the A&G expense as approved in the MYT Order and provisional true-up Order.

2.27 A summary of the previously approved, actual, claimed and now approved A&G expense is provided in the following table:

Table 9: Provisionally Approved, Proposed and Now Approved A&G Expense for FY11 (Rs. Crore)

Particulars	Approved in 2nd APR of 1 st MYT	Provisional True-up Order	Actuals (as per audited accounts)	Claim for Final True-Up	Amount Considered for Final true-up
Administrative & General Expenses	41.16	41.16	49.97	41.16	41.16
Less: Capitalization	5.18	5.18			3.66
Net A&G Expense	35.98	35.98	49.97	41.16	37.50

Review of Capital Investment & Capitalization

2.28 According to Clause 11 of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2007:

“

(b) at the end of the control period –

iii. the Commission shall review actual capital investment vis-à-vis approved capital investment.

iv. 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.”

2.29 As per the HPERC MYT Regulations, 2007, any variation in actual capital expenditure with respect to the figures considered in the MYT Order shall be considered for true up at the end of the MYT Control Period.

2.30 In the Order dated 24th April, 2012 on ‘First Annual Performance Review (1st APR) Order for 2nd MYT Control Period (FY12-FY14) and Determination of Tariff for FY13’, while truing up the ARR of FY11 on basis of provisional accounts, the Commission had reviewed the actual capital expenditure for the First Control Period. However, due to unavailability of audited accounts for FY11, the Commission had considered the details of capitalization as provided by the HPSEBL and stated the following:

*“6.12 As the annual accounts of HPSEBL for FY11 are yet to be finalised and audited, the Commission has decided to go ahead with the details provided by HPSEBL for capitalisation and has provisionally trued up capitalisation for the Control Period. **The Commission wishes to highlight that it shall review the capitalisation trued up in this order once the annual accounts of HPSEBL for FY11 get audited and HPSEBL submits revised information on the same.**”*

2.31 It is observed that the petitioner has not submitted any details of capital expenditure and capitalization for FY11 in its true-up petition. Also, after repeated reminders and follow-up, the petitioner has not submitted any details regarding the capitalization for FY11. In

absence of any information regarding capitalization, the Commission is constrained to continue with the capitalization considered in the review of first Control Period. Further, considering the inordinate delays in filing of true up petition for FY11 and non-submission of responses to Commission's queries, the GFA as approved in the Review of first Control Period is being considered as final and no changes shall be made on this account in future.

2.32 The Commission had adjusted an amount of Rs. 102.66 Crores on account of true-up of controllable parameters for first Control Period based on provisional accounts in the Order dated 24th April, 2012 on 'First Annual Performance Review (1st APR) Order for 2nd MYT Control Period (FY12-FY14) and Determination of Tariff for FY13'. The Commission has accordingly considered the adjustment of this amount of Rs. 102.66 Crore in the final true up of FY11 also.

Depreciation

2.33 The Petitioner has claimed depreciation based on the actual depreciation as per the audited accounts for FY11. As explained in the above paras, the Commission has not considered any variation in the capitalization and therefore, the depreciation has been considered as approved in the provisional true-up of FY11.

Return on Equity

2.34 The Petitioner has claimed RoE of Rs. 144.39 Crore as against the approved Rs. 43.82 Crore in the provisional true-up for FY11. As explained in the above paras, the Commission has not considered any variation in the capitalization and therefore, the return on equity has been considered as approved in the provisional true-up of FY11.

Interest & Finance Charges

2.35 The Petitioner has claimed Interest expense of Rs. 178.98 Crore as against Rs. 175.82 Crore approved in the provisional true-up for FY11. Further, HPSEBL in the true-up petition has requested the Commission to consider the actual interest on Consumer Security deposit amounting to Rs. 9.00 Crore as well as re-compute the Interest on Working Capital based on the revisions in various parameters.

2.36 As explained in the above paras, the Commission has not considered any variation in the capitalization and therefore, the interest on capital loans has been considered as approved in the provisional true-up of FY11. Further, the Commission has considered the actual interest of Rs. 9.00 Crore on Consumer Security deposit as per the audited accounts for FY11. The working capital requirement has been computed in line with the MYT Regulations, 2007 after considering the revised approved parameters.

2.37 The summary of interest & finance charges finally approved by the Commission after considering the claim of the Petitioner in the final true-up vis-à-vis the interest expenses already approved in the previous orders is provided in the following table:

Table 10: Provisionally Approved, Proposed and Now Approved Interest Expense for FY11 (Rs. Crore)

Particulars	2 nd APR of 1 st MYT	Provisional True-up	Claim for Final True-up	Now Approved
Interest on loans	140.40	140.40		140.40
Interest on consumer security deposit	5.73	5.73		9.00
Interest on Working Capital	29.69	29.69		30.11
Total Interest and finance charges	175.82	175.82	178.98	179.51

Non-Tariff Income

2.38 The Petitioner has claimed non-tariff income of Rs. 190.84 Crore for FY11. HPSEBL in its petition has requested the Hon'ble Commission to exclude the revenue from delayed payment surcharge (DPS) from the non-tariff income and approve the Non-Tariff Income. It has submitted that the normative working capital considers 60 days of average billing which is a time delay from consumption to realization of the billed amount in due course. However, delays in payment are not covered in the allowable working capital requirement where the licensee would require funding such additional requirement.

2.39 As per Regulation 25 of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2007,

“(1) All incomes 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, meter rent (if any), income from investments other than contingency reserves, miscellaneous receipts from the consumers excluding

income to licensed business from the other business of the distribution licensee shall constitute non-tariff income of the licensee.

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

2.40 It is clear from the above regulation that all sub-components under the non-tariff income including delayed payment surcharge shall form part of the non-tariff income. Therefore, the Commission has considered the total non-tariff income of Rs. 205.01 Crore as per the audited accounts for FY11. Summary of the final trued-up non-tariff income as against the claim of the petitioner and approved in the previous tariff orders is provided in the following table:

Table 11: Provisionally Approved, Proposed and Now Approved Non-Tariff Income for FY11 (Rs. Crore)

Particulars	2 nd APR of 1 st MYT	Provisional True-up	Claim for Final True-up	Now Approved
Non-Tariff Income	136.93	202.78	190.84	205.01

Other Adjustments

Net Surplus as per FY10 True-up

2.41 The Commission had considered net surplus of Rs. 47.12 Crore for FY10 truing-up as part of provisional truing-up for FY 11 which has also been considered by the Petitioner in its claim for final-truing up for FY11. Commission has considered this amount in the final trued-up ARR for FY 11.

Extraordinary Items

2.42 HPSEBL has claimed an amount of Rs.1.24 Crore towards extraordinary items for FY 11. The petitioner has not replied to the query of the Commission with regard to the nature of the extraordinary expense and the provisions under the regulations allowing for inclusion of this item. The Commission is of the view that no provisions under the MYT Regulations, 2007 allow passing of such extraordinary expense in the ARR and therefore the same has been excluded in the final trued-up ARR of FY11.

Other Debits/ Write off

2.43 The petitioner has also claimed Rs. 1.68 Crore on account of bad & doubtful debt written off and misc. losses. Since the MYT Regulations, 2007 do not allow inclusion of any write-off on account of bad & doubtful debtors, Commission has disallowed the same in the final trued-up ARR for FY11.

Prior Period Expenses/ (Credits)

2.44 The petitioner has also submitted its claim of Rs. 16.27 Crore towards prior period income/ expense as per the audited accounts for FY11. The details of which are provided in the following table:

Table 12: Details of prior period income and expense submitted by the Petitioner for FY11 (Rs. Crore)

Particulars	01/04 - 13/06	14/06 - 31/03	Total
Prior Period Income			
Receipts from Consumers relating to prior periods.	15.68	2.90	18.57
Excess provision for depreciation in prior periods	0.00	0.40	0.40
Other excess provision in prior period.	0.00	109.91	109.91
Operating expenses of previous years (Excess provision w/b)	0.00	3.20	3.20
Other income relating to prior periods.	0.00	17.27	17.27
Sub-Total	15.68	133.68	149.35
Prior period expenses/losses			
Short provision for power purchased in previous years.	11.10	51.08	62.18
Employee costs relating to previous years.	0.00	0.00	0.00
Depreciation under provided in previous years.	0.00	1.16	1.16
Interest & other Finance Charges relating to previous years.	0.00	17.48	17.48
Other charges relating to previous years(Excess provision w/b)	2.35	82.47	84.81
Sub-Total	13.45	152.18	165.63
Net prior period charges / (credits)	(2.23)	18.51	16.27

2.45 The Commission had included an amount of Rs. 44.29 Crore on account of extraordinary items and prior period expenses as part of the provisionally trued-up ARR for FY11 which shall be considered for true-up as per audited accounts of FY11. The Commission in its queries had asked the petitioner to provide the details of these prior period income and expenses and also explain the rationale for inclusion in the ARR of FY11. However, the petitioner has not submitted any details regarding these prior period expenses. The Commission observes that all prior period arrears with respect to employee cost and

power purchase expense has already been approved to the petitioner under the respective components while any variations in controllable expenses like depreciation, interest expense, etc. are not subject to true-up. Therefore, in absence of details and clarification regarding the nature of expense covered under the prior period heads, the Commission has considered Rs. 18.57 Crore towards 'Receipts from Consumers relating to prior periods', Rs. 17.27 Crore towards 'Other income relating to prior periods' and Rs. 62.18 Crore towards 'Short provision for power purchased in previous years' which are part of uncontrollable parameters.

Impact as per Review Order dated 23rd October, 2012

2.46 In the Review Order for FY11 dated 23rd October 2012, the Commission had approved a total amount of Rs. 58.36 Crore on account of Larji arrears, interest on security deposits for FY09 to FY11 and interest on working capital for FY09 to FY11. Since the Commission has considered the actual interest on security deposits for FY11 and re-computed the interest on working capital for FY11 in the final truing-up for FY11, the amount towards these parameters has been excluded from the total amount approved in the Review Order dated 23rd October 2012 and the balance amount has been considered in the ARR of FY11. The amount considered in the final ARR of FY11 towards Review Order dated 23rd October 2012 is provided in table below:

Table 13: Amount Approved towards Review Order dated 23rd October 2012 (Rs. Crore)

Particulars	Amount
Amount towards Larji Arrears	26.92
Amount towards Interest on Security Deposits for FY09 to FY11	13.45
Amount towards Interest on Working Capital for FY09 to FY11	17.99
Total Amount approved in the Review Order	58.36
Less:	
Amount towards Interest on Security Deposits for FY11	3.27
Amount towards Interest on Working Capital for FY11	8.01
Net Amount considered in the Final ARR for FY11	47.08

Revised Aggregate Revenue Requirement

2.47 Based on the final truing-up of various parameters as per audited accounts of HPSEBL as discussed above, the revised ARR has been computed. The final approved ARR for FY11 as against the claim of Petitioner and approved as per previous orders is summarized in the following table:

Table 14: ARR Approved in 2nd APR, ARR Approved in Provisional True-up Order, ARR Claimed for Final True-up and Final Trued-up ARR for FY11 (Rs. Crore)

Particulars	Approved in 2nd APR	Provisional True-up Order	Claim for Final True-Up	Final trued-up Amount
Total Power Purchase Cost	1,574.76	2,064.40	2,074.20	2,074.21
Employee Cost (without Arrears) Net	695.46	957.90	899.03	899.93
Provision for New Recruitments	7.97			
Additional Employee Expenses	-			
Impact of 5th Pay Commission	168.82		115.80	122.61
Repair & Maintenance Expenses	46.44	46.44	46.44	46.44
Additional Repair & Maintenance Expenses	-	11.18	11.18	11.18
Administrative & General Expenses	41.16	41.16	41.16	41.16
Less: Capitalization	61.56	70.51	-	69.39
Total O&M Expenses	898.29	986.18	1,113.61	1,051.93
Provision for Public Interaction	0.41	-	-	-
Provision for EE & DSM	0.87	-	-	-
Provision for IT & Other Initiatives	1.28	-	-	-
Interest & Finance Charges	175.82	175.82	178.98	179.51
Depreciation	129.53	129.53	133.10	129.53
Extraordinary Items	-	44.29	1.24	-
Other Debits/ Write off	-		1.68	-
Prior Period Expenses/ (Credits)	-		16.27	26.34
Total Costs	2,780.96	3,400.22	3,519.08	3,461.52
Add: Return on Equity	43.82	43.82	144.39	43.82
Add: Impact as per Review Order	-	-	-	47.08
Add: Impact of truing-up of Controllable	-	-	-	(102.66)
Less: Non-Tariff Income	136.93	202.78	190.84	205.01
Less: Net Surplus as per FY10 True-up	-	47.12	47.12	47.12
Annual Revenue Requirement	2,687.85	3,194.14	3,425.51	3,197.63

Expenses related to HPPTCL ARR

2.48 In the HPPTCL MYT Order for the 3rd Control Period dated 10th June 2014, the Commission had stated the following:

“4.11 Prior Period Expenses for the FY 2010-11

4.11.1 The Petitioner has also requested the Commission to consider and allow certain expenses pertaining to the FY 2010-11 (from 10.06.2010 to 31.03.2011) as detailed in Chapter 7 of the MYT Petition. On examination of the documents, the

Commission observed that the HPPTCL has not substantiated its claim with any document/justification relevant to its submissions.

4.11.2 The Commission is aware that prior to the unbundling in June 2010, all the activities, viz. Generation, Transmission Distribution, etc. were carried out by the HPSEBL and hence all the expenses pertinent to these activities were allowed to the HPSEBL as a part of their ARR. The final true up of the HPSEBL for the FY 2010-11 is yet to be undertaken. Accordingly, the claim of the HPPTCL of the expenses of FY 2010-11 from the HPSEBL shall be considered as a part of the final true up of the HPSEBL for the FY 2010-11 after verification of the relevant documents.”

2.49 It is clarified that the parameters approved in the above ARR of HPSEBL for FY11 are inclusive of the expenses pertaining to the assets transferred to the HPPTCL. However, the Commission is constrained to finalize the ARR of HPSEBL for complete FY11 and allocate the various expenses for the assets transferred to the HPPCTL due to non-finalization of the O&M charges for the transmission assets to be paid by HPPTCL to HPSEBL. Considering that all expenses (including interest payment, O&M expense, depreciation) towards the transferred assets have been undertaken by HSPEBL and have also been considered in the ARR of HPSEBL, the ARR of HPPTCL shall be primarily an inter-company book adjustment. However, it has been brought to the notice of the Commission that HPSEBL has recovered the transmission license fee for FY11 from HPPTCL amounting to Rs. 0.81 Crores. Since the A&G expense approved for HPSEBL is inclusive of all the expense including transmission license fee, the amount recovered by HPSEBL should be duly refunded to HPPCTL. The Commission has not considered this amount towards the non-tariff income of HPSEBL and has undertaken appropriate adjustment with respect to it in Para 3.53 of this Order.

Revenue Surplus/ Gap

2.50 The petitioner has submitted additional revenue gap of Rs. 211.81 Crore for FY11 as detailed in the following table:

Table 15: Revenue Surplus/ Gap submitted by the Petitioner for FY11 (Rs. Crore)

Particulars	Approved in 2nd APR	Provisional True up petition	Provisional True-Up Order	Actuals	Claim for Final True-Up	Difference
Annual Revenue Requirement	2687.85	3489.39	3194.14	3420.70	3425.51	231.37
Covered by						
Revenue @ Existing Tariff	2338.33	2446.84	2446.84	2466.40	2466.40	19.56
Revenue from Sale Outside State	193.70	220.53	264.29	264.29	264.29	0.00
GoHP Subsidy	0.00	0.05	0.05	0.05	0.05	0.00
GoHP Roll back subsidy (Receivable)	0.00	-14.00	0.00	0.00	0.00	0.00
Total Revenue	2532.03	2653.42	2711.18	2730.74	2730.74	19.56
Revenue Gap / (Surplus)	155.82	835.97	482.96	689.96	694.77	211.81

2.51 The approved revenue surplus/ gap as per the Commission trued-up ARR and revenue approved for FY11 is provided in table below:

Table 16: Approved Revenue Gap by the Commission for FY11 (Rs. Crore)

Particulars	Amount (Rs. Crore)
Approved Annual Revenue Requirement	3197.63
Revenue	
Revenue from Sales within the State	2466.40
Revenue from Sale Outside State	264.29
GoHP Subsidy	0.05
Total Revenue	2730.75
Revenue Surplus / (Gap)	(466.89)

2.52 As per the revised ARR and revenue as per audited accounts of FY11, a revenue gap of Rs. 522.01 Crore is approved for FY11. Further, it is noted that the Petitioner has primarily considered the difference of revenue gap as per provisional true-up and as per the claim in final truing-up and has ignored the additional amount approved by the Commission on account of review order dated 23rd October 2012. Therefore, while approving the recovery of the revenue gap, the amount approved on account of the review order as well as approved provisional amount of Rs. 63.18 Crore in the ARR of FY15 is also required to be considered.

2.53 A summary of the revenue gap approved and amounts approved by the Commission on account of truing-up / review of FY11 in subsequent years is provided in the following table:

Particulars	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Revenue Gap approved as per audited accounts	(466.89)				
Amount Recovered					
Gap as per APR for FY13			303.59*		
Additional Employee cost on account of 5th Pay Commission			50.91		
On account of Review Order dated 23 rd October, 2012 on Petition No. 89/2012 and Supplementary Review Petition No. 139/2012		58.36			
Sub-Total		58.36	354.50	-	-
Additional Amount Allowed					
Provisional allowance on account of final true-up of FY11 & FY12 in MYT order for 3 rd Control Period dated 12 th June, 2014.					63.18

**Inclusive of the Rs. 406.25 Cr of revenue gap on account of true-up of uncontrollable parameters for FY11 and Rs. 102.66 Cr of revenue surplus on account of true-up for controllable parameters for First Control Period on the basis of provisional accounts.*

2.54 The treatment of revenue gap and carrying cost on the gap for FY11 has been undertaken in the Chapter 4.

3 TRUE-UP FOR FY 2011-12 UNDER 2ND MYT CONTROL PERIOD (FY12-FY14)

3.1 This Chapter details the analysis of the True-up Petition filed by the HPSEBL for determination of Annual Revenue Requirement for FY12 i.e. first year of the Second Control Period.

BACKGROUND

3.2 HPSEBL has submitted a true-up petition for FY12 based on the audited accounts for the period of 1st April, 2011 to 31st March, 2012. The Commission had undertaken a provisional true-up for FY12 based on the provisional un-audited accounts for the period 1st April, 2011 to 31st March, 2012 at the time of issuance of Order dated 27th April, 2013 on 'True-up For FY12 and Annual Performance Review for FY14 under the 2nd MYT Control Period'. Under Clause 5.3 of the mentioned Order, the Commission had stated the following:

*"5.3 The Commission is provisionally approving expenses and revenue on the basis of the accounts submitted by HPSEBL. **The Commission wishes to highlight that since this true-up is based on provisional accounts for the period 01.04.2011 to 31.3.2012, this is a provisional true-up and may be reviewed once the audited accounts are made available for the entire period of FY12.**"*

3.3 Accordingly, HPSEBL has filed this true-up petition as per the audited accounts for the period 1st April, 2011 to 31st March, 2012.

3.4 As per Clause 11 of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011:

"

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

(a) Variation in revenue / expenditure on account of uncontrollable sales and power purchase shall be trued up every year. Truing-up shall be carried out based on the actual/audited information and prudence check by the Commission:

Provided that if such variations are large, and it is not feasible to recover in one year alone, the Commission may take a view to create a regulatory asset, as per the guidelines provided in clause 8.2.2 of the National Tariff Policy;

Provided further that under business as usual conditions, the Commission, to ensure tariff stability, may include the opening balances of uncovered gap / trued-up costs in the subsequent control period's ARR instead of including in the year succeeding the relevant year of the control period after providing for transition financing arrangement or capital restructuring.

(b) for controllable parameters –

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

(ii) 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.

Notwithstanding anything contained in these regulations, the gains or losses in the controllable items of ARR on account of force majeure factors after adjusting for proceeds from any insurance scheme, if any, shall be passed on as an additional charge or rebate in ARR over such period as may be specified in the order of the Commission.”

3.5 The following sections contain details of true-up for FY12, based on the audited accounts of HPSEBL:

Energy Sales and Revenue

3.6 HSPEBL in its true-up petition has submitted that there is 'NIL' variation in the final sales figures of FY12 as against the sales approved at the time of provisional truing-up by the Commission. The provisionally approved, proposed as per actual and now approved sales are provided in the following table:

Table 17: Provisionally Approved, Proposed and Now Approved Sales for FY12 (in MUs)

Categories	Approved in MYT Order	Approved in Provisional True-up	Actuals as per Final True-up Petition	Now Approved
Domestic Supply other than BPL	1289.81	1406.2	1406.2	1406.2
BPL Domestic	0.55	1.09	1.09	1.09
Non Domestic Non Commercial Supply	98.89	98.55	98.55	98.55
Commercial Supply	388.95	387.2	387.2	387.2
Small & Medium Industrial Power Supply	213.89	198.06	198.06	198.06
Large Industrial Power Supply	4304.85	4116.5	4116.5	4116.5
Water Pumping & Irrigation Supply	470.16	476.14	476.14	476.14
Street Lighting Supply	12.95	12.89	12.89	12.89
Bulk Supply	285.75	192.88	192.88	192.88
Temporary Supply	24.38	28.56	28.56	28.56
Total Energy Sales	7090.18	6918.07	6918.07	6918.07

Revenue from sale of Power

- 3.7 The petitioner has submitted the actual revenue from sale of power within State as Rs. 2820.55 Crore as per the audited accounts for FY12. The Commission observes that the amount claimed in the final true-up is marginally lower than the amount of Rs. 2822.75 Crore approved in the provisional true-up. The Commission has considered the actual revenue from sale of power within the state as per audited accounts for FY12.
- 3.8 The details of revenue from sale of power as approved in the provisional true up, as submitted by the petitioner and as approved now is provided in the following table:

Table 18: Provisionally Approved, Proposed and Now Approved Revenue for FY12 (Rs. Crore)

Categories	Approved in Provisional True-up	Actuals as per Final True-up Petition	Now Approved
Domestic	418.91	415.09	415.09
Non Domestic Non Commercial	55.12	55.55	55.55
Commercial	227.79	228.08	228.08
Small & Medium Industrial Power Supply	91.93	92.21	92.21
Large Industrial Power Supply	1694.23	1,668.94	1,668.94
Water Pumping & Irrigation Supply	222.04	247.47	247.47
Street Lighting Supply	6.21	6.22	6.22
Bulk and Grid supply	89.64	90.09	90.09

Categories	Approved in Provisional True-up	Actuals as per Final True-up Petition	Now Approved
Temporary Supply	16.87	16.89	16.89
Total Energy Sales	2822.75	2,820.55	2,820.55

3.9 Further, the petitioner has submitted that the revenue from sale of power outside the state has been Rs. 202.36 Crore as against the provisionally trued-up amount of Rs. 157.46 Crore and has requested to Commission to consider the revised figure for final true-up for FY12.

3.10 The Commission approves the revenue from various sources as proposed by the Petitioner which have also been validated with the audited accounts. The revenue for FY12 as per provisional true-up, proposed in final truing up and now approved by the Commission is provided in table below:

Table 19: Provisionally Approved, Proposed and Now Approved Total Revenue for FY12 (Rs. Crore)

Particulars	Provisional True-up Order	Actual as per Audited Accounts	Now Approved
Revenue at existing tariff	2,822.75	2,820.55	2,820.55
Revenue from sale outside state	157.46	202.36	202.36
Total Revenue	2,980.21	3,022.91	3,022.91

Power Purchase

3.11 HPSEBL in its petition has claimed Power Purchase expense of Rs. 2330.16 Cr. as per the audited accounts, which is similar to the claim of the petitioner at the time of provisional truing-up. As per the details submitted by the petitioner there is no variation on account of power purchase expense. The summary of the power purchase quantum and cost submitted by the Petitioner for final truing-up is summarized in the following table:

Table 20: Summary of Power Purchase submitted by the Petitioner for FY12

Stations	Units (Mus)	Per Unit Cost (P./U)	Total Cost (Rs. Cr)
BBMB Stations	381.94	53	20.07
NTPC Stations	1,495.11	293	438.47
NHPC Stations	316.58	226	71.60
other Stations	2,334.74	232	540.88

Stations	Units (Mus)	Per Unit Cost (P./U)	Total Cost (Rs. Cr)
Free Power & Equity Power	1,231.11	341	419.42
Private Micros	853.90	271	231.56
Banking	740.67	-	-
Market Purchase	211.09	449	94.87
Bilateral Purchase	0.06	407	0.02
PXI/IEX	18.55	345	6.40
UI Power	209.95	352	73.91
Banking, Market and Bilateral Purchase & UI	1,180.32	148	175.20
PGCIL Charges			209.57
ULDC Charges (Including POSCO)			9.36
Other Charges			(1.09)
ST Open Access - PTC			24.05
Baspa Arrears			6.44
CPSU Arrears			175.83
Other Arrears			8.80
Transmission and Other Charges			432.97
Grand Total	7,793.70	299	2,330.17
External Loss	256.08		
Net Power Purchase from non-HPSEBL sources for sale within State (A)	7,537.62	309	2,330.17
HPSEBL Own Generation (B)	1,908.49	-	-
Total Power Purchase Available for Sale (A+B)	9,446.11	247	2,330.17

3.12 The Commission observed that the above power purchase cost did not validate with the audited accounts. In response to the query for reconciling the power purchase claim with the audited accounts, the petitioner was not able to provide any appropriate computation. The working submitted by HPSEBL did not match either with audited accounts as well as the claim provided in the petition. Subsequently, the Commission called the officials of HPSEBL to the office of the Commission to explain the power purchase discrepancy for which additional time was requested by HPSEBL officials. In spite of several reminders and queries, the petitioner was not able to appropriately address the difference of power purchase cost in audited accounts and the claim in true-up petition. Therefore, the Commission approves the claim of power purchase as per the final true-up petition which is lower than the power purchase cost reflected in the audited accounts.

- 3.13 The power purchase as per the audited accounts is inclusive of power purchased under banking which is to be recognized as a cashless transaction. Therefore, power purchase cost from banking has been reduced from the total power purchase cost as per audited accounts which also validates with the claim of the petitioner.
- 3.14 Distribution Loss is a controllable parameter and reflects the performance of the Distribution Licensee. Clauses 4 (c) to (e) of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011 state that:
- “Trajectory for specific parameters shall be stipulated by the Commission, where the performance of the applicant is sought to be improved through incentives and disincentives; and Annual review of performance shall be conducted vis-à-vis the approved forecast and categorization of variations in performance into controllable factors and uncontrollable factors; and Profit sharing shall be applied on the profits arising from the distribution licensee’s better performance vis-à-vis distribution loss targets and targets for the other controllable parameters specified by the Commission. The distribution licensee shall be free to utilise its share in the profit.”*
- 3.15 Further Clause 7 (a) of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011 states that:
- “The Commission shall set targets for each year of the control period for the items or parameters that are deemed to be “controllable” and which will include- Distribution losses, which shall be measured as the difference between total energy input for sale to all its consumers and sum of the total energy billed in its licence area in the same year.”*
- 3.16 The Petitioner has submitted that the actual T&D loss level achieved by HPSEBL in FY12 is 13.36% as against the provisional loss of 13.43% and target of 12.55%.
- 3.17 The Commission observes that T&D losses achieved by the Petitioner for sale of energy within state is 13.36% vis-à-vis the approved T&D loss level of 12.55% for FY12 (which was based on T&D losses of 12.66% in FY11). HPSEBL has submitted that increase in T&D loss levels in FY12 as compared to FY11 is due to the execution of large number of RGGVY schemes which have led to an increased LT/HT Ratio and lower EHT sales in FY12 which is not relevant. In the provisional true-up petition, the Commission had directed the Petitioner to substantiate its claim with the details like voltage-wise losses,

LT/HT Ratio, past trends etc, which Petitioner failed to provide. The Petitioner has again failed to provide any supporting computation for justifying the increase in T&D loss as against the actual of last year as well as against the target approved for FY12. These losses were decided with the consensus of HPSEBL and there is no merit to revise the trajectory. Therefore, Commission does not accept HPSEBL's submission and has retained the T&D loss trajectory as 12.55% for FY12.

3.18 Accordingly, the Commission has approved the power purchase quantum at 9372.38 MUs as detailed in table below:

Table 21: Approved Disallowance in Power Purchase Cost for FY12

Particulars	Approved in Provisional True-up Order	Now Approved
Energy Sales within state (MU)	6918.08	6918.08
T&D Losses (%)	12.55%	12.55%
Power Purchase Requirement to meet state requirement (MU)	7910.9	7910.90
Inter – State Sale (MU)	1461.48	1461.48
1. For Banking arrangements	971	971
2. Sale outside state	490.23	490.23
a) Sale through UI Mechanism	323.22	323.22
b) Sale through IEX	151.59	151.59
c) Sale through PIEX	15.28	15.28
d) Bilateral Sales	0.14	0.14
Total Power Purchase Quantum Approved at State Periphery (MU)	9372.38	9372.38
Actual Power Purchase Quantum at State Periphery (MU)	9452.96	9446.11
Disallowed Power Purchase Quantum (MU)	80.58	73.73

3.19 In the provisional true-up for FY12, the Commission had disallowed the amount of excess power purchase on account of higher T&D losses by considering the average rate of power purchase instead of the power purchase rate as per the merit order. In line with same methodology, the disallowance of power purchase cost has been computed. The average rate of power purchase cost works out to Rs.2.52 per unit (i.e. Power purchase cost of Rs. 1897.20 Crore excluding own generation, other charges and arrears and power purchase quantum of 7537.62 MUs excluding own generation)

3.20 The Commission further observes that PGCIL charges of Rs 209.57 Cr include Rs 56.44 Cr on account of transmission charges recovered from PTC. The transmission charges payable by HPSEBL on this own account were Rs 153.13 Cr and this amount has been considered while truing up power purchase.

3.21 The power purchase cost as approved by the Commission for provisional truing-up, as submitted by the petitioner for final truing-up and now approved by the Commission while undertaking final truing-up for FY12 is provided in the following table:

Table 22: Provisionally Approved, Proposed and Now Approved Power Purchase Cost for FY12 (Rs. Crore)

Particulars	Provisional True-up Order	Actual as per Audited Accounts	Now Approved
Power Purchase Expenses	1,897.20	1,897.20	1,897.20
PGCIL Charges	153.13	209.57	153.13
Other Charges(ULDC, Open Access, etc)	32.32	32.32	32.32
Arrears	191.07	191.07	191.07
Less: Disallowance of PPC for under-achievement of losses	20.26		18.56
Total Power Purchase Cost	2,253.46	2,330.16	2,255.16

Renewable Power Obligation

3.22 The petitioner has submitted the following compliance to the renewable power obligation for FY12:

Table 23: Compliance to RPO as submitted by the Petitioner for FY12

Renewable Power Purchase Obligation Requirement	Requirement	Actuals
Sale within the state	6918	
T&D Losses within the state	13.36%	
Power Requirement within state	7985	
RPPO Requirement - Non Solar (10%)	798	1198
RPPO Requirement - Solar (0.01%)	1	0

3.23 HPSEBL has submitted that it has been successful in complying with the non-solar obligation during FY12 but has not been able to meet the solar obligation. However, HPSEBL has submitted that as per the Order of the Commission, the shortfall in solar

RPOs for FY12 & FY13 is required to be met during FY16 & FY17, respectively, in addition to the solar RPO's of the respective years.

3.24 Based on the submission of the petitioner, the Commission observes that the HPSEBL has purchased sufficient renewable non-solar energy to meet its non-solar RPO compliance during FY12 while the compliance with respect to solar obligation for FY 12 is required to be done in FY16.

Energy Balance

3.25 The Petitioner has submitted actual loss level of 13.36% for FY12 as against the Commission approved loss of 12.55% and has attributed the non-achievement to the increase LT/HT ratio and the reduction in EHT sales. The petitioner has submitted the energy balance for FY12 as follows:

Table 24: Provisionally Approved, Proposed and Now Approved Energy Balance for FY12

Energy Balance	Approved in Provisional True-Up	Claim as per Petition	Now Approved
Power Availability			
Net own Generation Sources + HPPCL (MUs)	1906	1908	1908
Net Power Purchase from Other Sources (CGS, Inter-state etc.) (MUs)	7467	7538	7464
Total Availability at Discom periphery (MUs)	9373	9446	9372
Inter-State Sales (MU)	1461	1461	1461
Power Requirement for sale within the State (MUs)	7911	7985	7911
Sales within the State (MUs)	6918	6918	6918
T&D Losses % within the State	12.55%	13.36%	12.55%

3.26 It is observed that the T&D loss target of 12.55% for FY12 was approved by the Commission in consultation with the HPSEBL. Further, the petitioner has not been able to justify the increase in losses as directed by the Commission at previous instances. Therefore, the Commission considers it suitable to continue with the approved loss figure of 12.55% for FY12.

True-up of Controllable Parameters

O&M expenses

Employee Cost

3.27 In the Order dated 27th April, 2013 on 'True-up For FY12 and Annual Performance Review for FY14 under the 2nd MYT Control Period', the Commission had reviewed the employee cost as per the following reason:

"5.27 The Commission had approved Employee Expenses for the second Control Period based on data collected from HPSEBL on March 2011 salary, assuming that it reflected the impact of revision in pay due to the Pay Commission's recommendations. However, the Commission observes that the impact of pay revision due to Pay Commission recommendations was not implemented fully in March 2011 salary and revisions kept happening during FY12 as well. Therefore, the Commission has reviewed the Employee Expenses for FY12."

3.28 The Petitioner has now submitted the actual employee cost as per audited accounts as Rs. 1095.20 Crore as against the approved provisional true-up amount of Rs. 1076.87 Crore.

3.29 In view of the uncontrollable nature of the 5th Pay Commission's recommendation and its impact on the employee cost of HPSEBL, the Commission has considered the employee cost as per the audited accounts for FY12. As per the scrutiny of audited accounts it was observed that the employee cost towards generation business was Rs. 61.44 Crore while the same was reflected as Rs. 73.32 Crore in the Form F6 submitted as Annexure E of submission made by HPSEBL vide M.A. No. 100/2014 dated 7th April, 2014 (Rs. 60.17 Cr towards current employee cost of generation and Rs. 13.15 Crore against allocation of arrears towards generation employees). The Commission had approved an employee cost of Rs. 66.94 Crore towards generation business; however, considering the uncontrollable element of arrears on account of 5th pay commission, the Commission approves the additional employee cost of Rs. 6.38 Crore towards generation business (Rs. 73.32 Cr less Rs. 66.94 Crore).

3.30 Further, the employee expense as per audited accounts is inclusive of Rs. 3.40 Crore employee cost towards Project Wing. The Commission is of the opinion that the employee cost towards Projects wing should be on account of respective projects, the same should be capitalized in the books of HPSEBL. The Commission has therefore continued with the approach adopted in the previous truing-up and adjusted the amount of Rs. 3.40 Crore in the employee cost capitalization.

3.31 The approved employee cost is provided in the following table:

Table 25: Computation for Employee expense for FY12 (Rs. Crore)

Particulars	Amount (Rs. Crore)
Employee Cost as claimed	1,095.20
Less: Generation Employee Cost	73.32
Less: Projects Employee Cost as per accounts (to be capitalized)	3.40
HPSEBL Employee Cost (Distribution Business)	1,018.49
Add: Generation employee cost as per approved	66.94
Add: Additional arrears to cover generation employee arrears	6.38
Net Employee Cost	1,091.81

3.32 The employee cost now approved in the final true-up as against the claimed employee cost and the approved employee cost in the MYT Order and provisional true-up Order is provided in the following table:

Table 26: Provisionally Approved, Proposed and Now Approved Employee Expense for FY12 (Rs. Crore)

Particulars	Provisional True-up Order	Actual as per Audited Accounts	Now Approved
Total Employee Expenses	1076.87	1095.20	1091.81

R&M Expense and A&G Expense

3.33 The Petitioner has submitted no additional claim for R&M and A&G expense as per Regulation 11 of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011 which states that these expenses are controllable parameters. Therefore, the Commission allows the R&M and A&G expense as proposed by the Petitioner and also approved in the provisional True-up for FY 12.

3.34 The final true-up of R&M and A&G expense as against the claimed R&M expense and the approved R&M expense provisional true-up Order is provided in the following table:

Table 27: Provisionally Approved, Proposed and Now Approved R&M and A&G expense for FY12 (Rs. Crore)

Particulars	Provisional True-up Order	Actual as per Audited Accounts	Claimed as per Petition	Now Approved
<u>R&M Expenses</u>				
R&M expenses for Distribution business	30.81		30.81	30.81
R&M expenses for Generation business	14.86		14.86	14.86
Total R&M expenses	45.67	47.82	45.67	45.67
<u>A&G Expenses</u>				
A&G expenses for Distribution business	36.26		36.26	36.26
A&G expenses for Generation business	2.57		2.57	2.57
Less: Capitalized	1.98		1.98	1.98
Total A&G expenses	36.85	44.20	36.85	36.85

Review of Capital Investment & Capitalization

3.35 According to Clause 11 of the HPERC (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011:

“

(b) at the end of the control period –

iii. the Commission shall review actual capital investment vis-à-vis approved capital investment.

iv. 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.”

3.36 As per the HPERC MYT Regulations, 2011, any variation in actual capital expenditure with respect to the figures considered in the MYT Order shall be considered at the end of the MYT Control Period.

Depreciation

3.37 The Commission had approved depreciation charges of Rs. 89.21 Cr for FY12 towards distribution business and Rs 88.86 Cr towards generation business. The Petitioner has submitted a claim of Rs. 199.76 Cr towards depreciation charges for FY12.

3.38 In accordance with principles of Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011, depreciation has been provided as per the approved Capital Expenditure and capitalization schedule for the Control Period and would be subject to true up at the end of the Control Period. Hence, the Commission approves depreciation charges of Rs 89.21 Cr towards distribution business and Rs 88.86 Cr towards generation business for FY12, as tabulated hereunder:

Table 28: Provisionally Approved, Proposed and Now Approved Depreciation for FY12 (Rs. Crore)

Particulars	Provisional True-up Order	Actual as per Audited Accounts	Claimed as per Petition	Now Approved
Depreciation for Generation business	88.86			88.86
Depreciation for Distribution business	89.12			89.12
Total Depreciation	178.07	199.76	199.76	178.07

Interest & Finance Charges

3.39 In the provisional truing-up for FY12, the Commission had approved an additional interest on consumer security deposit amounting to Rs. 3.15 Crore as against the approved interest & finance charges of Rs. 149.21 Crore.

3.40 The Petitioner has claimed Interest expense of Rs. 261.11 Crore as against the approved Rs. 152.36 Crore in the provisional true-up for FY12. Further, HPSEBL in the true-up petition has requested the Commission to consider the actual interest on Consumer Security deposit amounting to Rs. 13.39 Crore as well as requested the Commission to re-compute the Interest on Working Capital based on the revisions in various parameters.

3.41 As per MYT Regulations, financing cost shall be reviewed at the end of the Control Period. Therefore, the Commission has not considered any variation on account of interest on capital loans. Further, the Commission has considered the actual interest on Consumer Security deposit of Rs. 13.39 Crore as per the audited accounts for FY12. The working capital requirement has been computed in line with the MYT Regulations, 2011

and considering the revised approved parameters. The revised approved interest and finance charges approved for HPSEBL distribution business for FY12 are provided in the following table:

Table 29: Provisionally Approved and Now Approved Interest Expense for Distribution Business for FY12 (Rs. Crore)

Particulars	Approved in Provisional True-up	Now Approved
Interest on Capital Loans	66.00	66.00
Interest on Consumer Security Deposit	9.74	13.39
Interest on Working Capital	15.26	32.66
Less: Interest on Loans transferred to HPPTCL	0.66	0.66
Total Interest and Finance Expenses	90.34	111.40

3.42 The summary of interest & finance charges finally approved by the Commission after considering the claim of the Petitioner in the final true-up vis-à-vis the interest expenses already approved in the previous orders is provided below:

Table 30: Provisionally Approved, Proposed and Now Approved Total Interest Expense for FY12 (Rs. Crore)

Particulars	Provisional True-up Order	Actual as per Audited Accounts	Claimed as per Petition	Now Approved
Interest for Generation business	62.02			62.02
Interest for Distribution business	90.34			111.40
Total Interest Expense	152.36	261.11	261.11	173.42

Return on Equity

3.43 The Commission had approved return on equity of Rs 30.24 Cr for Distribution business and Rs 37.12 Cr for generation business for FY12. The Petitioner has claimed an amount of Rs 151.63 Cr as RoE for FY12.

3.44 As per Regulation 11 of the HPERC (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011 return on equity shall be subject to true up at the end of the Control Period. Accordingly, for the purpose of true-up for FY12, the Commission retains return on equity at Rs 30.24 Cr for Distribution business and Rs 37.12

Cr for generation business. Further, the Commission had approved an amount of Rs. 2.35 Crore towards RoE on Khauli plant for FY12 in the Review Order dated 26th November 2013, which has also been considered in the truing-up for RoE.

Table 31: Provisionally Approved, Proposed and Now Approved Return on Equity for FY12 (Rs. Crore)

Particulars	Provisional True-up Order	Claimed as per Petition	Now Approved
RoE for Generation business	37.12		37.12
RoE for Distribution business	30.24		30.24
Additional RoE on Khauli Plant as approved in Review Order on Petition no. 88/2013 as amended by MA No. 106/2013			2.35
Total Interest Expense	67.36	151.63	69.71

Non-Tariff Income

3.45 The Petitioner has claimed non-tariff income of Rs. 236.67 Crore for FY12. HPSEBL in its petition has requested the Commission to exclude the revenue from delayed payment surcharge (DPS) from the non-tariff income and approve the Non-Tariff Income accordingly. It has submitted that the normative working capital considers 60 days of average billing which is a time delay from consumption to realization of the billed amount in due course. However, delays in payment are not covered in the allowable working capital requirement where the licensee would require funding such additional requirement.

3.46 As per Regulation 25 of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2011,

“(1) All incomes 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, meter rent (if any), income from investments other than contingency reserves, miscellaneous receipts from the consumers excluding income to licensed business from the other business of the distribution licensee shall constitute non-tariff income of the licensee.

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

- 3.47 It is clear from the above regulation that all sub-components under the non-tariff income including delayed payment surcharge shall form part of the non-tariff income. Therefore, the Commission has considered the total non-tariff income of Rs. 255.74 Crore as per the audited accounts for FY12. This also includes an amount of Rs. 0.26 Cr on account of Gain on sale of fixed Assets, which has not been considered by the HPSEBL in its submissions. Further, it is observed that the non-tariff income is inclusive of Rs 56.44 Cr recovered from PTC on account of PGCIL charges, which have not been considered in the power purchase cost. As the Commission has not considered this while truing up the PGCIL charges for FY12, the Commission has deducted this recovery from the non-tariff income.
- 3.48 Summary of the final trued-up non-tariff income as against the claim of the petitioner and approved in the previous tariff orders is provided in the following table:

Table 32: Provisionally Approved, Actual, Proposed and Now Approved Non-Tariff Income for FY12 (Rs. Crore)

Particulars	Provisional True-up Order	Actual as per Audited Accounts	Claimed as per Petition	Now Approved
Non-Tariff Income	206.02	255.74	236.67	199.30

Other Adjustments

Impact of Review Order of FY11

- 3.49 The Commission had approved an amount of Rs. 58.36 Crore in the provisional true-up of FY12 on account of Review Order dated 23rd October, 2012 for FY11 on Petition No. 89/201 and Supplementary Review Petition No. 139/2012, The Commission has considered this amount in the final trued-up ARR for FY 12.

Extraordinary Items

- 3.50 HPSEBL has claimed an amount of Rs.3.16 Crore towards extraordinary items for FY 12. The petitioner has not replied to the query of the Commission with regard to the nature of the extraordinary expense and the provisions under the regulations allowing for inclusion of this item. Therefore, the Commission is of the view that no provisions under the MYT Regulations, 2011 allow passing of such extraordinary expense in the ARR and therefore the same has been excluded in the final trued-up ARR of FY12.

Other Debits/ Write off

3.51 The petitioner has also claimed Rs. 0.23 Crore on account of bad & doubtful debt written off and miscellaneous losses. Since the MYT Regulations, 2011 do not allow inclusion of any write-off on account of bad & doubtful debtors; the Commission has disallowed the same in the final trued-up ARR for FY12.

Prior Period Expenses/ (Credits)

3.52 The petitioner has also submitted its claim of Rs. (38.71) Crore towards prior period income/ expense as per the audited accounts for FY12. The details of which are provided in the following table:

Table 33: Prior Period Income / Expense Proposed by the Petitioner for FY12 (Rs. Crore)

Particulars	Amount
<u>Prior Period Income</u>	
Interest and Finance Charges relating to previous years.	3.26
Receipts from Consumers relating to prior periods.	0.29
Excess provision for Income tax in prior periods	32.97
Other excess provision in prior period.	3.90
Expenses and losses relating to previous years	7.71
Other income relating to prior periods.	27.22
Sub-Total	75.33
<u>Prior period expenses/losses</u>	
Short provision for power purchased in previous years.	-
Operating expenses of previous years (Excess provision w/b)	-
Employee costs relating to previous years.	-
Depreciation under provided in previous years.	13.26
Other charges relating to previous years(Excess provision w/b)	23.26
Interest & other Finance Charges relating to previous years.	0.11
Sub-Total	36.63
Net prior period charges / (credits)	(38.71)

3.53 The Commission in its queries had asked the petitioner to provide the details of these prior period income and expenses and also explain the rationale for inclusion in the FY12 ARR. However, the petitioner has not submitted any details regarding these prior period expenses/ incomes. The Commission observes that all prior period arrears with respect to employee cost and power purchase expense has already been approved to the petitioner under the respective components while any variations in controllable expenses like

depreciation, interest expense, etc. are not subject to true-up. Therefore, in absence of details and clarification regarding the nature of expense covered under the prior period heads, the Commission has considered Rs. 0.29 Crore towards 'Receipts from Consumers relating to prior periods' and Rs. 27.22 Crore towards 'Other income relating to prior periods' which is part of uncontrollable parameters. Additionally, the amount paid by HPPTCL to HPSEBL (Rs. 0.81 Crore) against transmission license fee for FY11 as intimated by HPSEBL to the Commission vide letter no. HPSEBL/F&A/TR-1(Vol-43)/2014-15-1142 dated 30th December, 2014, has been excluded from the 'other income relating to prior periods' as the same have already been approved along with A&G expense for HPSEBL in FY11.

Impact as per Review Order dated 26th November, 2013

3.54 In the Review Order on provisional true up of FY12 dated 26th November, 2013, the Commission had approved a total amount of Rs. 32.08 Crore on account of RoE on Khauli for FY12 to FY14, interest on working capital for FY12, employee cost towards S&I division for FY12 and carrying cost on the respective amounts. The Commission while undertaking the true-up of ARR for FY12 has considered the actual employee expense including S&I division, RoE on Khauli for FY12 and re-computed the interest on working capital for FY12 in the final truing-up for FY12. Therefore, the impact of Review Order dated 26th November 2013 is only limited to the RoE for Khauli plant. The RoE amounting to Rs. 2.35 Crore for FY12 has been considered in the ARR of FY12 during present true up. The RoE for FY13 & FY14 shall be considered in the true up of the respective years.

Revised Aggregate Revenue Requirement

3.55 Based on the final truing-up of various parameters as per audited accounts of HPSEBL as discussed above, the revised ARR has been computed. The final approved ARR for FY12 as against the claim of Petitioner and approved as per previous orders is summarized in the following table:

Table 34: Provisionally Approved, Proposed and Now Approved ARR for FY12 (Rs. Crore)

Particulars	Approved in MYT Order	Provisional True-up Order	Claim for Final True-Up	Final True-up
Power Purchase Costs	1,824.84	1,876.94	1,897.20	1,897.20
PGCIL Charges	161.66	153.13	209.57	153.13
HPPTCL Charges	11.71	-	-	-
Other Charges(ULDC, Open Access, etc)	-	32.32	32.32	32.32

Particulars	Approved in MYT Order	Provisional True-up Order	Claim for Final True-Up	Final True-up
Arrears pertaining to previous years	-	191.07	191.07	191.07
Less: Disallowance of PPC for under-achievement of losses	-	-	-	(18.56)
Total Power Purchase Cost	1,998.21	2,253.46	2,330.16	2,255.16
Employee Cost for Distribution Business (without Terminal benefits and arrears)	616.78	668.48	755.22	688.28
Employee Cost for Generation Business	66.94	66.94		66.94
Terminal Benefits	228.31	259.21	261.87	261.87
Arrears	-	140.15	136.31	136.31
Less: Employee Expense Capitalization	29.41	57.91	58.20	61.59
Total Employee Costs	882.62	1,076.87	1,095.20	1,091.81
R&M Expenses for Distribution Business	30.81	30.81	30.81	30.81
R&M expenses for Generation Business	14.86	14.86	14.86	14.86
Total R&M	45.67	45.67	45.67	45.67
A&G Expenses for Distribution Business	36.26	36.26	36.26	36.26
A&G Expenses for Generation Business	2.57	2.57	2.57	2.57
Less: A&G Expenses Capitalized	1.98	1.98	1.98	1.98
Total A&G Expenses	36.85	36.85	36.85	36.85
Interest & Finance Charges for Distribution business	87.19	87.19	261.11	111.40
Interest & Finance Charges for Generation business	62.02	62.02		62.02
Additional Interest approved on interest on consumer Security Deposit	-	3.15		-
Total Interest and Financing Charges	149.21	152.36	261.11	173.42
Depreciation for Distribution Business	89.21	89.21	199.76	89.21
Depreciation for Generation Business	88.86	88.86		88.86
Total Depreciation	178.07	178.07	199.76	178.07
Return on equity on Distribution Business	30.24	30.24	151.63	30.24
Return on Equity on Generation Business	37.12	37.12		37.12
Additional RoE on Khauli as per Review Order				2.35
Total Return on Equity	67.36	67.36	151.63	69.71
Provision for public interaction	0.52	0.26	0.26	0.26
Extraordinary Items	-	-	(3.16)	-
Other debits/ write off	-	-	0.23	-
Prior Period Expenses/ (Credits)	-	-	(38.71)	(26.70)
Total Costs	3,358.51	3,810.90	4,078.99	3,824.24
Addl. Impact of Review Order of FY11	-	58.36	58.36	58.36
Less: Non-Tariff Income	289.29	206.02	236.67	199.30
Annual Revenue Requirement	3,069.22	3,663.24	3,900.68	3,683.30

Revenue Surplus/ Gap

3.56 The HPSEBL has submitted additional revenue gap of Rs. 194.73 Crore for FY12 as detailed in the following table:

Table 35: Revenue Gap Proposed by the Petitioner for FY12 (Rs. Crore)

Particulars	Approved in 2nd APR	Provisional True up petition	Provisional True-Up Order	Actuals	Claim for Final True-Up	Difference
Annual Revenue Requirement	3069.22	3905.90	3663.24	3909.12	3900.68	237.44
Covered by						
Revenue @ Existing Tariff	2861.23	2822.75	2822.75	2820.55	2820.55	-2.20
Revenue from Sale Outside State	208.26	157.46	157.46	202.36	202.36	44.90
Total Revenue	3069.49	2980.21	2980.21	3022.91	3022.91	42.70
Revenue Gap / (Surplus)	(0.27)	925.69	683.03	886.20	877.76	194.73

3.57 The approved revenue surplus/ gap as per the Commission trued-up ARR and revenue approved for FY12 is provided in the following table:

Table 36: Approved Revenue Gap by the Commission for FY12 (Rs. Crore)

Particulars	Amount (Rs. Crore)
Approved Annual Revenue Requirement	3683.30
Revenue	
Revenue from Sales within the State	2820.55
Revenue from Sale Outside State	202.36
Total Revenue	3022.91
Revenue Surplus / (Gap)	(660.39)

3.58 As per the revised ARR and revenue as per audited accounts, a revenue gap of Rs. 660.39 Crore is approved for FY12. Further, it is noted that the Petitioner has primarily considered the difference of revenue gap as per provisional true-up and as per the claim in final truing-up and has ignored the amount approved by the Commission on account of Review Order dated 26th November, 2013. Therefore, while approving the recovery of the revenue gap, the amount approved on account of Review Order dated 26th November, 2013 as well as approved provisional amount of Rs. 63.18 Crore in the ARR of FY15 is also required to be considered.

3.59 A summary of the revenue gap approved and amounts approved by the Commission on account of truing-up / review of FY12 in subsequent years, is provided in the following table:

Table 37: Provisionally Approved Revenue Gap and Recovery Approved for FY12 (Rs. Crore)

Description	FY12	FY13	FY14	FY15
Revenue Gap approved as per audited accounts	(660.39)			
<u>Amount Recovered</u>				
Gap as per APR for FY14			683.03	
Carrying cost			42.15	
On account of Review Order dated 26 th November, 2013 on Petition No. 88/2013 as amended by MA No. 106/2013				14.55
Sub-Total			725.18	14.55
<u>Additional Amount Allowed</u>				
Provisional allowance on account of final true-up of FY11 & FY12 in MYT order for 3 rd Control Period dated 12 th June, 2014.				63.18

3.60 The treatment of revenue gap and carrying cost on the gap for FY12 has been undertaken in the subsequent Chapter along with the revenue gap for FY11.

4 TREATMENT OF REVENUE GAP AND CARRYING COST

4.1 A summary of the approved revenue gap for FY11 & FY12 based on the final truing of the respective years and year-wise approved recovery of the gap approved as part of provisional truing-up, review of tariff orders, etc. for the respective years is provided in the following table:

Table 38: Summary of Now Approved Revenue Gap for FY11 and FY12 and Approved Recovery in Subsequent Years (Rs. Crore)

Description	FY11	FY12	FY13	FY14	FY15
FY11					
Final Gap	(466.89)				
<u>Amount Allowed:</u>					
Gap as per APR for FY13			303.59		
Additional Employee cost on account of 5th Pay Commission			50.91		
On account of Review Order dated 23 rd October, 2012 on Petition No. 89/2012 and Supplementary Review Petition No. 139/2012		58.36			
Sub-Total	-	58.36	354.50	-	-
FY12					
Final Gap		(660.39)			
<u>Amount Allowed:</u>					
Gap as per APR for FY14				683.03	
Carrying cost				42.15	
On account of Review Order dated 26 th November, 2013 on Petition No. 88/2013 as amended by MA No. 106/2013					14.55
Sub-Total	0	0	0	725.18	14.55
<u>Additional Amount Allowed:</u>					
Provisional allowance on account of final true-up of FY11 & FY12 in MYT order for 3 rd Control Period dated 12 th June, 2014.					63.18

4.2 For the purpose of computation of carrying cost on the revenue gap for FY11 & FY12, the Commission has followed the approach considered in the provisional truing-up for the respective years. In the 'APR for FY13 under second MYT Control Period and True up of

FY11 & first Control Period', the Commission had not allowed any carrying cost on the provisional revenue gap stating the following rationale:

"6.42 The Commission is not allowing any holding cost to HPSEBL on account of true up since no carrying cost was charged to HPSEBL during earlier years viz. FY09 and FY10 when the utility was in surplus with regard to approved vis-à-vis actual costs incurred. In FY09, as per the true up order for FY09 dated June 10, 2010, the Commission after scrutinizing the audited accounts of HPSEBL had approved a revenue surplus of Rs 288.42 Cr, as against a gap of Rs 39.74 Cr earlier approved for FY09 in the first MYT Order of May 2008. Similarly, HPSEBL was found to be in a surplus of Rs 47.12 Cr in FY10, as opposed to the revenue gap of Rs 186.38 Cr approved earlier for FY10 in the first MYT Order of May 2008.

....

6.44 Assuming a carry-forward period of 1 year for the revenue gap/surplus of each of these three years, in the event of an appropriate holding cost being allowed/charged to HPSEBL after one year (when the audited accounts for the corresponding year would be available), the carrying cost allowable to the Board on account of revenue gap in FY11 nearly cancels out the carrying cost chargeable to the Board on account of revenue surplus in FY09 & FY10."

4.3 Similarly while computing the carrying cost on the provisional revenue gap determined for FY12 in the Order dated 27th April, 2013 on 'True-up For FY12 and Annual Performance Review for FY14 under the 2nd MYT Control Period', the Commission had stated the following:

"5.62 The increase in employee expenses is due to pay revision due to Pay Commission's recommendations and arrears on account of the same, and the Government of Himachal Pradesh has agreed to provide suitable funding mechanism to avoid carrying cost on the same. In the Tariff Order dated 24 April 2012, the Commission had provisionally allowed Rs 106 Cr paid by HPSEBL towards arrears in FY12 and Rs 189 Cr to be paid out in FY13. In the MYT Order dated 19 July 2011, the Commission had allowed Rs 295.85 Cr on account of Pay Commission arrears, and in the Tariff Order for FY13 dated 24 April 2012, Rs 76.71 Cr were allowed on account of additional employee expenses approved for FY11 after accounting for past adjustments. The audited balance sheet of FY12 is

not yet available and actual payments of arrears of pay and pension for FY12 are hence approved provisionally. This amount on account of pay and pension arrears (due to pay revision) is allowed to be spent by HPSEBL as per GoHP financing mechanism mentioned under items 8.82 and 8.83 of the Tariff Order for FY13 dated 24 April 2012. The Commission, therefore, is not providing carrying cost towards increased employee cost.

5.63 *With reference to increase in power purchase cost, the Commission is yet to establish if HPSEBL has made payment to the Government of Himachal Pradesh on account of free/equity power or not. Therefore, the Commission in this order is not providing any carrying cost towards higher power purchase cost.*

5.64 *The Commission also notices that HPSEBL has not put in efforts to ensure recovery of amount recoverable towards Survey and Investigation activities. The Commission had directed HPSEBL to recover Rs 100 Cr towards amount payable on account of Survey and Investigation activities. As HPSEBL has not collected any amount towards this, the Commission in not allowing any carrying cost on Rs 100 Cr.”*

4.4 Therefore, as per the principles considered by the Commission for the respective years, the revised revenue gap approved for FY11 & FY12 has been reduced by the increase in employee cost on account of 5th Pay Commission arrears. Also, the non-recovery of Rs. 100 Crore towards S&I activities have been reduced from the approved revenue gap for FY12 for computing the carrying cost.

4.5 The revenue gap for FY11 & FY12 which shall be eligible for carrying cost after adjustments are summarized in the following table:

Table 39: Revenue Gap eligible for Carrying Cost (Rs. Crore)

Particulars	FY11	FY12
Approved Revenue Gap	466.89	660.39
Less:		
Non-recovery of S&I		100.00
Increase in Employee Cost on account of 5 th Pay Commission arrears	122.61	136.31
Gap Eligible for Carrying Cost	344.28	424.08

4.6 The Commission has also considered the impact of carrying cost payable by HPSEBL on the surplus amounts for FY09 & FY10 which were earlier considered towards setting-off the carrying cost on revenue gap for FY11. While the carrying cost on the surplus amount on account of true-up of controllable parameters for the respective years has been computed up to FY11 (i.e. the year in which the amount has been adjusted), carrying cost on the surplus amount due to true-up of uncontrollable parameters for the respective years have been computed up to the year in which the amount has been adjusted. The computation of carrying cost on the surplus amounts are provided in the following table:

Table 40: Approved Carrying Cost on Past Surpluses (Rs. Crore)

Particulars	FY09	FY10	FY11
Surplus on account of true-up of uncontrollable parameters	288.42	47.12	
Surplus on account of true-up of controllable parameters	5.99	31.77	
Total Surplus	294.41	78.89	
<i>Interest rate</i>	<i>12.25%</i>	<i>12.25%</i>	<i>11.75%</i>
Carrying cost on uncontrollable surpluses	17.67	22.72	5.14
Carrying cost on controllable surpluses	0.37	2.72	2.40
Carrying cost for FY09 & FY10	18.03	25.44	7.54
Total Carrying Cost		51.01	

4.7 The carrying cost determined on the past surpluses as per the table above has been adjusted against the revenue gap. Further, the amount approved against provisional truing-up, review order, additional amount towards final truing-up, etc. has been adjusted towards the revenue gap for FY11 & FY12. Based on the final approved revenue gap for FY11 & FY12 and approved amounts in subsequent years, the carrying cost has been worked out as detailed in the following table:

Table 41: Computation of Carrying Cost as per the Eligible Revenue Gap (Rs. Crore)

Particulars	FY11	FY12	FY13	FY14	FY15
Approved Revenue Gap	466.89	660.39			
Approved Revenue Gap eligible for carrying cost	344.28	424.08			
Amount approved earlier against revenue gap for FY10		58.36	354.50		
Amount approved earlier against revenue gap for FY11				725.18	14.55
Provisional allowance on					63.18

account of final true-up of FY11 & FY12 in MYT order for 3 rd Control Period dated 12 th June, 2014.					
Carrying cost of past surpluses	51.01				
Total Approved Recovery	51.01	58.36	354.50	725.18	77.73
<u>Computation for Carrying Cost</u>					
Opening Gap	-	310.49	740.35	468.91	-
Addition in Revenue Gap	344.28	424.08			
Amount Approved for Recovery	51.01	58.36	354.50	500.50	-
Carrying Cost	17.23	64.14	83.06	31.60	-
Closing Gap	310.49	740.35	468.91	-	-
<i>Rate of Interest</i>	<i>11.75%</i>	<i>13.00%</i>	<i>14.75%</i>	<i>14.45%</i>	<i>14.75%</i>

4.8 Based on the carrying cost determined in the above table, the revised revenue gap at the end of FY15 is summarized in the following Table:

Table 42: Approved Revenue Gap including Carrying Cost (Rs. Crore)

Particulars	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Opening Revenue Gap	-	433.10	1,099.27	827.82	134.24
Addition	466.89	660.39			
Amount Approved for Recovery	51.01	58.36	354.50	725.18	77.73
Carrying Cost	17.23	64.14	83.06	31.60	0.00
Closing Revenue Gap	433.10	1,099.27	827.82	134.24	56.51

4.9 The gap as shown in the above table shall be allowed during the 1st Annual Performance Review for 3rd MYT Control Period while determining the Aggregate Revenue Requirement for FY16.