

TRUE UP ORDER FOR FY07



Himachal Pradesh Electricity Regulatory Commission

April, 2008

BEFORE THE HIMACHAL PRADESH ELECTRICITY REGULATORY COMMISSION AT
SHIMLA

MA No. 259/07 in Compliance Case No. 246/06
pertaining to case No. 345/05

CORAM

YOGESH KHANNA

IN THE MATTER OF:

Petition for true-up of the Tariff Order for FY 2006-07 dated 3 July, 2006 under section 94(1) of the Electricity Act read with regulation 63 of the HPERC (Conduct of Business) Regulations, 2005.

AND

IN THE MATTER OF:

HP State Electricity Board

...Petitioner

ORDER

(Passed on this 29th day of April 2008)

The Himachal Pradesh State Electricity Board (hereinafter called “the applicant”) has made the Petition, registered as MA No. 259/07, under section 94 (1) of the Electricity Act, 2003 for true-up of the tariff for the FY 2006-07 determined by the Commission vide Tariff Order dated 3 July, 2006.

The Himachal Pradesh Electricity Regulatory Commission (hereinafter called “the Commission”), in exercise of the powers vested in it under sections 62 and 64 of the Electricity Act, 2003 and the regulations made there under, issued the tariff order dated 03-07-2006 for determination of the Aggregate Revenue Requirement (ARR) and tariffs for FY 2006-07. The Commission having gone through the Petition submitted by the applicant and having had the formal interactions, with the Officers and the Whole Time Members of the applicant Board, between 26 March and 1 April,

TRUE UP ORDER FY07

2008 and having heard the applicant, interveners, representatives of various consumer groups on 3 April, 2008 at Shimla, and having considered the documents available on record, herewith accepts the Petition for true-up of the Tariff Order for FY 2006-07 dated 03-07-2006, with modifications, conditions and directions as herewith attached.

The Commission has made modifications in the true-up numbers of the ARR for FY 2006-07 based on the efficient and reasonable operating parameters and the prudent expenditure that could be passed on to the consumers of the State. The Commission has detailed out the reasons for modifying / disallowing any expenditure as per the attached detailed true-up order.

The surplus amount that has emerged from true-up shall be adjusted in the determination of the Aggregate Revenue Requirement for FY09 in the MYT Tariff Order.

Ordered as above read with attached detailed reasons and grounds.

Sd/-

Shimla.
Dated: April 29, 2008

(Yogesh Khanna)
Chairman

Table of Contents

A1: TRUE-UP FOR FY075

BACKGROUND5

Interaction with the Board.....5

Public Hearings.....5

Truing up of FY07.....6

ENERGY SALES & REVENUE.....6

Revenue from Sale of Power.....7

POWER PURCHASE.....8

ENERGY BALANCE11

EMPLOYEE EXPENSES.....11

ADMINISTRATIVE & GENERAL (A&G) EXPENSES.....13

REPAIR & MAINTENANCE (R&M) EXPENSES.....14

INTEREST & FINANCING CHARGES14

DEPRECIATION18

RETURN ON EQUITY18

OTHER DEBITS & EXTRA ORDINARY ITEMS.....19

NON TARIFF INCOME.....19

PRIOR PERIOD ADJUSTMENT19

RECEIVABLE FROM GOHP ON ACCOUNT OF FREE POWER21

REVENUE REQUIREMENT22

REVENUE SURPLUS/ (GAP).....22

A1: TRUE-UP FOR FY07

Background

- 1.1 The Himachal Pradesh State Electricity Board (hereinafter referred to as HPSEB or the Board) is a deemed licensee under the first proviso to Section 14 of the Electricity Act, 2003 for transmission and supply of electricity in the State of Himachal Pradesh.
- 1.2 The Board has filed petition vide MA No 259/07 in compliance case No. 246/06 on December 4, 2007 to the Himachal Pradesh Electricity Regulatory Commission (hereinafter referred to as the 'Commission' or 'HPERC') for true – up of the tariff order for FY07 under Sections 62, 64 and 94 of the Electricity Act, 2003 (hereinafter referred to as the Act), read with the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2004 and Himachal Pradesh Electricity Regulatory Commission (Guidelines and Formats for Tariff Filing) Regulations, 2005.
- 1.3 The Commission had approved the Aggregate Revenue Requirement and the Tariff for FY07 in its Tariff Order dated July 3, 2006. These approvals were based on the estimates presented by the Board for costs to be incurred and revenues likely to be generated during the year.
- 1.4 Though there were several information gaps and anomalies in the true up petition, the Commission decided to process the petition. The Commission faced several difficulties during the truing up process as the information submitted by the Board did not match with the Board's audited account. There were major differences in certain items of costs as well as revenues between the information submitted by the different offices of the Board and the actual audited figures.

Interaction with the Board

- 1.5 The Commission held technical validation session with the Board to sort out various information discrepancies on 4 April and 5 April 2008. The Commission issued various deficiency notes to the Board highlighting the shortcomings in the Petition, wherein the Commission sought additional information/clarification and justifications on various issues, critical for the analysis of the Petition and directed to submit clarifications and further information. The Board subsequently responded to the queries raised by the Commission and furnished various documents/clarifications during detailed analysis of the Petition. The Commission also held formal interaction with the officers and Whole Time Members of the Board between 26 March and 1 April 2008.

Public Hearings

- 1.6 The Commission invited suggestions and objections from the public on the true-up along with the MYT petition filed by the Board in accordance with Section 64 (3) of the Act subsequent of the publication of the initial disclosure by the Board, The public notice inviting objections/suggestions was published on 15 February, 2008 in the following

newspapers:

(a) The Tribune (Chandigarh edition)

(b) Amar Ujala (Chandigarh edition)

- 1.7 The interested parties/stakeholders were asked to file their objections and suggestions on the petition by 7 March 2008.
- 1.8 The Commission issued a public notice informing the public about the scheduled date of public hearing. All the parties, who had filed their objections /suggestions, were also informed about the date, time and venue for presenting their case in the public hearing.
- 1.9 Joint Public hearing on True-up and MYT petition was held on 3 April 2008 at the Commission's Court Room in Shimla.

Truing up of FY07

- 1.10 The Commission has reviewed the operational and financial performance of the Board for FY07 and has finalised this Order based on the review and analysis of the past records, information submissions, necessary clarifications submitted by the Board and views expressed by stakeholders. The following sections contain true-up for FY07, based on the audited annual statement of account and other information submitted by the various offices of the Board.

Energy Sales & Revenue

- 1.11 The Board in its petition submitted the total sales for FY07 as 4300.34 MUs as compared to 4035 MUs approved by the Commission in FY07 Tariff Order. While analyzing the category-wise monthly sales data submitted by the Board for FY07, the Commission observed that the data submitted by the Board was inconsistent and that the sales figure mentioned in the audited account was 4300.44 MU.
- 1.12 The Commission also noticed the actual sales submitted by the Board varied in different submissions. The Commission analyzed the category-wise monthly sales and noticed that the sales were not properly reported in the respective consumer categories. The Commission also tried to validate the category wise sales data from the field level officers of the Board i.e. Chief Engineer (CE) (North), CE (South) and CE (Central). The Commission noticed that the information gathered from the field did not tally with that of the audited account of the Board and significantly deviated from it.
- 1.13 The Commission informed the Board about information discrepancy and directed it to reconcile and submit the correct sales figure for FY07. The Board in its subsequent submissions mentioned that it had reconciled the sales data from the field and that the sales in the SMS, LS and PIU categories were wrongly reported in the petition and in the audited

account. The Board has thereby submitted the revised sales data for FY07 based on the information gathered from the field level.

- 1.14 The sales projected by the Board in the ARR petition for FY07, sales approved by the Commission in the Tariff Order of FY07, sales as per audited account of FY07, revised sales figures submitted by the Board for FY07, and trued up sales now approved by the Commission for FY07 are shown in the table below.

Table 1: Energy Sales (MUs) in FY07

Category	FY07 Petition	FY07 Approved	FY07 Account	FY07 Revised	FY07 True-up
BPL	0.37	0.44	1.12	1.12	1.12
Domestic Supply	928.61	938.22	947.19	947.19	947.19
Non Domestic Non Commercial Supply	62.67	51.20	63.39	63.39	63.39
Commercial Supply	239.38	238.37	225.78	225.78	225.78
Small & Medium Industrial Power Supply	156.56	154.63	179.97	157.87	157.87
Large Industrial Power Supply	2020.14	1790.60	2373.55	2,254.78	2,254.78
PIU		375.28			
Agriculture & Allied Activities	28.12	26.78	26.40	26.40	26.40
Govt. Water Pumping & Irrigation Supply	335.32	328.01	324.88	324.88	324.88
Street Lighting Supply	12.58	12.79	11.33	11.33	11.33
Bulk Supply	107.70	108.67	127.46	127.46	127.46
Temporary Metered Supply	14.38	10.24	19.37	19.37	19.37
Total	3905.85	4035.22	4300.44	4,159.57	4,159.57

- 1.15 The Commission feels that it is a severe negligence on the Board’s part to not able to report the sales figure correctly from the field level. Thus, the Commission directs the Board to create a robust sales and revenue reporting mechanism to avoid such discrepancies in the future. **The Commission further directs the Board to carry out a detailed enquiry to identify the reasons for such improper reporting of sales and the persons responsible for the lapse and to submit the report to the Commission within 3 months of issue of this order.**

Revenue from Sale of Power

- 1.16 Based on the audited account submitted by the Board for FY07, the revenue generated from the sale of power within the state and outside the state is presented in the table below.

Table 2: Revenue from Sale of Power (Rs Cr) in FY07

Category	FY07 Approved	FY07 Actual	FY07 True-up
Domestic & Antodaya	224.72	216.48	216.48
Non Domestic Non Commercial Supply	20.84	33.83	33.83
Commercial Supply	109.02	112.20	112.20
Small & Medium Industrial Power Supply	60.49	62.83	62.83

TRUE UP ORDER FY07

Category	FY07 Approved	FY07 Actual	FY07 True-up
Large Industrial Power Supply	472.13	698.75*	698.75*
PIU	124.65		
Agriculture & Allied Activities	4.67	16.72	16.72
Govt. Water Pumping & Irrigation Supply	119.02	129.67	129.67
Street Lighting Supply	4.00	4.80	4.80
Bulk Supply	36.27	41.04	41.04
Temporary Metered Supply	6.30	8.50	8.50
Other (Common Pool)		4.20	4.20
Total Revenue from Sale of power within State	1182.12	1329.01	1329.01
Revenue from Sale of power outside State	386.63	547.05	547.05
Total Revenue	1568.75	1876.06	1876.06

** This figure also includes the revenue from PIU category*

1.17 The Commission approves the revenue of Rs 1876.06 Cr for FY07 arising out of the sale of power both within and outside the state.

Power Purchase

1.18 The Board submitted details of power purchase from the following sources in FY07 to meet the power requirement of the state;

- (a) HPSEB own generating stations
- (b) Central-sector generating stations (CGS) owned by NTPC, NHPC and NPC
- (c) Nathpa Jhakri, Tehri, BBMB and Baspa IPP
- (d) Shared Stations (Shanan, Yamuna and Khara)
- (e) Private Micros
- (f) Free Power & Equity Power from GoHP
- (g) Banking of power with other states
- (h) Bilateral purchases from other states like Punjab, Haryana, etc.

1.19 The Board in its true-up petition for FY07 has filed that the total power purchase quantum in FY07 was 5069.18 MUs (excluding power from own stations) and the total power purchase cost was Rs 1254.54 Cr.

1.20 For verifying the power purchase quantum and cost, the Commission has analysed the month wise and station wise cost of power purchase. The Commission noticed that as per

the billing provided by the Power Purchase Department of the Board the total power purchase quantum in FY07 was 5073.22 MUs. The Commission has observed that there are differences in the station wise power purchase quantum for FY07 in the different submissions made by the Board i.e. power purchase bills, statement from power purchase department and audited account. The Commission is unable to comprehend the reasons for such deviations in the information from the three sources. Further, the Commission noticed that as per the billing provided by the Power Purchase Department of the Board the total power purchase cost comes to Rs 1251.40 Cr contrary to Rs 1254.54 Cr mentioned in the audited account. The Commission directed the Board to reconcile the power purchase cost station wise with the audited account; however, the Board was unable to reconcile the figures and submit the same.

- 1.21 In the event of lack of proper information, the Commission has tried up the power purchase quantum based on the monthly bills of the respective stations of FY07. The Commission approves the following power purchase quantum for FY07.

Table 3: Power Purchase Quantum for FY07 (MUs)

Station	FY07 Approved			FY07	FY07
	State Own Use	Trading	Total	True-up Petition	True-up
BBMB					
BBMB Old	44.29		44.29	43.80	43.80
BBMB New	140.76		140.76	115.68	115.68
Dehar	46.76		46.76	77.54	77.54
Sub Total	231.81		231.81	239.02	239.02
NTPC Stations					
Anta (Liquid)	3.71	11.54	15.25	3.28	3.28
Anta (Gas)	75.62		75.62	107.38	107.38
Auriya (Liquid)	7.39	22.78	30.17	4.76	4.76
Auriya (Gas)	104.18		104.18	145.33	145.34
Dadri (Liquid)	6.94	25.99	32.93	6.70	6.70
Dadri (Gas)	110.93		110.93	149.46	149.46
Uncharhar I	50.53		50.53	62.84	62.84
Uncharhar II	81.36		81.36	111.27	111.27
Uncharhar III	-		0	19.19	19.19
Rihand I	266.19		266.19	296.68	296.68
Rihand II	251.09		251.09	312.24	312.24
Singrauli	-		0	103.66	103.66
Kahalgaon	-		0	0.00	0.00
Sub Total	957.94	60.31	1018.25	1322.79	1322.79
NHPC Stations					
Salal	80.24		80.24	33.97	33.97
Tanakpur	42.4		42.4	14.83	14.83

TRUE UP ORDER FY07

Station	FY07 Approved			FY07	FY07
	State Own Use	Trading	Total	True-up Petition	True-up
Chamera-1	49.47		49.47	66.68	66.68
Chamera-2	116.13		116.13	58.02	58.02
Uri	68.63		68.63	75.06	75.06
Dhauliganga	38.5		38.5	41.41	41.41
Dulhasti	-		0	0.68	0.68
Sub Total	395.37		395.37	290.65	290.65
Other Stations			0		
Tehri-I	22.45		22.45	30.56	30.56
NAPP	66.63		66.63	31.93	31.94
RAPP	-		0	0.00	0.00
Nathpa Jhakri	325.54	13.46	339	178.19	178.19
Shanan	5.07		5.07	5.26	5.26
Shanan Extn	43.45		43.45	45.00	45.00
Yamuna (UJVNL)	393.49		393.49	392.62	392.62
Khara	61.41		61.41	57.39	57.39
Private Micros	-		0	102.37	107.67
Baspa –II	402.24	661.13	1063.37	1121.18	1121.18
Sub Total	1320.28	674.59	1994.87	1964.50	1969.81
Free Power Share			0		
Baira Suil	17.42		17.42	47.28	47.28
Chamera-I	38.64		38.64	135.83	135.83
Chamera –II	34.83		34.83	73.98	73.98
Shanan Share	0.41	0.08	0.49	1.48	1.48
Ranjeet Sagar Dam			0	25.96	25.96
Malana	10.69		10.69	11.81	11.81
Baspa – II	28.05		28.05	36.31	36.31
Ghanvi	-		0	6.92	7.11
Baner	-		0	5.16	5.30
Gaj	-		0	5.48	5.62
Larji	-		0	21.05	21.34
Khauli	-		0	1.04	1.04
Nathpa Jhakri	138.84	16.86	155.7	138.79	138.79
GoHP			0	2.02	0.00
Sub Total	268.88	16.94	285.82	513.11	511.85
Equity Power – Naptha Jakri	175.75	139.26	315.01	376.17	376.17
Banking Power			0	284.31	284.15
Power Availability from UI	18.64		18.64	80.63	80.63
Grand Total	3368.67	891.10	4259.77	5069.18	5073.22

- 1.22 The power purchase from Board's own stations as submitted by the Board was 1386.63 MU in FY07. The Commission analyzed the monthly availability of Board's own station (net of auxiliary consumption) and noticed that the power available to the Board from its own station was 1385.87 MUs in FY07 (after reducing 12% GoHP free power share in Gaj, Baner, Ghanvi, Larji and Khauli).
- 1.23 The Commission approves the power purchase cost for FY07 at Rs 1254.54 Cr, based on the audited account of the Board. However, since the Board has not been able to reconcile the power purchase costs from various sources, the Commission is not able to true up station wise power purchase costs.

Energy Balance

- 1.24 The Commission has analyzed the energy balance of the Board based on the sales and power purchase data submitted. The Commission was surprised to observe that the T&D losses within the state have come down substantially to 14.19% in FY07. To validate the same, the Commission directed the Board to re-check the sales data for FY07. The Board in its subsequent submission submitted the revised sales data for FY07 as has already been explained at 1.11 to 1.14 above.
- 1.25 The energy balance for FY07, based on the revised sales data submitted by the Board, is shown in the table below.

Table 4: Energy Balance FY07

Energy Balance (MUs)	FY07 Petition	FY07 True - up¹
Power Purchase	6459.10	6459.10
<i>Board Stations</i>	<i>1385.87</i>	<i>1385.87</i>
<i>Others</i>	<i>5073.22</i>	<i>5073.22</i>
Power Sold Outside	1255.27	1255.27
Net Purchase for State	5203.82	5203.82
PGCIL Losses	192.38	192.38
Net Available to HPSEB	5011.44	5011.44
Energy Sale	4300.44	4159.57
T&D Loss within State %	14.19%	17.00%

Employee Expenses

- 1.26 In the Tariff Order for FY07, the Commission had approved net employee expense of Rs 424.83 Cr against the Board's projection of Rs 463.55 Cr. The Board has submitted actual net employee expense of Rs 471.69 Cr for FY07 as per its audited account. The

¹ After considering the revised sales submitted by the Board for FY07

Commission during the validation session directed the Board to submit the break up of the total basic salary of Rs 275.34 Cr submitted by the Board into basic salary and DP merged with basic salary. The Board in its reply submitted that the actual basic salary is Rs 190.46 Cr and DP merged with basic is Rs 93.80 Cr. The Board also submitted that it had wrongly accounted Rs 8.92 Cr of DP into DA and that the revised total basic salary is Rs 284.26 Cr (190.46 + 93.80) and the revised DA for FY07 is Rs 83.58 Cr instead of Rs 92.50 Cr.

1.27 The Commission in its Tariff Order for FY07 had capped the DA at 24% of basic and held that any future increase in DA would not be allowed till the Board improves its efficiency. Thus, for truing up of employee expenses, the Commission has trued up the DA at 24% of Basic + DP. The Commission also disallows Rs 1.23 Cr towards Overtime and Rs 0.02 Cr towards Bonus as per the methodology followed by the Commission in past. The Commission has also deducted an amount of Rs 3.75 Cr on account of deviation in pay scale structure from PSEB. The Commission approves net employee expense for FY07 at Rs 451.33 Cr. The summary of trued up employee expenses for FY07 are detailed in the table below.

Table 5: Employee Expenses for FY07 (Rs Cr)

Category	FY07 Petition	FY07 Approved	FY07 True-up Petition	FY07 True-up
Basic Salaries	326.28	313.51	275.34	284.26
Overtime	1.21	-	1.23	0.00
DA	75.04	65.84	92.50	68.22
Other Allowances	34.19	32.63	31.46	31.46
Bonus	0.36	-	0.02	0.00
Fee & Honorarium	0.01	0.01	0.04	0.04
Medical expense Reimbursement	7.37	6.92	6.40	6.40
LTA	0.08	0.08	0.14	0.14
Earned Leave	11.06	7.28	12.27	12.27
Payment under workmen's compensation	1.00	0.73	0.90	0.90
Leave Salary Contribution	0.90	0.64	0.00	0.00
Staff Welfare expenses	1.37	1.29	0.83	0.83
Terminal Benefits	70.00	70.00	113.78	113.78
Provision for Employee VRS		3.00		
Total Employee costs	528.87	501.94	534.91	518.30
Less: Disallowance due to deviation from PSEB Pattern		3.75		3.75
Less: Capitalization	65.32	73.36	63.22	63.22
Net Employee Cost	463.55	424.83	471.69	451.33

Administrative & General (A&G) Expenses

1.28 In the Tariff Order for FY07, the Commission had approved net A&G Expenses of Rs 23.69 Cr against the Board's projection of Rs 47.34 Cr. The Board has submitted the actual net A&G Expense of Rs 27.65 Cr for FY07 as per its audited account. The Commission approves A&G Expense for FY07 at Rs 27.57 Cr (as detailed in the table below) after deducting the expenses of Rs. 8 Lakhs towards schools and hospitals run by the Board. The Commission had already issued direction in the Tariff Order of FY06 that the schools/hospitals run by the Board be transferred to the respective agency/ department but it is evident that the Board has still not complied with this direction and hence the expense is being disallowed.

Table 6: A&G Expenses for FY07 (Rs Cr)

Category	FY07 Petition	FY07 Approved	FY07 Actual	FY07 True-up
Insurance of Employees, Assets etc.	0.01	0.01	0.01	0.01
Telephone, postage, telegram, internet charges	2.67	2.67	2.65	2.65
Consultancy charges	0.09	0.09	0.30	0.30
Conveyance and Traveling expense (vehicle running, hiring)	13.72	10.38	13.31	13.31
Printing and stationary	1.53	1.53	1.42	1.42
Advertising	0.32	0.32	0.23	0.23
Electricity and water charges	2.30	2.24	2.60	2.60
Freight	3.40	3.13	3.29	3.29
Legal charges	0.36	0.32	0.27	0.27
Auditor's fees	1.60	1.58	1.65	1.65
Rents, rates & taxes, other than all taxes on income and profit.	1.20	1.16	2.43	2.43
Miscellaneous	3.96	2.01	2.76	2.76
Study for valuation of assets	15.00	-	0.00	0.00
Public interaction programme	2.50	0.68	0.15	0.15
Expenses for Consultants	-	-		
Regulatory Expenses	2.45	2.23	2.09	2.09
For pilot project of pre-paid meters & billing machines	-	0.12		
Ombudsman Expenses	0.57	0.12		
Less:				
Expenses for Hospitals		0.05		0.05
Expenses for Schools		0.03		0.03
A&G Expenses – Total	51.68	28.49	32.93	32.85
Less: capitalized	4.34	4.8	5.28	5.28
A&G Expenses after capitalization	47.34	23.69	27.65	27.57

Repair & Maintenance (R&M) Expenses

1.29 In the Tariff Order for FY07, the Commission had approved net R&M Expense of Rs 24.02 Cr against the Board's projection of Rs 26.64 Cr. The Board has submitted net R&M expenses for FY07 as Rs 27.45 Cr in the truing up petition. The Commission approves R&M expense for FY07 at Rs 26.19 Cr after deducting Rs. 1.26 Cr as the R&M expenses towards schools and hospitals run by the Board. The Commission had already issued direction in the Tariff Order of FY06 that the schools/ hospitals run by the Board be transferred to the respective agency/ department and therefore this expense is being disallowed.

Table 7: R&M Expenses for FY07 (Rs Cr)

Category	FY07 Petition	FY07 Approved	FY07 Actual	FY07 True-up
Plant & Machinery	9.87	8.40	6.73	6.73
Building	2.82	2.63	0.85	0.85
Other civil works	2.60	2.31	0.61	0.61
Hydraulic Works	0.75	0.68	0.16	0.16
Lines, Cable Network etc.	31.07	29.40	18.81	18.81
Vehicles	(14.45)	(12.60)	0	0
Furniture & Fixtures	0.08	0.05	0.06	0.06
Office Equipment	0.33	0.32	0.23	0.23
Total	33.07	31.19	27.45	27.45
Less: Capitalisation	6.43	5.91	0.00	0.00
Less: Deduction for R&M of Schools & Hospitals		1.26		1.26
Net R&M Expenses	26.64	24.02	27.45	26.19

Interest & Financing Charges

1.30 The Commission in the Tariff Order for FY07 had disallowed certain loans as the Board had failed to submit information on the various loans and the projects for which the loans had been taken. Thereafter, in the tariff filing for FY08, the Board submitted the details of all the loans taken for the various projects as well as for other liabilities. The majority of the loans pertained to Larji, Khauli and other projects being executed by the SPV companies. The Commission had issued directions to the Board to file separate petitions for the determination of the capital costs and generation tariffs of all the projects owned by it.

1.31 The Board had submitted petition for Larji HEP along with the MYT petition on 15 December 2007. The brief petition mentions the capital cost as Rs 1293.69 Cr. However, the formats do not support and provide additional information on the various cost components. The Board failed to submit and further provide details despite repeated queries and interactions. Thus, the Commission is not in a position to determine the capital cost of

the project. This is despite the fact that the Board has been directed in the previous two tariff orders to file a proper petition for determination of capital cost and generation tariff.

- 1.32 Faced with such bad quality of filing, it is very difficult for the Commission to confidently rely on the petition submitted by the Board. Proper determination of generation tariff will only be possible once the Board files a detailed petition with the Commission for finalization of the capital cost of the project with all relevant documentary support. The Commission had initially considered allowing the cost, as contained in the TEC accorded by CEA in January 2000. The total completed cost for the project (including IDC) at 1999 price levels as per the TEC is Rs 796.98 Cr. However, after taking into consideration the adverse impact on debt servicing and cash flows, which an uncovered gap of approximately Rs 500 Cr in capital cost could create, the Commission, with an intention of mitigating the impact of such a high cost project, has decided to provisionally approve the capital cost at Rs 960 Cr, as determined by the Committee of Experts, constituted by the Commission which had inquired into the reasons for high cost escalation of Larji project.
- 1.33 The equity infused in Larji by the GoHP is Rs 48.11 Cr and rest of the project cost is funded through debt. Since, the Commission is provisionally considering Rs 960 Cr as the completed project cost for Larji, the Commission approves Rs 911.89 Cr as the debt taken for Larji. The Board has taken a total debt of Rs 1060 Cr on account of Larji from various sources viz. PFC, PNB and HP Corporative Bank. Thus, considering the above the Commission has disallowed a debt of Rs 148.11 Cr (Rs 100 Cr of PNB loan and Rs 48.11 Cr of PFC loan) taken for Larji and their respective interest cost.
- 1.34 Similarly, the tariff filing of Khauli HEP, with the MYT petition is also incomplete and inconsistent in many respects and contains contradictory information in many forms. Faced with such improper filing, it was very difficult for the Commission to confidently rely on the submitted petition. Proper determination of generation tariff will only be possible once the Board files a proper and detailed petition with the Commission for finalization of the capital cost of the project with all relevant documentary support. Till then the Commission is left with no option but to determine an interim tariff for the project considering the costs that it feels are prudent.
- 1.35 The Board in its MYT filing for Khauli project has submitted that completed cost is Rs 126.29 Cr. In the formats submitted along with the word document, the Board has not provided any details/ breakup on the capital cost incurred on the project and has only mentioned the details of the original cost as Rs 66.08 Cr without IDC and has left the rest of the formats blank.
- 1.36 The Commission faced with such inconsistent and fluid data, finds it very difficult to determine the capital cost of the project. The Commission thought of considering the completed cost as contained in the techno-economic clearance order for Khauli HEP, approved by the Board on 27 May 1998. The total completed cost for the project (including IDC) as per the TEC is Rs 89.86 Cr, which amounts to Rs 7.49 Cr per MW, which in the perception of the Commission is a very high cost.

- 1.37 The Commission is mandated by the Electricity Act 2003 to protect the consumer's interest and cannot allow such exorbitant project cost to be passed through. Therefore, the Commission has decided, as an interim measure, a normative capital cost of Rs 6.50 Cr per MW, which has been taken for determining the tariff for small hydro projects, to arrive at a completed capital cost of Rs 78 Cr for the project.
- 1.38 The Commission has during the analysis found out that Board has taken a loan from HP Corporative Bank of Rs 70 Cr to fund the Khauli project. The Commission has assumed that the Board has taken a short term loans for funding the rest of the project cost. Thus, the Commission has considered the total debt taken for Khauli as Rs 78 Cr (Rs 70 Cr from HP Corporative Bank and Rs 8 Cr as short term loan).
- 1.39 The Commission has disallowed all the other short term loans, and their respective interest expenses, taken for revenue expenditure or for power purchase.
- 1.40 The Commission has also disallowed all the loans, and their respective interest expenses, taken for investing as equity into generation projects viz. Uhl – III, Sawra Kuddu and Kashang HEPs being executed by the various SPVs. The Commission has disallowed these loans as these are taken for investment in SPVs where the Board would be entitled to earn return on equity once the projects are commissioned and the appropriate Commission determines the tariffs.
- 1.41 In the Tariff Order for FY07, the Commission had approved interest & finance charges at Rs 61.94 Cr after capitalizing Rs 60.23 Cr towards capital works. The actual net interest expense for FY07 as per the audited account is Rs 138.21 Cr. The Commission has analyzed loan-wise details before approving the net interest expenses FY07 which is detailed below:
- (a) **LIC:** The Board has submitted interest expense of Rs 21.98 Cr for FY07 as per the audited account. The Commission approves interest expense of Rs 1.98 Cr after deducting interest on loan of Rs 250 Cr which Board has taken for investing as equity in various SPV generating companies.
- (b) **REC:** The Commission approves interest expense of Rs 13.72 Cr for FY07 as per the audited account of the Board.
- (c) **PFC:** The Board has submitted interest expense of Rs 56.88 Cr for FY07 as per the audited account. Board had taken three loans from PFC against the execution of Larji projects viz. Rs 398 Cr, Rs 214 Cr and Rs 178 Cr. As already discussed above, the Commission disallows the debt amount of Rs 48.11 Cr of the PFC loan taken for Larji project. The Commission thus approves interest expense of Rs 54.04 Cr after deducting the proportionate interest on the disallowed loan amount of Rs 48.11 Cr of the Rs 178 Cr loan.
- (d) **Bank:** The Board has submitted interest expense of Rs 37.92 Cr for FY07 as per the audited account. The Commission approves interest expense of Rs 22.78 Cr after deducting Rs 5.14 Cr, which was on account of loans taken from UCO Bank for

power purchase and for funding GPF corpus. As these loans were not capital loans, the Commission will not allow the Board to pass interest on them to the consumers. Further the Commission has disallowed the Rs 10 Cr as interest expense which was on account of loans taken from PNB for power purchase (Rs 53 Cr) and funding the Larji Project (Rs 100 Cr).

- (e) **APDRP/State Govt Loans:** The Commission approves interest expense of Rs 2.33 Cr for FY07 as per the audited account of the Board.
- (f) **Non SLR Bonds:** The Commission approves interest expense of Rs 43.14 Cr for FY07 as per the audited account of the Board.
- (g) **Interest on GPF:** The Board has submitted interest expense of Rs 19.06 Cr towards interest on GPF as per the audited account. This expense is incurred by the Board on account of 8% interest paid by the Board to its employees on their GPF. The Commission is of the opinion that this burden should not be passed on to the consumers. The Board should have invested this amount in long term securities, bonds etc wherein it would have earned a return of 8% to 9% and thereby managing the interest payment to the employees. Considering this Commission disapproves this expense as a pass through in the ARR.
- (h) **Other Interest Expense:** The Board has shown interest on overdraft/working capital as Rs 27.75 Cr, rebate allowed for timely payment as Rs 3.19 Cr, cost of raising finance as Rs 0.33 Cr, other charges as Rs 0.94 Cr for FY07 as per the audited account. The Commission approves normative working capital which includes one month of O&M expense and two months receivables and subtracted consumer security deposit. The Commission approves interest expense on working capital at Rs 14.98 Cr (@12%) and disapproves rebate allowed for timely repayment as an expense as the Commission believes that these expenses are part of working capital management and already included in interest on working capital. The Commission approves cost of raising finance & other costs at Rs 0.33 Cr and Rs 0.94 Cr respectively.

1.42 The loan schedule approved by the Commission for FY07 is shown in the table below.

Table 8: Loan Schedule for FY07 (Rs Cr)

Category	Opening	Addition	Repayments	Closing
LIC	24.78	0.00	4.11	20.66
REC	126.16	58.09	28.29	155.96
PFC	807.20	14.37	17.29	804.27
Market Bonds	35.49	0.00	0.00	35.49
Bank	255.56	0.00	5.35	250.21
APDRP	20.13	0.00	0.00	20.13
Non SLR Bonds (HPSEB)	762.38	0.00	428.77	333.61
Total	2031.69	72.45	483.82	1620.33

1.43 Board has submitted the total interest capitalisation of Rs 97.13 Cr. Since, the Commission has disallowed the interest expenses of Rs 31.39 Cr on account of Larji which forms the part of the interest capitalized, the Commission has considered the interest capitalization of Rs 65.75 Cr.

1.44 Trued up Interest & Finance Charges for FY07 is shown below:

Table 9: Interest & Financing Expenses for FY07 (Rs Cr)

Category	FY07 Petition	FY07 Approved	FY07 True up Petition	FY07 True-up Approved
LIC	24.73	0.00	21.98	1.98
REC	17.12	13.39	13.72	13.72
PFC	82.67	77.03	56.88	54.04
Market Bonds	4.19	0.00	4.19	4.19
Bank	30.69	90.43	37.92	22.78
APDRP	0.00	0.00	2.33	2.33
Non SLR Bonds (HPSEB)	43.25	0.00	43.14	43.14
Interest of Security Deposits	0.00	5.60	3.91	3.91
Other Negotiated Loans	20.00	0.00	0.00	0.00
Interest on GPF	16.00	0.00	19.06	0.00
Interest on Overdraft / Working Capital	20.00		27.75	14.98
Cost of raising finances		26.15	0.33	0.33
Other Charges	10.00		0.94	0.94
Rebate allowed for timely payment	0.00	0.00	3.19	0.00
Interest & Finance charges Total	268.65	122.17	235.34	162.35
Less: Capitalization		60.23	97.13	65.75
Net Interest & Financing Cost		61.94	138.21	96.60

1.45 The Commission shall reconsider the above approved Interest & Finance Charges for FY07 once the capital cost for Larji and Khauli is determined based on proper filing by the Board.

Depreciation

1.46 In Tariff Order for FY07, the Commission had approved depreciation of Rs 59.67 Cr against the Board's projection of Rs 60.06 Cr. The Commission approves actual depreciation for FY07 at Rs 57.14 Cr as per the audited account of the Board after verifying the details of assets capitalized during the year.

Return on Equity

1.47 In the Tariff Order for FY07, the Commission had approved return on equity of Rs 41.62 Cr against the Board's projection of return on NFA of Rs 47.55 Cr. The Board has claimed

return on equity of Rs 42.16 Cr in truing up petition. The Commission has carried out a detailed exercise of splitting the total equity of Rs 282.11 Cr in Generation, Transmission and Distribution function. The Commission approves the equity in Generation as Rs 93.11 Cr (based on the information submitted by the Board for its generating stations and the equity approved by the Commission for the respective stations), Rs 79.05 Cr for Transmission and Rs 109.95 Cr for Distribution. Based on this the Commission approves return on equity of Rs 41.69 Cr for FY07.

Table 10: Return on Equity for FY07 (Rs Cr)

Particulars	Equity	Rate	ROE
Generation	93.11	14.00%	13.04
Transmission	79.05	14.00%	11.07
Distribution	109.95	16.00%	17.59
Total	282.11		41.69

Other Debits & Extra Ordinary Items

1.48 In the truing up petition for FY07, the Board has shown “Other Debits” of Rs 1.03 Cr and “Extra Ordinary Items” of Rs 1.98 Cr as per audited account. The Commission approves expenses towards “Other Debits” as Rs 1.03 Cr and “Extra Ordinary Items” as Rs 1.98 Cr.

Non Tariff Income

1.49 In the Tariff Order for FY07, the Commission had approved non tariff income of Rs 84.13 Cr against the Board’s projection of Rs 78.42 Cr. The Commission approves non tariff income for FY07 at Rs 86.10 Cr as per audited account of the Board.

Prior Period Adjustment

1.50 The Commission during the analysis observed that an amount of Rs. 76.70 Cr has been deducted in the revenue account as Prior Period expenses in the audited account of FY07. The Commission was surprised to notice that the Board had not claimed the said amount in its truing up petition, as in line with its past approach. The Commission also noticed that out of Rs. 76.70 Cr, an amount of Rs. 69.34 Cr has been adjusted towards power purchase for previous years. The Commission thus directed the Board to provide the break up of Prior Period expenditure incurred towards power purchase by the Board in FY07.

1.51 In the clarification note the Board submitted the break up of the prior period expenditure towards power purchase which is shown in the table below.

Table 11: Prior Period Expenditure towards Power Purchase submitted by the Board (Rs Cr)

Source	FY07 Expense	FY07 Refund	FY07 Net
UJVNL	1.33	0.00	1.33

Source	FY07 Expense	FY07 Refund	FY07 Net
ULDC	0.00	-0.28	-0.28
NHPC	1.00	-0.92	0.07
PTC (SJVNL)	40.95	0.00	40.95
NTPC	7.82	-44.46	-36.64
NAP	1.50	0.00	1.50
SJVNL	70.70	-4.08	66.62
MARHI	0.70	0.00	0.70
PGCIL	5.90	-12.76	-6.86
PSEB	0.16	0.00	0.16
CHING	0.00	-0.01	-0.01
REACTIVE	0.80	0.00	0.80
HIMURJA	1.00	0.00	1.00
Total	131.86	-62.51	69.34

- 1.52 In the submission made by the Board, the Commission noticed that a total amount of Rs. 107.57 Cr (Rs. 66.62 Cr + Rs 40.95 Cr) has been paid by the Board in FY07 on account of prior period expenditure on power purchase from SJVNL. The Commission verified with the Board that this payment has been made on account of arrears arisen due to revision of Tariff of SJVNL.
- 1.53 The Commission here would like to highlight that the Board had claimed additional expenses on account of tariff revision of SJVNL in the truing up petition of FY05 and FY06. Accordingly, the Commission worked out the liability on account of tariff revision of SJVNL and approved a total amount of Rs. 128.39 Cr (Rs. 80.46 Cr in FY05 and Rs. 47.93 Cr in FY06) during the truing up of FY05 and FY06 in the Tariff Order of FY08.
- 1.54 Thus, the amount of Rs. 107.57 Cr paid by the Board in the FY07 has to be deducted from the prior period expenditure on power purchase of FY07 as the Commission had already allowed for the same in the ARR of FY05 and FY06 while truing up. Thus, the total prior period expenditure of Rs. 76.70 Cr in FY07 becomes a net prior period income Rs. 30.87 Cr (Rs.. 107.57 Cr - 76.70 Cr).
- 1.55 The Commission further noticed that the amount allowed towards the revision of tariff of SJVNL in the truing of FY05 and FY06 was Rs. 128.39 Cr, however, the amount paid by the Board in FY07 was Rs. 107.57 Cr only. The Commission directed the Board to submit the exact payment details of this Rs. 128.39 Cr. The Board in its reply submitted that an amount of Rs. 20.82 Cr had been paid to SJVNL in FY06 and that the balance amount of Rs. 107.57 Cr has been paid in FY07. The Board, further, mentioned that the amount of Rs. 20.82 Cr paid to SJVNL in FY06 was adjusted in the Prior Period Expenses of FY06 and the Board claimed the same during truing up of FY06.
- 1.56 The Commission had approved a prior period expenditure of Rs. 35.24 Cr to the Board based on audited account in truing up of FY06, in addition to the provision made for tariff

revision of SJVNL. The Commission is surprised to notice that Board had claimed the amount of Rs. 20.82 Cr twice in the ARR of FY06 i.e. as a part of prior period expenditure and also as part of the liability for tariff revision of SJVNL. The Commission, thus, for the purpose of removing the double counting, deducts the amount of Rs. 20.82 from the prior period expenditure of FY07.

- 1.57 Thus the total Prior Period income approved by the Commission for FY07 is Rs. 51.69 Cr (Rs. 30.87 Cr + Rs. 20.82 Cr), which would be adjusted in the true-up of ARR of FY07.

Receivable from GoHP on account of Free Power

- 1.58 In the truing up petition for FY07, the Board has mentioned that a total claim of Rs 74.53 Cr from Government of Himachal Pradesh (GoHP) on account of difference between the power purchase rate of free power approved by the Commission and that charged by the PTC to the Board for FY07, is pending with the state government which has been shown as receivable in FY07 in the annual account. The Board has termed this amount as upfront subsidy in its account statement. The Board has not considered receivables from GoHP on account of free power in its truing up Petition.
- 1.59 The Board has shown Rs 21.55 Cr as upfront subsidy received from the GoHP in truing up Petition, which it has received from GoHP on account of difference between the power purchase rate of free power approved by the Commission and that charged by the PTC to the Board for FY06. The Commission was surprised by the Board's submission as the Commission has already included this amount while truing up for FY06 in the Tariff Order for FY08. The Commission has not considered Rs 21.55 Cr while truing up for FY07.
- 1.60 While analysing the Board's claim of Rs 74.53 Cr from GoHP, the Commission has noticed that the Board has also claimed upfront subsidy on account of Nathpa Jhakri equity power purchased from the GoHP on account of difference between the power purchase rate of equity power approved by the Commission and that charged by the PTC to the Board for FY07. The Commission clarifies that the power purchase cost of the equity power has to be passed through in the ARR at actual cost and is not recoverable from the GoHP. The Commission finds that the amount of Rs 34.19 Cr as claimed by the Board as a receivable from GoHP against purchase of Nathpa Jhakri equity power is not justified. The Commission has considered equity power at actual cost while truing up for FY07 and not included any upfront subsidy from GoHP on account of equity power.
- 1.61 Further, the Commission has noticed that the Board has purchased some quantum of free power (56.62 MUs) from GoHP in the month of Aug 2006 at a rate of Rs 3.92/ unit aggregating to Rs 23.93 Cr. In the Tariff Order for FY07, the Commission had fixed the rate of free power to be purchased by the Board at Rs 2.35/ unit. Therefore the difference in purchase price higher than Rs 2.35/ unit has to be refunded by GoHP. Thus, the Commission has considered Rs 9.36 Cr as additional upfront subsidy to be claimed from GoHP on account higher purchase price of above mentioned free power.
- 1.62 The Commission approves amount of Rs 49.70 Cr (74.53 - 34.19 + 9.36) towards receivable from the GoHP in FY07 against free power. The Commission would like to reiterate that as

per the Electricity (Removal of Difficulty) (Third) Order, 2005, the state Commission is mandated as per the Act to regulate the price at which such free power is procured by the distribution licensee.

Revenue Requirement

1.63 The Commission herewith approves the Annual Revenue Requirement (ARR) after incorporating the above changes at Rs 1820.29 Cr for FY07.

Table 12: Aggregate Revenue Requirement for FY07 (Rs Cr)

Particular	FY07 Approved	FY07 True Up Petition	FY07 True-up Approved
Power Purchase Expenses	920.57	1254.54	1254.54
Employee Expenses	424.83	471.69	451.33
R&M Expenses	22.58	27.45	26.19
A&G Expenses	25.13	27.65	27.57
Depreciation	59.67	56.91	57.14
Interest Expense	61.94	138.21	96.60
Other Debits	0.00	1.03	1.03
Extra Ordinary Items	0.00	1.98	1.98
Return	41.62	42.16	41.69
Prior Period Income	0.00	0.00	(51.69)
Less: Non Tariff Income	84.13	86.10	86.10
Aggregate Revenue Requirement	1472.21	1935.52	1820.29

Revenue Surplus/ (Gap)

1.64 The Revenue gap/surplus for FY07 after true-up is shown in the table below.

Table 13: Revenue Surplus/ (Gap) for FY07 (Rs Cr)

Particular	FY07 Approved	FY07 True Up Petition	FY07 True-up Approved
ARR	1472.21	1935.52	1820.29
Total Revenue from sale of power	1568.75	1876.10	1876.10
Refund on account of Free Power		21.55	49.70
(Gap)/ Surplus	96.55	(37.87)	105.51

1.65 As shown above, the Board has a net surplus of Rs. 105.51 Cr. This surplus amount would be adjusted in the determination of the Aggregate Revenue Requirement for FY09 in the MYT Tariff Order.