

**True Up of Third Control Period (FY
2014-15 to FY 2018-19)**

For

**Himachal Pradesh Power Transmission
Corporation Limited (HPPTCL)**



**Himachal Pradesh Electricity
Regulatory Commission**

December 28, 2022

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

Petition No.: 36/2022

Decided on: 28.12.2022

CORAM

**Devendra Kumar Sharma
Yashwant Singh Chogal
Shashi Kant Joshi**

In the matter of:

True-up Petition for MYT Control Period from FY 2014-15 to FY 2018-19 of Himachal Pradesh Power Transmission Corporation (HPPTCL) under Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 and Under Section-62 Read with Section 86 of the Electricity Act 2003

AND

In the matter of:

Himachal Pradesh Power Transmission Corporation Limited

... Petitioner

ORDER

The Himachal Pradesh Power Transmission Corporation Limited (hereinafter called the 'HPPTCL') has filed the present Petition with the Himachal Pradesh Electricity Regulatory Commission (hereinafter referred to as 'the Commission' or 'HPERC') for True-up for MYT Control Period from FY 2014-15 to FY 2018-19 under the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, as amended from time to time and under Section 62 read with Section 86 of the Electricity Act 2003.

The Commission, has carefully considered the contents of the Petition, the facts presented in its various submissions/filings, objections/suggestions received by the Commission from the HPPTCL, the issues raised in the hearing at Shimla, the responses of the Petitioner to the objections/suggestions, submissions made by the Consultant and has also perused the record carefully. Thus, in exercise of the powers vested in it under Section 62 and Section 86 of the Electricity Act, 2003 (Act No. 36 of 2003) and HPERC (Terms & Conditions for Determination of Transmission Tariff) Regulations, 2011, as

amended from time to time passes the following Order for True up of ARR of HPPTCL for third Control Period (FY 2014-15 to FY 2018-19).

Shimla

Dated: 28.12.2022

Sd/-

(Shashi Kant Joshi)

Member

Sd/-

(Yashwant Singh Chogal)

Member (Law)

Sd/-

(Devendra Kumar Sharma)

Chairman

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1 BACKGROUND

1.1 History of HPPTCL

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

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

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

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

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

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

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

1.2 Multi Year Tariff Framework

- 1.2.1. The Commission follows the principles of Multi Year Tariff (MYT) for determination of tariffs, in line with the provision of Section 61 of the Act. The Commission notified the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 (herein referred as "Transmission Tariff Regulations, 2011") which were later amended on 1st November 2013 (First Amendment) Regulations, 2013.
- 1.2.2. The Commission issued the third Multi-Year Tariff (MYT) Order for HPPTCL for the period FY 2014-15 to FY 2018-19 on 10th June, 2014. Subsequently, the Commission has also issued the Tariff Order on True Up for the FY 2014-15 to FY 2015-16 and Mid Term Review for Third Control Period FY 2016-17 to FY 2018-19.
- 1.2.3. HPPTCL has now filed Petition for truing-up of expenses and income for the entire third Control Period in line with Regulation 14 of the Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) (First Amendment) Regulations, 2013.
- 1.2.4. The Commission has reviewed the submissions of the Petitioner carefully and sought further information and clarifications with respect to the claim of the Petitioner. The current Order relates to True-up of the Third Control Period for Intra-state Transmission Network of HPPTCL based on audited accounts and HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 as amended.

1.3 Procedural Background

- 1.3.1. The Petitioner has filed on 20th November, 2020, the True-up Petition for MYT Control Period from FY 2014-15 to FY 2018-19 for Intra-state Transmission Network. The Petition was registered by the Commission as Petition No. 36/2022. The Commission admitted the Petition vide the Interim Order dated 14th September, 2022 for further detailed scrutiny.
- 1.3.2. Since the submission of the Petition, there have been a series of interactions between the Petitioner and the Commission, both written and oral, wherein the Commission sought additional information/clarifications and justifications on various issues, critical for the analysis of the Petition.
- 1.3.3. A detailed scrutiny of the petition has been made and clarifications/ information sought by the Commission from time to time and submission made by the petitioner in response there to, as detailed hereunder, have been taken into consideration:

Table 1: Communication with the Petitioner

Sl.	Letter from Commission	Response from Petitioner
1	HPERC/F(1)-21/2021-2781-82 dated 16.01.2021	MA No. 27/2021 dated 24.02.2021
2	HPERC/F(1)-21/2021-712-13 dated 23.06.2021	MA No. 157/2021 dated 17.08.2021
3	HPERC/F(1)-21/2021-1985-86 dated 27.10.2021	MA No. 10/2022 dated 10.02.2022
4	HPERC/F(1)-21/2021-183-184 dated 25.04.2022	MA No. 100/2022 dated 24.05.2022
5		Additional Submission dated 07.12.2022

1.4 Public Hearings

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

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

Sl.	Name of Newspaper	Date of Publication
1.	The Tribune (English)	18.09.2022
2.	Amar Ujala (Hindi)	18.09.2022

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

Table 3: List of Newspapers in which Notice inviting objections from Stakeholders and conveying the date of Public Hearing were published

Sl.	Name of News Paper	Date of Publication
1.	Indian Express (Chandigarh edition)	22.09.2022
2.	Divya Himachal (Himachal edition)	22.09.2022

1.4.3. Through the aforementioned publications, the interested parties/ stakeholders were asked to file their objections and suggestions on the Petition. The dates for replies and rejoinders were also specified by the Commission through the publications. The Commission received objections/ suggestions from the HPSEBL. The Petitioner also responded to the objections of the HPSEBL.

1.4.4. A public hearing was held in the Commission on 26.10.2022 for providing adequate opportunity to all the stakeholders for expression of their opinions, suggestions and objections in the matter.

2 SUMMARY OF THE TRUE-UP PETITION FOR THE 3RD CONTROL PERIOD (FY15 TO FY19)

2.1. Introduction

2.1.1. This chapter summarizes the highlights of the True-up Petition for the third Control Period (FY15 to FY19) filed by the HPPTCL based on the audited annual accounts for respective years.

2.2. Background

2.2.1. In exercise of powers conferred under Sub-section 4 of Section 131 of the Act, the Government of Himachal Pradesh established Himachal Pradesh Power Transmission Corporation Limited (HPPTCL) on August 27, 2008 with a view to strengthen the transmission network in the State of Himachal Pradesh and to facilitate the evacuation of power from upcoming power generating stations. HPPTCL was formed through an order notified by the State Government vide its notification No. -MPPA-A-(1)-4/2006-Loose dated September 11, 2008.

2.2.2. The Petitioner has submitted that HPPTCL was declared State Transmission Utility (STU) vide Notification No. MPP-A (3)-1/2001-iv dated June 10, 2010 by the Government of Himachal Pradesh and as a result thereof, the Himachal Pradesh Electricity Regulatory Commission (HPERC) recognized HPPTCL as deemed "Transmission Licensee" and notified by the Commission's order dated 31.07.2010 in Petition No. 32 of 2010 filed by HPPTCL under section 14 and 15 of the Electricity Act, 2003.

2.2.3. Further, as per the Notification No-MPP-A-(1)-4/2006-Loose dated October 31, 2008 by the Government of Himachal Pradesh, HPPTCL was entrusted with the following works/business with immediate effect"

- a. All new works of construction of Sub-Stations of 66 KV and above.
- b. All new works of laying/construction of transmission lines of 66 kV and above.
- c. Formulation, updation and execution of Transmission Master Plan for the State in order to strengthen the Transmission Network and plan the evacuation of power including new works under schemes that are already

submitted by the Board under this Plan to the Financial Institutions for funding and where loan agreements are not yet signed.

- d. All matters relating to Planning and Co-ordination of the Transmission related issues with Central Transmission (CTU), Central Electricity Authority (CEA), Ministry of Power, State Government and HPSEBL.
- e. Planning and coordinating with the IPPs / CPSUs / PSUs / Other Departments or organizations or agencies of the Central Government & State Government, HPSEBL and HPPCL regarding all Transmission related issues.
- f. All other matters related to the subject which the State Government may specifically assign to HPPTCL from time to time.

2.2.4. The State Government also transferred and vested in HPPTCL the ownership, operation and maintenance of Transmission lines of 66 kV and above owned by the then Himachal Pradesh State Electricity Board Limited (HPSEBL) including the co-ordination of the lines owned and operated by Power Grid Corporation of India, (PGCIL), Independent Power Producers (IPPs), Haryana Vidyut Prasaran Nigam Limited (HVPNL) and other utilities vide its Notification No. MPP-A (3)-1/2001-IV, dated 21st June, 2010 read with earlier Notification of even number dated 10th June, 2010.

2.2.5. In compliance to the orders of the State Government, HPSEBL provided the details of Transmission network along with the asset value which were transferred to HPPTCL vide Letter No.-HPSEBL/CE(ES)/AU-4/2010-6220-25, dated September 6, 2010 and even No.8648-53 dated 19-11-2010. The capital cost of the transferred assets was revised by HPSEBL from Rs. 199.08 Crore to 102.63 Crore vide Letter No. HPSEBL/F&A/A&R-55/R&M works/2014-15-1024 -25 dated 27-10-2014.

2.2.6. The Petitioner submitted that the Commission had issued the MYT Order for HPPTCL for the period from FY 2011 -12 to FY 2013-14 on July 14, 2011 and thereafter for the period from FY 2014-15 to FY 2018-19 on July 10, 2014. Also, Tariff Order on True Up for the period FY 2011-12 to FY 2013-14 was issued on April 10, 2017 and thereafter the Tariff Order on True Up for FY 2014-15 & FY 2015-16 and Mid-Term Review Order for FY 2016-17 to FY 2018-19 was issued on October 6, 2017.

2.2.7. HPPTCL has filed the application for approval of Five-Year Business Plan and MYT Petition for the fourth Control Period from FY 2019-20 to FY 2023-24 on 30th November, 2018. The MYT Framework specifies to file an application for True Up of previous Control Period along with the Petition for determination of ARR-cum-

Transmission Tariff for the Control Period. As at the time of filing of MYT Petition for the fourth Control Period, Annual Accounts for the year FY 2017-18 were provisional and only six months of actual data was available for FY 2018-19. HPPTCL has filed the present Petition for approval of True Up for FY 2014-15 to FY 2018-19, post finalisation of the annual accounts of FY 2017-18 and FY 2018-19.

2.2.8. The Petitioner has submitted that as per Notification No. MPP-A (3)-1/2001-iv dated June 10, 2010 by the Government of Himachal Pradesh, the details of transmission lines vested with HPPTCL are as follows:

Table 4: Assets transferred from HPSEBL to HPPTCL

S. No.	Name of Existing lines	Type of line AC/HVDC	S/C or D/C	Line length (km)	Date of Commercial Operation
A	220 KV Lines				
1	220 kV D/C Bairasuil - Pong Line (LILO portion at Jassure)	AC	D/C	0.24	09-1985
2	220 kV S/C Jassure-Thein Line	AC	S/C	25.60	03-2001
3	220 kV Dehar-Kangoo Line (S/C ckt. Line on D/C tower)	AC	S/C	3.18	06-1999
4	220 kV D/C Panchkula-Kunihar Line	AC	D/C	46.72	05-1989
5	220 kV D/C Kodari-Majri Line	AC	D/C	35.02	09-1989
6	220 kV D/C Nalagarh (PGCIL)-Nalagarh Line	AC	D/C	3.50	07-2010
B	132 KV Lines				
7	132 kV S/C Giri-Kulhal Line	AC	S/C	17.40	04-1978
8	132 kV D/C Giri-Abdullapur Line	AC	D/C	16.22	08-1982
9	132 kV S/C Kangra Tap Line	AC	S/C	0.14	02-1979
10	132 kV S/C Dehar-Kangoo Line	AC	S/C	2.99	12-1998
11	132 kV D/C Shanan-Bassi Line	AC	D/C	5.00	03-1970
C	66 KV Lines				
12	66 kV Shanan-Bijni Line	AC	S/C	35.00	10-1969
13	66 kV Pinjore-Parwanoo Line	AC	S/C	8.23	04-1956
14	66 kV Pong-Sansarpur Terrace Line	AC	S/C	6.30	10-1990
15	66 kV Bhakra-Goalthai-Rakkar Line	AC	S/C	16.72	03-2006

2.2.9. Of the above 15 lines, 12 are Intra-state while 3 are Inter-state Transmission Lines as follows:

Table 5: Inter-state Lines transferred from HPSEBL to HPPTCL

S. No.	Name of Existing Inter-State lines	Type of line AC/HVDC	S/C or D/C	Line length (km)	Date of Commercial Operation
	220 KV Lines				
1	220 kV S/C Jassure-Thein Line	AC	S/C	25.60	03-2001
2	220 kV D/C Panchkula-Kunihar Line	AC	D/C	46.72	05-1989
3	220 kV D/C Kodari-Majri Line	AC	D/C	35.02	09-1989

2.2.10. As per the Petitioner, the following nine (9) Intra-state Transmission Assets have been commissioned in addition to the assets transferred from HPSEBL:

- 33/220 kV, 80/100 MVA GIS Sub-Station Phojal along with 220 kV D/C LILO Transmission Line
- 220 kV D/C Kashang Bhaba Transmission Line
- 220/66 kV Pooling station at Bhoktoo
- 220 kV D/C Charor Banala Transmission Line
- 33/220 kV, 50/63 MVA GIS Sub Station Karian Substation along with 220 kV D/C Karian Rajera Line
- 33/132 kV 31.5 MVA GIS Pooling Station Pondoh with LILO of 132 kV S/C of Larji-Bijni line
- 33/132 kV, 2x31.5 MVA sub-station at Chambi with LILO of 132 kV S/C Kangra- Dehra line
- 2x315 MVA, 220/33 kV GIS Pooling Station at Lahal, Himachal Pradesh
- 66/220/400 kV GIS Sub Station (66/220 kV, 2x80/100 MVA+220/400 kV, 2x315 MVA) at Wangtoo.

2.3. Funding of Assets transferred from HPSEBL

2.3.1. The Petitioner has submitted that the assets transferred from HPSEBL to HPPTCL have been as per the terms of "Himachal Pradesh Power Sector Reforms Transfer Scheme, 2010" Notified by government of Himachal Pradesh vide MPP-A (3)-1/2001-iv dated June 10, 2010 and quoted clause 4 of the Transfer Scheme:

"4. Transfer of functions and undertakings:

(1) With effect from date of re-vesting, the "HPSEB Ltd." shall undertake the functions of generation, distribution and trading of electricity along with all undertakings including residuary and miscellaneous assets, rights, interests and obligations which have not been specifically transferred to "HPPTCL", under the scheme or retained by the government.

(2) With effect from the date of re-vesting, the function of evacuation of power by Intra-State or Inter-State transmission lines shall be done by "HPPTCL" subject to permissible transmission system remaining part of distribution network of the "HPSEB Ltd."

.....

(10) As consideration for the re-vesting of the assets and liabilities, including all rights, obligations and contingencies to the Transferees as mentioned in sub-clause (1) and (2) above, shares of appropriate amount shall be issued to the State Government." {Emphasis Added}.

2.3.2. The Petitioner claimed that the capital cost of transferred assets as on 19-11-2010 was Rs.199.08 Cr. which was revised to Rs. 102.63 Cr. as per letter No. HPSEBL/F&A/A&R-55/R&M works/2014-15-1024 -25 dated 27-10-2014. The petitioner has also submitted that the written down value of the assets has been taken on books of account and amount shown as payable to Himachal Pradesh State Government/HPSEBL instead of shares being issued against the asset value. The liabilities were transferred to the audited accounts for FY 2014-15 under the head of "Long Term Provisions" payable to Govt. of HP /HPSEBL.

2.3.3. The Petitioner Submitted that with regards to the segregation of assets of HPSEBL till formation of HPPTCL, the Commission in its order dated 24-4-2012 for the True up for the First Control period FY 2008-09 to FY 2010-11 has segregated GFA, depreciation and funding into business segments of Generation, Transmission and Distribution as reproduced below:

"6.19 The revised depreciation now approved by the Commission is shown below:

Table 77: Trued-up GFA & Depreciation for the Control Period (Rs. Cr)

Particulars	FY 09	FY 10	FY 11
Opening	3698.10	4016.97	4285.22
Generation	1827.02	1827.07	1847.83
Transmission	780.26	929.27	959.50
Distribution	1090.82	1260.63	1477.90
Addition	565.97	609.22	286.58
Generation	0.05	20.76	8.84
Transmission	149.01	30.22	85.23
Distribution	169.81	217.27	83.32
Reduction	0.00	0.00	0.00
Generation	0.00	0.00	0.00
Transmission	0.00	0.00	0.00
Distribution	0.00	0.00	0.00
Closing GFA	4016.97	4285.22	4462.61
Generation	1827.07	1847.83	1856.67
Transmission	929.27	959.50	1044.73
Distribution	1260.63	1477.90	1561.22
Depreciation Rate			
Generation	2.52%	2.52%	2.52%
Transmission	2.50%	2.50%	2.50%
Distribution	2.50%	2.50%	2.50%

Particulars	FY 09	FY 10	FY 11
Depreciation	96.84	103.92	109.38
Generation	46.08	46.08	46.34
Transmission	21.37	23.61	25.05
Distribution	29.39	34.23	37.99

...

Table 80: Classification of Capitalisation now approved (Rs. Cr.)

Particular	FY 2008-09	FY 2009-10	FY 2010-11
Total Capitalisation	318.87	268.25	177.39
Pre MYT Schemes	250.00	200.00	150.00
MYT Schemes	68.87	68.25	27.39

...

6.25 The Commission has considered the following funding pattern for total asset capitalisation (both pre-MYT and MYT schemes, as segregation was not available)

Table 81: Capitalisation classification now approved (Rs. Cr.)

Funding	FY 2008-09		FY 2009-10		FY 2010-11	
	Loan	Grant	Loan	Grant	Loan	Grant
Transmission	149.01	0.00	30.22	0.00	85.23	0.00
Generation	0.05	0.00	20.76	0.00	8.84	0.00
Distribution	81.38	88.43	95.79	121.48	48.13	35.19
Total	230.44	88.43	146.78	121.48	142.20	35.19

...

6.27 Funding details of the MYT schemes and interest now approved for the capitalization of fresh investment during the MYT Period is shown below:

Table 82: Funding Requirement and Funding now approved (Rs. Cr.)

Particulars	FY 2008-09	FY 2009-10	FY 2010-11
Funding Requirement	68.87	68.25	27.39
Consumer Contribution/Grant	22.08	21.88	8.78
Debt	46.79	46.37	18.61
Equity	0.00	0.00	0.00
New Loans taken for Capex			
Opening	0.00	42.08	66.45
Addition	46.79	46.37	18.61
Repayment	4.68	9.32	11.18
Closing	42.11	79.17	86.60
Interest Rate	10.25%	10.25%	10.25%
Interest	2.16	6.22	8.50

6.34 The Commission now approves ROE to the generation, transmission and distribution businesses at the rate of 14%, 14% and 16%, respectively, in accordance with its Tariff Regulations, as detailed in the table below:

Table 82: Trued Up RoE for the Control Period in MYT Order (Rs. Cr.)

Particulars	FY 2008-09	FY 2009-10	FY 2010-11
Equity	297.27	297.27	297.27
Generation	108.27	108.27	108.27
Transmission	79.05	79.05	79.05

<i>Distribution</i>	109.95	109.95	109.95
Rate of Return			
<i>Generation</i>	14.00%	14.00%	14.00%
<i>Transmission</i>	14.00%	14.00%	14.00%
<i>Distribution</i>	16.00%	16.00%	16.00%
Approved ROE	43.82	43.82	43.82
<i>Generation</i>	15.16	15.16	15.16
<i>Transmission</i>	11.07	11.07	11.07
<i>Distribution</i>	17.59	17.59	17.59

...”

2.3.4. The petitioner claims that the combined GFA approved for Transmission and Distribution at the end of First control period (FY 2008-09 to FY 2010-11) is Rs. 2605.95 Cr. (Rs. 1044.73 Cr. + Rs. 1561.22 Cr.). Further, the Petitioner claimed that the closing loan of HPSEBL considering the funding of Scheme capitalized in FY 2010-11 is Rs. 86.60 Cr. and the combined closing equity of Transmission and Distribution for FY 2010-11 is Rs. 189.00 Cr. (Rs. 79.05 Cr. + Rs. 109.95 Cr.).

2.3.5. The petitioner also submitted that during the Midterm Performance Review of HPSEBL for the period FY2014-15 to FY 2018-19, the Commission in order dated 17-4-2017 has adjusted the GFA of HPSEBL for FY 2011-12 as Rs. 2503.31 Cr. by reducing the amount equivalent to the cost of assets transferred to HPPTCL amounting to Rs. 102.63 Cr. from the combined GFA approved for Transmission and Distribution at the end of first control. The extracts of the same are reproduced below:

“5.4.2 It is observed that the Commission had trued-up the GFA for the First Control Period (FY09-FY11) in the Order for First APR of the Second MYT Control Period (FY12-FY14) dated 24.04.2012. The Commission has therefore considered the transmission and distribution assets as per the approved closing GFA for FY11. Adjustment on account of assets transferred to HPPTCL has been considered to arrive at the opening GFA for FY12.

...

5.4.4 The revised depreciation now approved by the Commission is as below:

Table 76: Trued-up GFA & Depreciation for the Second Control Period (Rs. Cr.)

Particulars	FY 12	FY 13	FY 14
<i>Opening GFA</i>	2503.31	3069.28	3678.50
<i>Addition</i>	565.97	609.22	286.58
<i>Closing GFA</i>	3069.28	3,678.50	3,965.08
<i>Depreciation on Total Assets @ 2.50%</i>	69.66	84.35	95.54

Particulars	FY 12	FY 13	FY 14
Less: Depreciation on Assets created out of grants/deposit works	19.61	29.20	36.19
Approved Depreciation	50.04	55.15	59.36

However, with regard to interest on loan and equity for the second control period, the Hon'ble Commission in the above referred Order dated April 17, 2017 has ruled as follows:

"5.5.4 The revised interest on loans for funding capitalization for First and Second Control Period is provided below:

Table 78: Trued-up Interest on Capital Loans for the Second Control Period (Rs. Cr.)

Particulars	FY 12	FY 13	FY 14
Loans for Capitalisation (FY 09-11)			
Opening	86.60	75.42	64.25
Addition	-	-	-
Repayment	11.18	11.18	11.18
Closing	75.42	64.25	53.07
Interest rate	10.25%	10.25%	10.25%
Interest	8.30	7.16	6.01
Loans for Capitalisation (FY 12-14)			
Opening	-	190.14	309.55
Addition	211.27	156.16	146.90
Repayment	21.13	156.16	146.90
Closing	190.14	309.55	405.02
Interest rate	12.00%	12.00%	12.00%
Interest	11.41	29.98	42.87
Approved Total Interest Cost	19.71	37.14	48.89

5.6.1 The Commission had not considered equity addition during the Second Control Period in the MYT Order. As per the funding pattern approved for the capitalization discussed in the previous section, the Commission has recomputed the return on equity towards the distribution business of HPSEBL which is as below:

Table 79: Approved Return on Equity for the Second Control Period (Rs. Cr)

Particulars	FY 12	FY 13	FY 14
Opening Equity	189.00	213.14	230.13
Addition	24.14	16.99	16.55
Closing Equity	213.14	230.13	246.69
Rate of Return	16%	16%	16%
RoE	32.17	35.46	38.15

..."

- 2.3.6. The petitioner has submitted that the opening loan of HBSEBL for FY 2011-12 is Rs. 86.60 Cr. and the opening equity is Rs. 189.00 Cr. The petitioner claims that the Commission has only adjusted the GFA of HPSEBL for the year FY 2011-12 by reducing the amount equivalent to the cost of assets transferred to HPPTCL amounting to Rs. 102.63 Cr. and has not considered a similar adjustment for the Equity. This condition has resulted in a situation where the GFA is owned by HPPTCL but the RoE on the assets owned by HPPTCL is allowed to HPSEBL.
- 2.3.7. As the true up for the period FY 2014-15 to FY 2018-19 is yet to be carried out by the Commission, the Petitioner has prayed to allow RoE for FY 2014-15 to FY 2018-19 on the assets re-vested in HPPTCL by the Government of Himachal Pradesh as per the Transfer Scheme dated 10-6-2010.

2.4. Approach for Filing of Petition

- 2.4.1. The Petitioner stated that it has adopted approach for filling the petition as per the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 as amended, and True up across various controllable parameters shall be performed as specified in:

" 10. True Up

(1) The true up across various controllable parameters shall be conducted by the Commission, for the previous years for which the actual/audited accounts are made available by the Transmission Licensee, at the times and as per principles stated below; -

(a) at the times-

(i) for the previous years of the previous control period: - along with the petition for determination of ARR cum transmission tariff for the control period;

(ii) for the previous years of the control period and for the previous control period: - along with the mid-term performance review during the control period;

(iii) for the control period true up: - along with the mid-term performance review of the next control period

(b) as per principles-

(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;

(iii) any surplus and deficit on account of O&M expenses shall be to the account of the Transmission Licensee and shall not be trued up in ARR; and

(2) The gain or loss on account of other controllable factors, unless otherwise specifically provided by the Commission shall be to the account of the Transmission Licensee.

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

2.4.2. The Petitioner has further quoted the Regulation 39 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, as amended from time to time, that HPPTCL has to file an application for Comprehensive Review after the end of the third Control Period on availability of audited accounts for each year of the Control Period, as follows:

"39. Mid-term Performance Review and Review at the End of the Control Period

....

(2) Review at the end of control period - The transmission licensee shall also make an application for Comprehensive Review after the end of the third Control Period on availability of audited accounts for each year of the control period. The comprehensive review shall be based as per the principles laid down under these Regulations for various parameters of ARR:

Provided that the transmission licensee shall submit to the Commission information in such format as may be stipulated by the Commission, together with the audited account statements, extracts of books of account and such other details as the Commission may require to assess the reasons for and extent of any variation in financial performance from the approved forecast of Aggregate Revenue Requirement and expected revenue from tariff and charges.

(3) Towards the end of the control period, the Commission shall review if the implementation of the principles laid down in these regulations has achieved their intended objectives. While doing this, the Commission shall take into account, among other things, the industry structure, sector requirements, consumer and

other stakeholder expectations and the licensee's requirements at that point in time. Depending on the requirements of the sector to meet the objects of the Act, the Commission may revise the principles for the next control period.

(4) The end of the control period shall be the beginning of the next control period and the licensee shall follow the same procedure, unless required otherwise by the Commission. The Commission shall analyze the performance of the licensee with respect to the targets set out at the beginning of the control period and based on the actual performance, expected efficiency improvements and other factors prevalent, determine the initial values for the next control period."

2.5. Summary of the petition for True-Up of ARR for FY 2014-15 to FY 2018-19

Operation & Maintenance expenses

2.5.1. The petitioner has calculated the O&M expenses in line with the Regulation 12 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, as amended, for the transmission utilities as below:

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

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

- (a) Salaries, wages, pension contribution and other employee costs;*
- (b) Administrative and general expenses including insurance charges if any;*
- (c) Repairs and maintenance expenses;*
- (d) Other miscellaneous expenses, statutory levies and taxes (except corporate income tax)*

(1-a) O&M Norms -

(i) The transmission licensee shall propose separate trajectories of norms for each of the components of O&M expenses viz., employee cost, R&M expense and A&G expense;

(ii) Norms shall be defined in terms of combination of number of personnel per long/ medium term consumer, number of personnel per MW of capacity handled for long/ medium term consumers or number of personnel per transmission circuit kilometer line length and number of substations along with annual expenses per personnel for Employee expenses, combination of A&G expense per personnel and

A&G expense per long/ medium term consumer (or per MW of capacity handled) for A&G expenses and R&M expense as percentage of gross fixed assets for estimation of R&M expenses;

.....

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

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

Where -

$$'EMP_n' = [(EMP_{n-1}) \times (1+G_n) \times (CPIinflation)] + Provision (Emp);$$

$$'A\&G_n' = [(A\&G_{n-1}) \times (WPIinflation)] + Provision(A\&G);$$

$$'R\&M_n' = K \times (GFA_{n-1}) \times (WPIinflation);$$

'K' - is a constant (could be expressed in %). Value of K for each year of the control period shall be determined by the Commission in the MYT Tariff order based on licensee's filing, benchmarking of repair and maintenance expenses, approved repair and maintenance expenses vis-à-vis GFA approved by the Commission in past and any other factor considered appropriate by the Commission;

'CPIinflation' – is the average increase in the Consumer Price Index (CPI) for immediately preceding three years before the base year;

'WPIinflation' – is the average increase in the Wholesale Price Index (WPI) for immediately preceding three years before the base year;

'EMP_n' – employee's cost of the transmission licensee for the nth year (employee cost for the base year would be adjusted for provisions for expenses beyond the control of the licensee and one time expected expenses, such as recovery/ adjustment of terminal benefits, implication of pay revisions, arrears and interim relief.);

'Provision(Emp)'- Provision corresponding to clauses (iii), (iv) and (v) of subregulation (1-a) of regulation 13, duly projected for relevant year for expenses beyond control of the Transmission Licensee and expected one-time expenses as specified above;

'A&G_n' – administrative and general costs of the transmission licensee for the nth year;

‘Provision(A&G)’-Cost for initiatives or other one-time expenses as proposed by the Transmission licensee and approved by the Commission after prudence check;”

‘R&Mn’ – Repair and Maintenance costs of the transmission licensee for the nth year;

‘GFAn-1’ – Gross Fixed Asset of the transmission licensee for the n-1th year;

‘Gn’ - is a growth factor for the nth year. Value of Gn shall be determined by the Commission in the MYT tariff order for meeting the additional manpower requirement based on licensee’s filings, benchmarking, approved cost by the Commission in past and any other factor that the Commission feels appropriate;

Provided that, repair and maintenance expenses determined shall be utilized towards repair and maintenance works only;

Provided further that, the impact of pay revision (including arrears) shall be allowed on actual during the mid-term performance review or at the end of the control period as per actual/ audited accounts, subject to prudence check and any other factor considered appropriate by the Commission.

....”

2.5.2. The petitioner has submitted the O&M expenses based on the approach followed by the Commission while approving the tariff from period FY 2019-20 to FY 2023-24 in the Order dated June 29, 2019. As per the approach, 25% of the Total Employee cost and A&G Expenses respectively have been allocated for Expenses towards Intra-state business. The R&M expenses submitted by HPSEBL were adjusted by deducting the expenses incurred on account of Inter-state Lines. The O&M Expenses computed for the period FY 2014-15 to FY 2018-19 are as under:

Table 6: O&M Expenses claimed for Third Control Period (Rs. Crore)

Particulars	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Employee Cost	2.64	2.74	3.69	4.08	4.16
A&G Cost	1.58	1.92	2.05	1.93	2.09
R&M Cost	1.75	1.64	1.91	1.71	1.87
Total O&M Expense	5.97	6.30	7.65	7.72	8.12

Depreciation

2.5.3. HPPTCL has calculated the depreciation as per the Regulation 23 of HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011.

“23. Depreciation

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

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

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

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

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

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

(6) Depreciation shall be chargeable from the first year of commercial operation. In case of commercial operation of the asset for part of the year, depreciation shall be charged on pro rata basis.”

2.5.4. The Petitioner has submitted that the depreciation has been calculated based on the methodology adopted by Commission while approving the depreciation for the period FY 2014-15 to FY 2018-19 in the Mid Term Review Order dated October 6, 2017. The depreciation for the period FY 2014-15 to FY 2018-19 is shown below:

Table 7: Depreciation (Rs Cr.) claimed for Third Control Period

Particulars	FY15	FY16	FY17	FY18	FY19
Depreciation	0.76	0.76	0.76	0.75	0.69

Interest on Loan Capital

2.5.5. The Petitioner has claimed Interest on Loan capital based on Regulation 20 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, as amended, for Transmission utility as below:

“20. Interest and Finance Charges

(1) Interest and finance charges on loan capital shall be computed on the outstanding loans, duly taking into account the schedule of repayment in accordance with the terms and conditions of relevant agreements of loan, bond or non-convertible debentures. Exception can be made for the existing or past loans which may have different terms as per the agreements already executed if the Commission is satisfied that the loan has been contracted for and applied to identifiable and approved projects.

(2) The rate of interest shall be the weighted average rate of interest calculated on the basis of the actual loan portfolio at the beginning of each year applicable to the project:

Provided that if there is no actual loan for a particular year but normative loan is still outstanding, the last available weighted average rate of interest shall be considered:

Provided further that if the transmission licensee does not have actual loan then the weighted average rate of interest of the transmission licensee as a whole shall be considered.

(3) The interest rate on the amount of equity in excess of 30% treated as notional loan shall be the weighted average rate of the loans of the respective years and shall be further limited to the rate of return on equity specified in these regulations:

Provided that all loans considered for this purpose shall be identified with the assets created:

Provided further that the interest and finance charges of re-negotiated loan agreements shall not be considered, if they result in higher charges:

Provided further that the interest and finance charges on works in progress shall be excluded and shall be considered as part of the capital cost:

Provided further that neither penal interest nor overdue interest shall be allowed for computation of tariff.

(4) In case any moratorium period is availed of in any loan, depreciation provided for in the tariff during the years of moratorium shall be treated, as notional repayment of loan during those years and interest on loan capital shall be calculated accordingly.”

2.5.6. The Petitioner has submitted that in the Mid-Term Performance Review of HPSEBL for the Third Control Period, the Commission in its order dated 17-4-2017 has already adjusted the GFA of HPSEBL for FY 2011-12 by reducing the amount equivalent to the cost of assets transferred to HPPTCL. However, the similar treatment has not been made in case of RoE of HPSEBL for FY 2011-12.

2.5.7. The Petitioner has further referred to GoHP File No. MPP-A(3)-1/2001-V dated 18.08.2020 communicating that Finance Department of GoHP has directed that 30% of the gross value of transferred assets should be considered as equity and paid up capital of HPPTCL to be revised accordingly. HPPTCL has prayed to allow interest on normative loan (Rs. 19.54 Cr. less accumulated depreciation of Rs. 5.26 Cr.) for the period FY 2014-15 to FY 2018-19 on the assets re-vested in HPPTCL as per the Transfer Scheme.

2.5.8. The Petitioner has calculated the loan amount based on depreciated value of assets from the date of transfer as illustrated below:

(i) Considering that the Commission has approved combined Depreciation for both the Inter and Intra State Transmission lines for the period till FY 2013-14 in the True Up Order dated April 10,2017. Therefore, HPPTCL has calculated the Depreciation for the Intra State Lines for the period from 13.06.2010 till FY 2013-14 as per the methodology prescribed in the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 for Depreciation. The Depreciation considered for the same is as follows:

Table 8: Depreciation for Intra-State Assets till FY 2013-14 (Rs. Cr.)

Particular	FY11*	FY12	FY13	FY14	Total
Depreciation as per the methodology described in Section 2.3 above	0.64	0.77	0.77	0.76	2.94

**Prorated for the period from 13.06.2010 till 31.03.2011*

2.5.9. Accordingly, the opening loan for FY 2014-15 is as follows:

Table 9: Opening loan for FY 2014-15

S. No.	Particular	Amount (Rs. Crore)
A	Normative Loan (70% of Rs. 14.28 Crore)	10.00
C	Depreciation from 13.06.2010 till FY 2013-14	2.94
D	Opening Loan for FY 2014-15	7.05

2.5.10. For the purpose of rate of interest on loan, HPPTCL has considered the rate equal to average Base Rate of State Bank of India for the last six months prior to the filing of MYT Petition plus 250 basis points.

2.5.11. The interest on loan for the period FY 2014-15 to FY 2018-19 is shown below for the approval of Commission.

Table 10: Interest on Loan claimed for the period FY 2014-15 to FY 2018-19 (Rs. Crore)

Particular	FY15	FY16	FY17	FY18	FY19
Opening	7.05	6.30	5.54	4.79	4.04
Addition during the year	0.00	0.00	0.00	0.00	0.00
Repayment	0.76	0.76	0.76	0.75	0.69
Closing	6.30	5.54	4.79	4.04	3.35
Average	6.68	5.92	5.17	4.41	3.69
Rate of Interest on Loan	12.27%	12.27%	12.27%	12.27%	12.27%
Interest on Loan	0.82	0.73	0.63	0.54	0.45

Interest on Working Capital

2.5.12. HPPTCL has claimed the interest on working capital according to clause 21 and 22 of HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, reproduced under:

"21. Working Capital

The Commission shall calculate the working capital requirement for the transmission licensee containing the following components: -

(a) O&M expenses for 1 month;

(b) maintenance spare @ 40% of repair and maintenance expenses for one month.

(c) receivables for two months on the projected annual transmission charges; and

22. Interest Charges on Working Capital

Rate of interest on working capital to be computed as provided hereinafter in these regulations shall be on normative basis and shall be equal to the Average Base Rate of State Bank of India for the last six months prior to the filing of the MYT petition plus 350 basis points. The interest on working capital shall be payable on normative basis notwithstanding that the licensee has not taken working capital loan from any outside agency or has exceeded the working capital loan based on the normative figures."

2.5.13. The Petitioner has mentioned that rate of Interest on Working Capital approved by the Commission in the MYT Order for FY 2014-15 to FY 2018-19 dated 10.06.2014 is 13.27%.

The Petitioner further submitted that during the Mid-Term Review Order dated 6-10-2017, the rate of interest on working capital was reduced by the Commission to 13.25% for the years FY 2014-15 and FY 2015-16 and also different rates were

approved for FY 2016-17 to FY 2018-19. The relevant abstracts are reproduced below:

"...

22. Interest Charges on Working Capital

Rate of interest on working capital to be computed as provided hereinafter in these regulations shall be on normative basis and shall be equal to the Average Base Rate of State Bank of India for the last six months prior to the filing of the MYT petition plus 350 basis points as on 1st April of the relevant year. The interest on working capital shall be payable on normative basis notwithstanding that the licensee has not taken working capital loan from any outside agency or has exceeded the working capital loan based on the normative figures....."

The Commission has considered the relevant base rate as on 1st April of each year for approving the interest on working capital as follows:

Table 27: Revised Interest on working capital (Rs Cr.) approved under Mid-term Review Order dated 6.10.2017

Particulars	FY15	FY16	FY17	FY18	FY19
O&M expenses for 1 month	0.37	0.38	0.39	0.41	0.42
Maintenance spares	0.06	0.05	0.06	0.06	0.06
Receivables for 2 months	1.01	0.95	0.97	0.99	1.01
Total Working Capital	1.43	1.38	1.42	1.46	1.49
Rate of interest	13.25%	13.25%	12.80%	12.60%	12.60%
Interest on Working Capital	0.19	0.18	0.18	0.18	0.19

...."

The Petitioner has submitted to allow the Interest on working capital for the period FY 2014-15 to FY 2018-19 at 13.27% as follows:

Table 11: Interest on Working Capital Claimed by HPPTCL for Third Control Period

Particular	FY15	FY16	FY17	FY18	FY19
O&M Expenses for one month	0.50	0.52	0.64	0.64	0.68
Maintenance Spares (40% of R& M Expenses for one month)	0.06	0.05	0.06	0.06	0.06
Receivable for 2 months	1.57	1.55	1.61	1.52	1.45
Total Working capital	2.13	2.12	2.31	2.22	2.18
Rate of Interest on Working Capital	13.27 %	13.27 %	13.27 %	13.27 %	13.27 %
Interest on Working Capital	0.28	0.28	0.31	0.29	0.29

Return on Equity

2.5.14. The Petitioner has quoted the Return on Equity based on clause 19 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 as follows:

"19. Return on Equity

(1) Return on equity shall be computed on the equity determined in accordance with regulation 18 and on pre-tax basis at the base rate of 15.5% to be grossed up as per sub-regulation (3) of this regulation:

(2) The rate of return on equity shall be computed by grossing up the base rate with the normal tax rate as per latest available audited accounts of the concerned transmission licensee:

Provided that in line with the provisions of the relevant Finance Acts of the respective year, the return on equity with respect to the actual tax rate applicable to the transmission licensee during the years of the control period shall be trued up separately for each year during the mid-term performance review and at the end of the control period along with the tariff petition filed for the next control period.

(3) Rate of return on equity shall be rounded off to three decimal points and be computed as per the formula given below: -

(a) Rate of pre-tax return on equity = Base rate / (1-t)

(b) Where t is the applicable tax rate in accordance with sub-regulation (2) of this regulation. ..."

2.5.15. The Petitioner has claimed that the Commission has not allowed any Return on Equity on the assets transferred for the Second Control Period (FY 2011-12 to FY 2013-14) and in the Mid Term Review of the Third Control Period. While disallowing the return on equity, the petitioner has reproduced the following from the True-Up order dated 10.04.2017 for the second control period:

*"4.7.2. The Petitioner was asked to provide the details of original funding of the fifteen lines transferred from HPSEBL to HPPTCL. In response, the Petitioner was not able to provide any details regarding the funding (debt, equity, grant, etc.) of these lines. Further, it is observed that some of these lines are very old and have outlived their economic life. It is also observed that no investment / additional expense has been done by HPPTCL on the existing transmission lines which have been transferred to them and therefore the **vesting of assets from HPSEBL to***

HPPTCL by issuance of shares to the GoHP was primarily an accounting entry.

4.7.3. In absence of any details with regard to original funding of the fifteen lines transferred from HPSEBL to HPPTCL and no corresponding transfer of liabilities with regard to these lines, the Commission feels that approving Return on Equity based on the transfer amount would lead to double charging the consumers for the same capital cost. [Emphasis Added]

2.5.16. The petitioner further added that the Return on Equity was not allowed by the Commission since HPPTCL had not submitted the original funding of the assets, the corresponding liabilities towards the assets and allowance of any Return on Equity will lead to double charging to the consumers.

2.5.17. The Petitioner has clarified that the tariffs sought is not in terms of the original cost of the assets, funding, cost of funds etc, instead the same is on the basis of assets and liabilities transferred under the Transfer Scheme which specifically transferred assets worth Rs. 61.22 Cr. (Rs. 102.63 Cr. net of Rs. 41.44 Cr. accumulated depreciation) for which corresponding liability of HPPTCL has also increased by Rs. 61.22 Cr. out of which the Inter-state Transmission Line amounts to rupees 46.94 crore. The value of balance assets towards existing 12 Intra-state systems is Rs. 14.28 Cr. which has been invested in HPPTCL in the form of 100% equity funding.

2.5.18. The Petitioner has further referred to the petition submitted by Rajasthan Rajya Vidyut Prasaran Nigam limited at CERC in consideration of the normative debt equity of 70:30 while approving the tariff. The relevant extract of the order dated 4-5-2018 is reproduced as below:

"13. It is observed that the information submitted by the petitioner States for computation of transmission charges for the deemed ISTS lines are not uniform, thereby causing divergence in working out the tariff. In some cases, the data related to funding and depreciation was not available and in some cases the assets have already completed, or nearing, their useful life. In most of the petitions, the states have expressed their inability to furnish the audited capital cost of transmission lines as the lines are old. As a result, tariff workings for old assets are ending in skewed results. It is further observed that the YTC figures emerging out by the existing ARR methodology are on the higher side. Considering these facts, we have conceptualized a modified methodology for

determining the tariff of the inter-State transmission lines. The methodology is broadly based on the following:-

(a) PGCIL's Annual Report data has been used as the reference data; based on which, year wise benchmark cost has been derived

(b) Useful life of Transmission Line has been considered as 25 years. Thus, if life is more than or equal to 25 years as on 1.4.2014, only O & M Expenses and Interest on Working Capital (IWC) shall be allowed as per the existing Tariff Regulations, in lieu of complete tariff.

I It is expected that the States do have the audited financial data of recently commissioned (i.e. on or after 1.4.2014) lines

.....

17. While calculating tariff, the following has been considered:-

(i) Useful life of the transmission line shall be deemed to be 25 years.

(ii) Prevailing depreciation rates as per the 2014 Tariff Regulations shall be considered uniformly for all the previous tariff periods so as to do away with the Advance Against Depreciation which was in vogue during earlier tariff periods. Notwithstanding the depreciation considered as recovered earlier, for the purpose of these tariff calculations, remaining depreciable value shall be spread over the remaining useful life of the transmission line, where the elapsed life is more than or equal to 12 years.

(iii) Normative Debt-Equity ratio shall be 70:30.

(iv) Normative loan repayment during a year shall be deemed to be equal to the depreciation allowed for that year.

v) Rate of Interest on normative loan shall be the weighted average rate of interest as derived on the basis of PGCIL's Balance Sheet.

(vi) In order to avoid complexity, grossing up of rate of Return on Equity with tax rate is being dispensed with

vii) Bank rate as defined in 2014 Tariff Regulations, 2014 as on 1.4.2014 shall be applied for calculating the rate of interest on working capital on normative basis.

viii) O & M Expenses as per the 2014 Tariff Regulations shall be considered.

ix) Where the life of transmission line is more than or equal to 25 years as on 1.4.2014, only O & M Expenses and IWC shall be allowed in lieu of complete tariff."

2.5.19. The Petitioner has further submitted case studies of re-organization of the State Boards across the country and submitted that in case of Uttarakhand Power Corporation limited, the Hon'ble UERC has allowed a debt:equity ratio of 70:30 to PTCUL due to unavailability of details in the order dated 12-7-2006. The petitioner has further submitted that during the formation of Powergrid from NTPC, NHPC and NEEPCO, the Hon'ble CERC in the Tariff Order dated 21-12-2000 has considered a normative debt:equity ratio of 50:50.

2.5.20. With regard to the double charging, the petitioner has submitted that while performing the Mid-Term Performance Review of HPSEBL for the Third Control Period(FY 2014-15 to FY2018-19), the Commission vide order dated 17-4-2017 has already adjusted the GFA of HPSEBL for FY 2011-12 by reducing the amount equivalent to the cost of assets transferred to HPPTCL from the combined GFA approved for transmission and distribution at the end of First Control Period (FY 2008-09 to FY 2010-11). However, the similar treatment has not been done in the case of return on equity of HPPTCL for the year FY 2011-12 leading to a situation where the asset is held by HPPTCL but the return on equity is allowed to HPSEBL against the provision of the Transfer Scheme dated 10-6-2010.

2.5.21. HPPTCL has further requested the Commission to allow return on equity for the period FY 2014-15 to FY 2018-19 on 30% of the gross value of the assets revested in HPPTCL by Government of Himachal Pradesh vide File No. MPP-A(3)-1/2001-V dated 18-8-2020 communicated that the Finance Department of Government of HP has directed that 30% of gross value of assets transferred should be considered as equity and paid up capital of HPPTCL. The return on equity calculated based on the above regulation is shown below:

Table 12: Return on Equity (Rs Cr.) claimed by HPPTCL for Third Control Period

Particular	FY15	FY16	FY17	FY18	FY19
Opening	5.86	5.86	5.86	5.86	5.86
Addition during the year	0.00	0.00	0.00	0.00	0.00
Closing	5.86	5.86	5.86	5.86	5.86
Average	5.86	5.86	5.86	5.86	5.86
Rate of Return on Equity	15.5%	15.5%	15.5%	15.5%	15.5%
Return on Equity	0.91	0.91	0.91	0.91	0.91

Income Tax

2.5.22. The petitioner submits that the Commission has already approved the Income Tax for the years FY 2014-15 and FY 2015-16 in the Mid-Term Review Order dated 6-10-2017. The petitioner has also submitted that since the company has been in loss from FY2016-17 to FY2018-19, it has not paid any Income Tax for the said period.

Non-Tariff Income

2.5.23. The petitioner submits that it has claimed the non-tariff income based on the audited accounts as per the Regulation 24 of HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 as reproduced below:

"24. Non-tariff Income

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

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

Accordingly, the Non Tariff Income as claimed by HPPTCL for the Third Control Period is reproduced below:

Table 13: Non-Tariff Income (Rs Cr.) Claimed by HPPTCL for Third Control Period

Particulars	FY15	FY16	FY17	FY18	FY19
Connectivity Fee	0.58	034	0.34	0.18	0.44
STU Charges IEX STOA (SLDC)			0.25	0.91	1.35
Total Non-Tariff Income	0.58	0.34	0.59	1.09	1.79

2.5.24. HPPTCL has requested the Commission to approve the above Non-Tariff Income based on actuals as per the annual accounts form period FY 2014-15 to FY 2018-19.

Income from Other Business

2.5.25. The Petitioner submits that it has claimed the income from other business based on the Regulation 25 of HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 as reproduced below:

"25. Other Income of the Transmission Licensee

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

Provided that the transmission licensee shall follow a reasonable basis for allocation of all joint and common costs between the transmission business and the other business and shall submit the allocation statement, as approved by its board of directors, to the Commission along with his application for determination of tariff:

Provided further that where the sum total of the direct and indirect costs of such other business exceeds the revenues from such other business or for any other reason, no amount shall be allowed to be added to the aggregate revenue requirement of the transmission licensee on account of such other business."

- 2.5.26. HPPTCL has submitted that since it has not been involved in any other business as defined in the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, and its subsequent amendment, no Income on Other Business is proposed.

Revenue from Short Term Open Access

- 2.5.27. The petitioner submits that it has claimed the Short term open access income based on the audited accounts as per the Regulation 33 of HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, as amended from time to time, which is reproduced as below:

"33. Allocation of Transmission Service Charge and Losses

..

(4) 25% of the charges collected from the short term open access customer shall be retained by the transmission licensee and the balance 75% shall be considered as non-tariff income and adjusted towards reduction in the transmission service charges payable by the long term and medium term users."

Accordingly, the Short Term Open Access charges recovered by HPPTCL along with the revenue to be considered for Non Tariff Income as claimed by HPPTCL for the Third Control Period is reproduced below:

Table 14: Short Term Open Access Income (Rs Cr.) Claimed by HPPTCL from FY 2014-15 to FY 2018-19

Particulars	FY15	FY16	FY17	FY18	FY19
Short-term Open Access Charges recovered	8.44	11.41	2.77	2.94	2.78
Revenue to be considered (75% of STOA as NTI)	6.33	8.56	2.08	2.21	2.08

2.5.28. HPPTCL has requested the Commission to approve the above income based on actuals as per the annual accounts form period FY 2014-15 to FY 2018-19.

Aggregate Revenue Requirement for the Control Period

2.5.29. Based on the above parameters, the Aggregate Revenue Requirement claimed by HPPTCL for the FY 2014-15 and FY 2018-19 for true-up against the approved ARR under MYT Tariff Order for third Control Period for respective years is summarized in the Table below:

Table 15: ARR (Rs Cr.) Claimed by HPPTCL for FY15 to FY19

Particulars	FY15	FY16	FY17	FY18	FY19
O&M	5.97	6.30	7.65	7.72	8.12
Depreciation	0.76	0.76	0.76	0.75	0.69
Interest on Term-Loan	0.82	0.73	0.63	0.54	0.45
Interest on Working Capital	0.28	0.28	0.31	0.29	0.29
Return on Equity	0.91	0.91	0.91	0.91	0.91
Income Tax	1.28	0.64	0.00	0.00	0.00
Gross ARR	10.02	9.61	10.25	10.22	10.46
Less: Non-Tariff Income	0.58	0.34	0.59	1.09	1.79
Total	9.44	9.27	9.66	9.13	8.67

2.6. Revenue Gap/Surplus

2.6.1. The Petitioner has submitted the Revenue Gap/Surplus based on the of HPERC HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 as amended from time to time, for the period FY 2014-15 to FY 2018-19 as follows:

Table 16: Revenue Gap/Surplus (Rs Cr.) claimed by HPPTCL from FY15 to FY19

Particular	FY15	FY16	FY17	FY18	FY19
ARR	9.44	9.27	9.66	9.13	8.67
Total Revenue	9.78	12.03	9.14	8.37	8.12
Revenue (Surplus)/ Gap	-0.34	-2.76	0.51	0.76	0.55

2.7. Revised ARR Submitted by the Petitioner

2.7.1. In view of several issues in the claim of the Petitioner with respect to ARR parameters for the third Control Period, the Commission in its deficiency letter dated 27.10.2021 asked the Petitioner to submit the revised claim of ARR for each year of the third Control Period for true-up.

2.7.2. In view of changes in ARR parameters, the revised ARR and gap/surplus for each year of the Third Control Period submitted by the Petitioner is summarized below:

Table 17: Summary of Revised ARR and Gap/Surplus for Third Control Period claimed by Petitioner (Rs. Cr.)

Sl.	Particulars	FY15	FY16	FY17	FY18	FY19
1	Expenditure					
A	SLDC Fees & Charges					
B	O&M Expenses	4.43	4.82	5.47	5.17	5.50
	(i) R&M Expense	1.75	1.64	1.73	1.71	1.87
	(ii) Employee Expenses	1.28	1.49	1.97	1.89	1.91
	(iii) A&G Expense	1.39	1.69	1.78	1.58	1.71
C	Depreciation	0.76	0.76	0.76	0.75	0.69
D	Interest & Finance Charges	1.05	0.96	0.87	0.75	0.65
	(i) Interest on Loan	0.82	0.73	0.63	0.54	0.45
	(ii) Interest on Working Capital	0.23	0.23	0.23	0.21	0.20
	Total	6.23	6.54	7.09	6.68	6.84
2	Reasonable Return	2.19	1.55	0.91	0.91	0.91
	(i) RoE @ 15.5%	0.91	0.91	0.91	0.91	0.91
	(ii) Income Tax Paid	1.28	0.64	0.00	0.00	0.00
3	Other Income	0.00	0.00	0.00	0.00	0.00
	Non-Tariff Income	0.58	0.34	0.59	1.09	1.79
4	Annual Revenue Requirement (1)+(2)-(3)	7.84	7.74	7.41	6.50	5.96
5	Revenue	9.78	12.03	7.86	8.37	8.12
	Short-term Open Access Charges recovered	8.44	11.41	2.77	2.94	2.78
	Revenue to be considered (75% of STOA in ARR)	6.33	8.56	2.08	2.21	2.08
	Revenue from Intra-Long-term transmission consumers	3.45	3.47	5.78	6.16	6.04
6	Revenue considered for truing up	9.78	12.03	7.86	8.37	8.12
	Surplus (+) / Shortfall (-): (6)-(4)	-1.94	-4.29	-0.45	-1.87	-2.16

3. RESPONSES FROM STAKEHOLDERS

3.1. Introduction

3.1.1. The Commission has published a Public Notice inviting the interested parties/stakeholders to file their objections and suggestions on the Petition by 18.09.2022. Comments only from the HPSEBL were received in response to the notice of the Commission.

3.1.2. A public hearing was held on 26.10.2022 in the Commission where the stakeholder and the Petitioner were heard. The stakeholder's suggestions/comments and the Commission's stand on the same are provided below:

3.2. Operation and Maintenance expense

3.2.1. HPSEBL has submitted that employee cost has approximately doubled in comparison to the already trued-up value of FY2014-15 & FY2015-16 and there is increase in employee cost in the subsequent years also. It appears that overall employee cost of HPPTCL has increased and 25% of the same is attributed towards STU expenses. Also, the stakeholder has mentioned that A&G expenses have increased in comparison to the already trued-up value of FY2014-15 & FY2015-16 and there is increase in A&G expenses in the subsequent years also.

3.2.2. HPSEBL has mentioned that R&M expenses claimed by HPPTCL for FY2014-15 & FY2015-16 are as per the already trued-up value and for FY2016-17 to FY2018-19 are on actual bill submitted to HPPTCL from HPSEBL pertaining to 12 no. Intra-state Transmission Lines.

3.2.3. The stakeholder has highlighted that the O&M expenses claimed in True-up petition are on higher side. However, the Regulation 10(1)(a) of the MYT Regulations 2011 provide that any surplus and deficits on accounts of O&M expenses should be to the accounts of the Transmission Licensee and should not be trued up in the ARR.

Petitioner's Reply:

3.2.4. Petitioner has submitted that the revised claim of Employee and A&G Expenses in line with the methodology adopted by the Commission has been submitted to the Commission vide letter dated 28.01.2022 in response to deficiency letter dated 27.10.2021. Further, the Petitioner requested the Commission to consider the

submissions made with regard to O&M Expenses submitted in response to deficiency notes.

Commission's View:

3.2.5. The Commission has undertaken detailed scrutiny of the ARR of HPPTCL for the Third Control Period including expenses related to O&M. It is observed that the Petitioner has not followed the methodology of the Commission while proposing the Employee and A&G expenses. The Commission through various deficiency letters had pointed out the same and asked the Petitioner for revised submissions. Based on the amended submissions and detailed scrutiny of each parameter with respect to audited accounts of the Petitioner, the Commission has approved the O&M expenses. The basis for approval of O&M expenses by the Commission is detailed in the subsequent Chapter.

3.3. Depreciation

3.3.1. HPSEBL has submitted that the value of Intra-state Lines transferred to HPPTCL post the Transfer Scheme has been revised and based on the same, the depreciation claimed by the Petitioner during true-up is higher than that approved by the Commission in previous Order. Request has been made by the stakeholder to review the computation in line with the provisions of the Regulations.

Petitioner's Reply:

3.3.2. Matter of record and do not merit any reply.

Commission's View:

3.3.3. The Commission has undertaken scrutiny of the depreciation in line with the Tariff Regulations. The views of the Commission with respect to the same are discussed in the subsequent Chapter.

3.4. Return on equity

3.4.1. With respect to issue of Return on Equity on the transmission assets transferred from HPSEBL, the HPSEBL has quoted the relevant paras of previous Tariff Orders of the Petitioner and has submitted that issue of RoE has been addressed by the Commission in its previous Orders. The stakeholder has further submitted that no equity amount has been invested by HPPTCL against the transferred assets from HPSEBL. The normative value of equity in the True-up Petition may not be considered. Also, the stakeholder has mentioned that Return on Equity on the

transferred assets from HPSEBL to HPPTCL stands settled and the Commission may consider this aspect.

Petitioner's Reply:

- 3.4.2. The Petitioner has submitted that the detailed response on the issue of Return on Equity on the transferred assets from HPSEBL to HPPTCL has already been submitted under 2.6.5 to 2.6.9 of the Petition. Also, a detailed response with regard to detail of Equity in response to deficiency letter dated 23.06.2021 has been submitted and the same is not being repeated for the sake of brevity.

Commission's View:

- 3.4.3. The Commission has undertaken detailed scrutiny of the ARR for HPPTCL for the Third Control Period including Return on Equity. The views of the Commission with respect to these parameters are discussed in detail in the subsequent Chapter.

3.5. Interest on Loan

- 3.5.1. HPSEBL has submitted that in the Order dated 10.06.2017, the Commission has approved nil expenses towards interest on loan for the 3rd control period. However, in the True-up Petition, HPPTCL has considered Interest on normative Loan @ 30% of the gross value of the transferred assets. The gross value of transferred assets as on 13.06.2010 is Rs. 19.54 crore, less depreciation of Rs. 5.26 crore. The net value of transferred assets is Rs. 14.28 crore. The normative loan @70% is Rs. 10.00 crore and after depreciation from 13.06.2010 till FY2013-14, the opening loan is Rs. 7.05 crore. Accordingly, the Petitioner has claimed interest on loan in the True-up Petition.

- 3.5.2. Further, HPSEBL has submitted that no repayment has been made by HPPTCL against the transferred assets from HPSEBL. HPPTCL should clarify that no new loan has been taken against the transferred assets. The interest on normative loan claimed in the True-up petition by HPPTCL is not maintainable & may not be considered in the True-up of the 3rd Control Period.

Petitioner's Reply:

- 3.5.3. The Petitioner has submitted that the claimed normative Interest on Loan corresponding to value of assets transferred (i.e. Rs. 19.54 Crore less accumulated Depreciation of Rs. 5.26 Crore) from HPSEBL to HPPTCL is in line with Regulation 20 of HPERC MYT Regulations, 2011 and its subsequent amendments. Further, the methodology adopted while claiming the normative

Interest on Loan has been detailed under Para 2.4.2 to 2.4.8 of the Petition. The Petitioner has requested the Commission to consider and approve the same.

Commission's View:

3.5.4. The Commission has undertaken detailed scrutiny of the interest on loan claimed by the Petitioner for True-up of third Control Period. The views of the Commission with respect to the same are discussed in detail in the subsequent Chapter.

3.6. Income Tax advance

3.6.1. HPSEBL has submitted that HPPTCL has claimed Income Tax in the True-up petition based on the already approved Income Tax for FY2014-15 & FY2015-16 in the Mid-term Review Order dated 10.06.2017 and for the period FY2016-17 to FY2018-19 has not paid any Income Tax as HPPTCL is in losses for the same period. The Commission may decide based on the True-up of the ARR and Revenue collection of the respective year of the 3rd control period FY2014-15 to FY2018-19.

Petitioner's Reply:

3.6.2. The Petitioner requests the Commission to take an appropriate view in the matter.

Commission's View:

3.6.3. The Commission has raised several queries and asked for clarifications/ additional data submissions including details with respect to Income Tax paid and documentary evidence in this regard. Based on Audited account and other documents, the Commission has approved expenditure on account of Income Tax as discussed in subsequent Chapter.

3.7. Non-tariff Income

3.7.1. HPSEBL has submitted that HPPTCL has included the connectivity fee & STU charges IEX STOA (SLDC) as Non-Tariff Income at para 2.8 of the True-up Petition. Further, at para 2.10 Revenue from Short Term Open Access has been shown separately. HPPTCL need to clarify on the rationale of separating STU charges IEX STOA (SLDC) from the Short Term Open Access charges.

3.7.2. Further, in terms of Regulation 33 (4) of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011., the 25% of the charges collected from the short-term open access customers are to be retained by Transmission Licensee & balance 75% shall be considered as Non-tariff Income

and adjusted towards reduction in the transmission service charges payable by the long term and medium-term users. However, in the 2nd Amendment dated 22.11.2018 to the MYT (Transmission) Regulations 2011, only 10% of the charges collected from the short-term open access customers are to be retained by Transmission Licensee & balance 90% shall be considered as Non-tariff Income and adjusted towards reduction in the transmission service charges payable by the long term and medium-term users.

- 3.7.3. HPSEBL has, therefore, submitted that Revenue from Short Term Open Access in the True-up for FY2018-19 is under stated as the short term open access charges retained by HPPTCL are 25% which need to be corrected i.e. 01.04.2018 to 21.11.2018 @25% and from 22.11.2018 to 31.03.2019 @10%.

Petitioner's Reply:

- 3.7.4. The Petitioner has submitted that the STU Charges IEX STOA (SLDC) and Revenue from Short Term Open Access includes the Revenue earned from STOA Transactions. Further, with regard to the applicability of 2nd Amendment dated 22.11.2018 for MYT (Transmission) Regulations 2011, the Petitioner requested the Commission to take an appropriate view in the matter.

Commission's View:

- 3.7.5. The HPERC (Terms and Conditions for Determination of Transmission Tariff) (Second Amendment) Regulations, 2018 which were notified on 22.11.2018 was to review the provisions of the existing Regulations for the next Control Period starting from 1st April 2019. Therefore, the sharing of 25% of Short-term Open Access charges would remain prior to the above second amendment.

3.8. Carrying Cost

- 3.8.1. The stakeholder has submitted that Carrying cost on Revenue surplus/gap may be considered by the Commission in terms of the MYT (Transmission) Regulations 2011 & its subsequent amendments.

Petitioner's Reply:

- 3.8.2. Matter of record and do not merit any reply.

Commission's View:

- 3.8.3. The HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 and its first amendment (upto 2013) for the third Control

Period is silent about application of carrying cost on any surplus/deficit amount of the utility based on the truing-up. However, the HPERC (Terms and Conditions for Determination of Transmission Tariff) (Second Amendment) Regulations, 2018 notified on 22.11.2018 provide for carrying cost. Therefore, the Commission shall be applying the carrying cost from 1.04.2019 onwards for the revenue surplus/deficit computed based on truing-up of for the relevant period. The views of the Commission with respect to these parameters are discussed in detail in the subsequent Chapter.

4. TRUE-UP OF ARR FOR THE THIRD CONTROL PERIOD

4.1. Background

- 4.1.1. The Commission has issued a MYT Order for the Control Period FY 2014-15 to FY 2018-19 dated 10th June 2014 based on the various submissions of the Petitioner. Subsequently, the Commission had undertaken a true-up of first two years of the third Control Period i.e. FY 2014-15 and FY 2015-16 during the Mid-term Review Order dated 06.10.2017.
- 4.1.2. The Petitioner has now submitted Petition for truing-up of Third Control Period along with relevant audited accounts and information based on which the Commission has undertaken the truing-up for its various components of the ARR of each year of the third Control Period (FY15-FY19) in this True-up Order.
- 4.1.3. For this purpose, the Commission had sought further clarifications on various aspects relating to the truing-up for the third Control Period. The Commission has considered all information submitted by the Petitioner as part of the Tariff Petition including responses to various queries raised during the discussions.
- 4.1.4. The Commission sought response with respect to filing of True-up for FY 2014-15 and FY 2015-16 when the said period has already been covered during the Mid-term Review Order. In response the Petitioner submitted:

"It is respectfully submitted that the Petitioner has requested for true up for the entire period from FY 2014-15 to FY 2018-19 in terms of Regulation 39 of the HPERC MYT Regulations, 2011 which requires filing of comprehensive true up petition, majorly on account of the recent communication from GoHP with regard to consideration of liability corresponding to the assets re-vested in HPPTCL vide File No. MPP-A(3)-1/2001-V dated 18.08.2020. GoHP vide the above letter had communicated that Finance Department has agreed to consider 30% of the gross value of transferred assets as equity and directed to revise the paid up capital of HPPTCL accordingly.

Government has approved enhancement of authorized share capital of Company from Rs 300 Crore to Rs 350 Crores through its letter no. MPP-C(10)-1/2013 dated 07.03.2019 and same has also been approved in 40th BOD meeting held on 28.11.2018. Further share capital has been enhanced to Rs 500 Crores.

Correspondences regarding enhancement of share capital and its approval from BOD are attached as Annexure-A.

In line with the above, the Petitioner has sought Return on Equity and interest on normative loan corresponding to the liability for the third Control Period. Further, the Petitioner has also claimed the revised O&M expenses in line with the approach adopted in filing the MYT Petition for fourth Control Period. Hon'ble Commission is therefore requested to consider the above grounds and carry out final true up for the aforesaid Control Period."

- 4.1.5. The Commission has, therefore, analysed all the years of the third Control Period as part of the truing-up exercise. Further, additional submissions have been analysed in the respective sections of this Chapter.
- 4.1.6. Regulation 10 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 stipulates that under the MYT framework, the ARR of the Transmission Licensee shall be subject to True-up as provided below:

"True Up

(1) The true up across various controllable parameters shall be conducted by the Commission, for the previous years for which the actual/audited accounts are made available by the Transmission Licensee, at the times and as per principles stated below: -

(a) at the times -

(i) for the previous years of the previous control period:- along with the petition for determination of ARR cum transmission tariff for the control period;

(ii) for the previous years of the control period and for the previous control period: - along with the mid-term performance review during the control period;

(iii) for the control period true up:- along with the mid-term performance review of the next control period;

(b) as per principles -

(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;

(iii) any surplus and deficit on account of O&M expenses shall be to the account of the Transmission Licensee and shall not be trued up in ARR; and

(2) The gain or loss on account of other controllable factors, unless otherwise specifically provided by the Commission shall be to the account of the Transmission Licensee.

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

4.1.7. In the Order for Mid-term Review dated 06.10.2017, the Commission had observed as under:

"4.1.5. In view of the fact that the ARR approved for each year of the Third Control Period (FY15-FY19) was based on the approved parameters of ARR for the previous Control Period (FY12-FY14), the Commission feels that a redetermination of ARR for the Third Control Period (FY15-FY19) is required. Therefore, for the purpose of Mid-Term Review of the Third Control Period (FY15-FY19), the Commission has undertaken detailed review of each ARR parameter based on the audited accounts submitted by the Petitioner for FY 2014-15 and FY 2015-16 and has revised the ARR for each year of the Third Control Period in accordance with the MYT Tariff Regulations 2011 and amendments thereof."

4.1.8. It is observed that during the Third Control Period (FY15-FY19), the operations of the Petitioner were limited due to lack of manpower and considering HPSEBL themselves were doing the O&M for the transmission lines of the Petitioner transferred from HPSEBL as per the GoHP Notification No. MPP-A (3)-1/2001-iv dated June 10, 2010. Therefore, the Commission has decided to undertake truing-up for the Third Control Period based on actual numbers and reasonable assumptions as also considered during the Mid-term Review while truing-up for FY15 and FY16.

4.1.9. The component wise approach adopted by the Commission for revision in the ARR for each year of the Third Control Period is discussed in the following paragraphs:

4.2. Transmission Infrastructure

4.2.1. In the Mid-term Review Order dated 06.10.2017, the Commission had observed as under:

“The Commission has issued the MYT Tariff Order for the MYT Control Period (FY 2014-15 to FY 2018-19) according to the facts available at that point of time and therefore the value of Gross Fixed Assets was considered at Rs. 199.43 Cr. based on the submission of the Petitioner. However, post finalization of the Transfer scheme notified by the Himachal Pradesh State Government on 10.06.2010 and office letter no. HPSEBL/CE(ES)/AU-5/HPPTCL/2014-7401-05 and even no. 6533-38 dated 18.10.2014 and 20.09.2014, it is observed that the revised capitalized value of 15 transmission lines transferred from HPSEBL has been ascertained at Rs. 102.63 Cr. out of which depreciation of Rs. 41.41 Cr. has been claimed and net book value of the assets transferred stood at Rs. 61.22 Cr. as on 13.06.2010. Therefore, the revised value of intra-state assets and accumulated depreciation has been considered by the Commission for truing-up purposes.”

Further, it is observed that out of the 15 lines transferred to HPPTCL, three lines have been given the status of inter-state lines. The tariff for these lines has already been approved by the Central Electricity Regulatory Commission (CERC) and shall be recoverable as part of inter-state transmission charges. The Petitioner has submitted the value of each of the 12 intra-state lines as part of mid-term review exercise and the same has been considered for the purpose of the intra-state transmission ARR.”

- 4.2.2. In the current True-up petition, the Petitioner has submitted that the assets of HPSEBL were transferred to HPPTCL as per the terms of “Himachal Pradesh Power Sector Reforms Transfer Scheme, 2010” notified by GoHP vide Notification No. MPP-A (3)-1/2001-iv dated June 10, 2010.
- 4.2.3. Further, the Petitioner has stated that the capital cost of the transferred assets from HPSEBL vide letter No.-HPSEBL/CE (ES)/AU-4/2010-6220-25 dated 06.09.2010 and even No.8648-53 dt. 19-11-2010 was Rs. 199.08 Crore and the same was revised to Rs. 102.63 Crore vide Letter No. HPSEBL/F&A/A&R-55/R&M works/2014-15-1024 -25 dt. 27-10-2014.
- 4.2.4. The details of existing 12 Intra-state Transmission Lines and net book value considered for truing up as on 13/06/2010 in line with the Transfer Scheme, 2010 are as follows:

Table 18: Intra-state Transmission Infrastructure as on 13/06/2010 transferred to HPPTCL

Sr. No.	Name of Line and Line Length in Kms	Commercial Operation Date	Capitalized Cost (INR Lakhs)	Depreciation upto 13/06/2010 (INR Lakhs)	Net Book Value of Assets on 13/06/2010
1	66 KV S/C Line from	1950	21.10	18.99	2.11

Sr. No.	Name of Line and Line Length in Kms	Commercial Operation Date	Capitalized Cost (INR Lakhs)	Depreciation upto 13/06/2010 (INR Lakhs)	Net Book Value of Assets on 13/06/2010
	Pinjore to parwanoo-8.23 Kms				
2	66 KV line from Shanani to Bijni-35 Kms	10/1968	10.5	9.45	1.05
3	132 KV Bassi Shanani Line-5 Kms	1970	218.80	196.92	21.88
4	132 KV S/C Giri Kulhal Line-17.40 Kms	04/1978	170.69	133.15	37.54
5	132 KV S/C Line from PSEB SS-Kangra to HPSEB SS-Kangra-0.135 Kms	02/1979	36.78	28.69	8.09
6	132 KV S/C Line from Giri to Abdullapur-16.22 Kms	1982	43.49	29.58	13.91
7	220 KV LILO of Ckt No. line of Baira suli Pong Dam line-0.24 Kms	09/1985	65.97	39.92	26.05
8	66 KV S/C Line from Pong to Sansarpur Terrace-6.3 Kms	10/1990	55.55	26.67	28.88
9	132 KV Line from Dehar to Kangoo	12/1998	41.90	11.73	30.17
10	220 KV S/C Line from Dehar to Kangoo	06/1999	68.93	17.58	51.35
11	66 KV trans line from Bhakra to Una with LILO at Gothai	03/2006	127.18	13.36	113.82
12	220 KV D/C Line on 400 KV towers from PGCIL Reru to 220/66 KV SS-Uperia Nangal (Nalagarh)	07/2010	1093.49	0.00	1093.49
	Total		1954.38	526.04	1428.34

4.3. ARR for Transmission License

4.3.1. As per the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, the ARR for the transmission business for each year of the Control Period shall consist of the following items:

- a. Operation and Maintenance expenses;
- b. Financing cost which includes cost of debt including working capital (interest);
- c. Cost of equity (return);
- d. Depreciation;
- e. Income Tax; and
- f. Non-tariff income;

Less:

- g. Income from other business

4.4. Operation & Maintenance expenses

4.4.1. The Petitioner has submitted that it has considered Employee Expenses and A&G Expenses in line with the approach adopted by the Commission while approving the Tariff for the MYT period FY 2019-20 to FY 2023-24 in the Order dated June 29, 2019 viz. allocation of 25% of the Total Employee Cost and A&G Expenses respectively for arriving at the Expenses towards Intra-state business. Also, the R&M Expenses submitted by HPSEBL were adjusted by deducting the expenses incurred on account of Inter-state Lines.

4.4.2. The claim of the Petitioner with respect to the O&M expenses is summarized below:

Table 19: Actual O&M expense Claimed by the Petitioner for the FY15 and FY16 (Rs. Cr.)

Particulars	FY15	FY16	FY17	FY18	FY19
Employee Cost	2.64	2.74	3.69	4.08	4.16
A&G Cost	1.58	1.92	2.05	1.93	2.09
R&M Cost	1.75	1.64	1.91	1.71	1.87
Total O&M Expense	5.97	6.30	7.65	7.72	8.12

4.4.3. During the scrutiny of the various O&M expenses, the Commission observed that the approach of the Petitioner was not properly aligned with the approach of the Commission as the Petitioner has considered a higher percentage (50%) of the overall Employee and A&G expenses while computing the respective expenses as part of truing-up.

4.4.4. Also, the Commission had in the previous Order dated 06.10.2017, considered 25% of the Corporate Level Employee and A&G expenses for approving the Employee Cost and A&G expenses attributable to Intra-state Transmission. Moreover, the field level expenditure was towards the under-construction lines and, therefore, cannot be considered in the ARR of commissioned transmission network. Based on the observation of the Commission, the Petitioner corrected the same and submitted the following revised O&M expenses for truing-up:

Table 20: Revised O&M expense Claimed by the Petitioner for the FY15 and FY16 (Rs. Cr.)

Particulars	FY15	FY16	FY17	FY18	FY19
Employee Cost	1.28	1.49	1.97	1.89	1.92
A&G Cost	1.39	1.69	1.77	1.58	1.71
R&M Cost	1.75	1.64	1.73	1.71	1.87
Total O&M Expense	4.42	4.82	5.47	5.18	5.50

4.4.5. The Commission for the purpose of True-up of the Third Control Period in this Order, has revisited the approved O&M expenses for each year of the Third

Control Period as per the methodology adopted during the Mid-term Review Order for true-up of FY15 and FY16 and has detailed the approach in subsequent paragraphs.

4.4.6. The approach as highlighted in the Mid-term Review Order for third Control Period is summarized below:

"4.4.5. Therefore, for approval of employee cost and administrative expenses, the Commission has followed the methodology of approving 25% of the corporate expenses towards the STU as also followed in the previous True-up Order for the Second Control Period (FY12-FY14) which is reproduced below:

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

4.4.7. The Petitioner has continued with the similar methodology while proposing Employee and A&G expenses for True-up of the Third Control Period. For approval of employee cost and administrative expenses, the Commission has adopted similar methodology of approving 25% of the Corporate Expenses towards the STU business as followed in the previous True-up Order dated 10.04.2017 for the Second Control Period (FY12-FY14) as well as in Mid-term Review Order dated 06.10.2017 for the Third Control Period.

Employee Cost

4.4.8. The Commission had approved Employee Cost for each year of Third Control Period based on actual Corporate Level Employee Expenses and had allowed 25% of the same towards Intra-state Employee Expenses.

4.4.9. However, it has been observed that the audited accounts reflected a very low amount of Rs. 0.34 Crore against employee cost for FY 2018-19. The Petitioner was asked to clarify the reason for higher claim of Rs. 1.92 Crore against employee cost in FY19. In response, the Petitioner clarified that:

“In reply to deficiency note dated 27.10.2021, HPPTCL has submitted revised employee expenses for FY 2014-15 to FY 2018-19 wherein HPPTCL has claimed 25% of Corporate level employee expenses which is in line with methodology followed by Hon’ble HPERC in its previous Orders. For FY 2018-19, the Corporate level Employee expenses amounts to Rs. 7.66 Crore and 25 % of said expenses have been taken to arrive at STU expenses. The employee expenses of Rs 0.33 Crore booked in audited accounts pertains to PIU Phozal only and are not part of Corporate employee expenses. Accordingly, the same are not claimed in the petition.

However, while finalization of Annual Accounts for FY 2018-19, HPPTCL has followed methodology of charging whole in-direct expenditure to expenditure attributable to Construction Period as HPPTCL is executing a number of projects which are in construction phase. Hence, total corporate level expenses have been charged towards construction. Accordingly, 25% of these expenses are charged as STU expenses in the petition based on the existing methodology. ”

4.4.10. As the amount claimed by the Petitioner against O&M charges for FY 2018-19 has been in line with the approach considered by the Commission in the past, the Commission has approved 25% of the corporate level employee cost for FY19 towards STU function inspite of the fact that the amount appearing in audited accounts is lower. However, it is clarified that the Commission would not allow expenses towards STU business in future, if not reflected in the audited accounts. Therefore, the Petitioner is directed to undertake the accounting practices with regard to the booking of expenses towards STU function on the above lines.

4.4.11. Accordingly, the revised Employee Cost approved by the Commission for each year of the Third Control Period is as per table below:

Table 21: Revised Employee Cost approved for the Third Control Period (Rs. Cr.)

Particulars	FY 15	FY 16	FY 17	FY 18	FY 19
Approved Employee Cost in Mid-term Review Order dated 06.10.2017	1.28	1.50	1.60	1.72	1.84
As submitted by Petitioner (Revised)	1.28	1.49	1.97	1.89	1.92
Corporate Employee expense	5.11	5.98	7.87	7.56	7.66

Particulars	FY 15	FY 16	FY 17	FY 18	FY 19
Share (25%) of corporate-level Employee expense Approved for true-up	1.28	1.50	1.97	1.89	1.91

A&G Expenses

4.4.12. With respect to A&G expenses as well, the Commission has adopted a similar approach of considering the 25% of the Corporate A&G expenses towards STU business for the Third Control Period. While doing so, the Commission has excluded a few expenses such as TA-DA for ADB Consultants, ADB Consultant remuneration, etc. as these do not pertain to the Intra-state Network Expenses. Also, interest paid to others, EPF damages had been excluded as these are not general expenses but are in form of penalties paid by the Petitioner. However, few expenses relating to STU operations i.e. license fee and membership fee have been considered based on actual as part of the A&G expense.

4.4.13. Similar to Employee Cost, the A&G expenses reflected for FY 2018-19 in the audited accounts is Nil. In response to the query of the Commission, the Petitioner submitted the following:

"It is humbly submitted that in the reply to the deficiency note dated 27.10.2021, HPPTCL has claimed revised A&G expenses as 25% of Corporate level A&G expense in line with methodology approved by Hon'ble HPERC vide its earlier Orders.

However, while finalization of Annual Accounts for FY 2018-19, HPPTCL has followed methodology of charging whole in-direct expenditure to expenditure attributable to Construction Period as HPPTCL is executing a number of projects which are in construction phase. Hence, total corporate level A&G expenses have been charged towards construction. Accordingly, 25% of corporate A&G expenses are charged towards construction works in the petition based on the existing methodology."

4.4.14. In line with the methodology for Employee Cost as discussed above, the revised A&G expenses approved by the Commission for each year of the Third Control Period are as per table below:

Table 22: Revised A&G Expense approved for Third Control Period (Rs. Cr.)

Particulars	FY 15	FY 16	FY 17	FY 18	FY 19
Total A&G Expenses	1.130	1.087	1.728	1.909	2.444
Less:					
TA-DA Consultant Service ADB	0.002	0.001	0.001	0.000	0.002

Particulars	FY 15	FY 16	FY 17	FY 18	FY 19
Consultant Remuneration (ADB)	0.063	0.043	0.211	0.118	0.542
Interest Paid to Others	-	-	0.007	0.101	0.002
EPF Damages	-	-	0.014	0.001	-
Total A&G expense (after adjustment)	1.064	1.042	1.494	1.689	1.898
25% of the A&G expenses	0.27	0.26	0.37	0.42	0.47
Add:					
Licence & reg. fee	1.00	1.00	1.00	1.00	1.00
Membership fee STU (NRPC FUND)	0.11	0.11	0.07	0.10	0.10
Approved A&G Expenses	1.38	1.37	1.44	1.52	1.57

R&M Expenses

4.4.15. While the transmission assets as identified in the Transfer Scheme MPP-A (3)-1/2001-iv dated June 10, 2010 were transferred to HPPTCL, the responsibility of O&M expenses of these assets continues with HPSEBL and HPPTCL is required to pay O&M expenses to HPSEBL for maintenance of these lines. The Commission in its earlier tariff orders has directed the Petitioner to mutually work out the O&M expenses payable to HPSEBL. However, no methodology has been submitted by the Petitioner in spite of the several reminders.

4.4.16. In the MYT Order dated 10.06.2014 for HPPTCL, for the Control Period FY15-FY19, the Commission had observed the following:

“.....”

4.4.25 Further, the Commission directs the Petitioner to mutually devise on an appropriate methodology for determination of O&M charges towards maintenance of existing transmission lines by HPSEBL. The Commission advise the Petitioner and HPSEBL to arrive on reasonable O&M charges based on the actual O&M expense of HPSEBL towards such high voltage lines. This methodology along with the computed O&M charges is required to be submitted to the Commission within 3 months of issuance of this Order for approval...”

4.4.17. The Petitioner was asked to reconcile the claim of R&M expenses with respect to the audited accounts. In response, the Petitioner submitted the following table reconciling the amount of R&M booked towards Intra-state and Inter-state Transmission Lines in the accounts with the claim submitted in the Petition:

Table 23: Revised A&G Expense computed for Third Control Period (Rs. Cr.)

Year	R&M charges for Intra-state Assets (a)	R&M charges for Inter-state Assets (b)	Total R&M charges (c = a+b)	R&M charges as per Annual Accounts	Claimed in the Petition for Intra-state Assets	Remarks
FY14-15	1.75	0.96	2.71	2.41	1.75	Differential R&M expenses of Rs. 30.62 lakh between Total R&M charges claimed by HPSEBL and R&M charges as per Annual Accounts during FY 2014-15 were booked in the Annual Accounts during FY 2015-16 under "Prior Period Income & Expenses Detail booked during 2015-16" head of Note 17.
FY15-16	1.64	0.98	2.62	2.62	1.64	
FY16-17	1.91	1.26	3.16	2.05	1.91	Petitioner would like to clarify that R&M charges of Rs. 1.73 Crore were booked for Intra-state assets in Annual Accounts during FY 16-17 as per HPERC Order dated 06.10.2017 as against the R&M charges of Rs. 1.91 Crore as claimed in the Petition. In this regard, the Petitioner humbly requests, the Hon'ble Commission to consider R&M charges for FY 2016-17 as Rs. 1.73 Crore instead of Rs. 1.91 Crore as submitted in the True-Up Petition.
FY17-18	1.71	0.79	2.50	2.50	1.71	
FY18-19	1.87	0.77	2.64	2.64	1.87	

4.4.18. The expenses claimed towards R&M of Intra-state Lines have also been validated with the invoices raised by HPSEBL. In absence of any methodology for working out the O&M expenses payable to the HPSEBL, the Commission is constrained to approve the R&M expense for the Third Control Period as per actual claimed by the Petitioner. However, during the Order for Fourth Control Period, the Petitioner has submitted that the O&M of the transmission assets would be undertaken by the Petitioner itself and, therefore, all expenses have been approved accordingly.

4.4.19. As claimed by the Petitioner, the amount of Rs 30.62 lakh booked in FY 2015-16 pertains to FY 2014-15 and has accordingly been considered by the Commission as per the claim. Also, for FY 2016-17, the Commission has considered the R&M expenses of Rs. 1.73 Cr. as per the claim of the Petitioner towards Intra-state Transmission Lines.

4.4.20. Accordingly, the R&M expense approved by the Commission for each year of the Third Control Period is as per the table below:

Table 24: Approved Revised R&M Expense for the Third Control Period (Rs. Cr.)

Particulars	FY 15	FY 16	FY 17	FY 18	FY 19
As Approved in MYT Order dated 06.10.2017	1.75	1.64	1.73	1.76	1.79
As submitted by Petitioner (Revised)	1.75	1.64	1.73	1.71	1.87
Revised Approved R&M Expense	1.75	1.64	1.73	1.71	1.87

Total Operation and Maintenance Cost

4.4.21. Based on the detailed analysis of each component, the Commission approves the following revised O&M expenses for the Third Control Period FY15 to FY19:

Table 25: Trued-up O&M expenses (Rs Cr.) for Third Control Period

Particulars	FY 15	FY 16	FY 17	FY 18	FY 19
Employee Cost	1.28	1.50	1.97	1.89	1.91
A&G Expense	1.38	1.37	1.44	1.52	1.57
R&M Expense	1.75	1.64	1.73	1.71	1.87
Total O&M Expense	4.40	4.51	5.14	5.12	5.36

4.5. Depreciation

4.5.1. The Commission has considered the value of 12 Intra-state Transmission Lines along with accumulated depreciation and the net book value of the assets till 13th June, 2010 in line with the finalized Transfer Scheme, also discussed in Para 4.2 of this Order.

4.5.2. For the purpose of computation of depreciation, the Commission has considered Regulation 23 of Himachal Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 which is reproduced below:

"23. Depreciation

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

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

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

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

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

4.5.3. Based on the above provisions of Regulation 23 of HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 , the Commission approves the depreciation expenses for the Third Control Period as under:

Table 26: Revised Depreciation (Rs Cr.) approved for the Third Control Period

Particulars	FY 15	FY 16	FY 17	FY 18	FY 19
Approved in Mid-term Order dated 06.10.2017	0.72	0.72	0.72	0.71	0.66
As submitted by Petitioner (Revised)	0.76	0.76	0.76	0.75	0.69
Trued-up Depreciation	0.72	0.72	0.72	0.71	0.66

4.6. Interest on Loan

4.6.1. The Petitioner has claimed interest towards normative loan for the Third Control Period. For the purpose of computing normative loan, the Petitioner has considered the net value of Intra-state Transmission Network transferred from HPSEBL (i.e. Rs. 14.28 Cr.) and considered 70% of the amount as normative loan for the purpose of computing interest on loan. Also, rate of interest has been considered equal to average base rate of State Bank of India for the last six months prior to the filing of MYT Petition plus 250 basis points.

4.6.2. The Commission while truing up for the second Control Period as well as under the Mid-term Review Order dated 06.10.2017 has not approved any interest against the transferred transmission assets in line with the submission of the Petitioner.

4.6.3. During issuance of the previous Transmission Tariff Orders, the Commission on several occasions have asked the Petitioner to provide the original funding pattern of the transferred transmission assets or the amount of loans transferred to HPPTCL against the assets. However, the Petitioner has been unable to provide any such details and the Commission had not considered any loans against the transferred transmission lines and had not approved any interest on loans. Further, it is observed that majority of the transmission assets are over fifteen years of age and do not have any loan component transferred to the Petitioner. The Commission, therefore, deems it appropriate to continue its previous approach of not approving any interest towards the transmission assets transferred from the erstwhile HPSEB.

4.6.4. Accordingly, the Commission has approved NIL expenses towards interest on loan in true-up for the Third Control Period.

Table 27: Interest on Loans (Rs Cr.) approved for True-up of Third Control Period

Particulars	FY 15	FY 16	FY 17	FY 18	FY 19
Approved in Mid-term Order dated 06.10.2017	-	-	-	-	-
As submitted by Petitioner (Revised)	0.82	0.73	0.63	0.54	0.45
Trued-up Interest in	-	-	-	-	-

4.7. Interest on working capital

4.7.1. The Commission has projected the working capital requirement for ARR in line with the Regulations 21 and 22 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, and its amendments, as reproduced below:

"21. Working Capital

The Commission shall calculate the working capital requirement for the transmission licensee containing the following components: -

(a) O&M expenses for 1 month;

(b) maintenance spare @ 40% of repair and maintenance expenses for one month; and

(c) receivables for two months based on the projected annual transmission charges.

22. Interest Charges on Working Capital

Rate of interest on working capital to be computed as provided hereinafter in these regulations shall be on normative basis and shall be equal to the Average Base Rate of State Bank of India for the last six months prior to the filing of the MYT petition plus 350 basis points as on 1st April of the relevant year. The interest on working capital shall be payable on normative basis notwithstanding that the licensee has not taken working capital loan from any outside agency or has exceeded the working capital loan based on the normative figures.....”

4.7.2. The Petitioner has claimed a fixed rate for the entire five year of Control Period in the True-up. However, the Commission deems it appropriate to consider the relevant base rate as on 1st April of each year for approving the interest on working capital for True-up of Third Control Period as follows:

Table 28: Trued-up Interest on working capital (Rs Cr.) for Third Control Period

Particulars	FY15	FY16	FY17	FY18	FY19
O&M expenses for 1 month	0.37	0.38	0.43	0.43	0.45
Maintenance spares	0.06	0.05	0.06	0.06	0.06
Receivables for 2 months	0.86	1.02	0.91	0.82	0.73
Total Working Capital	1.29	1.45	1.39	1.30	1.24
Rate of interest	13.50%	13.50%	12.80%	12.60%	12.20%
Interest on Working Capital	0.17	0.20	0.18	0.16	0.15

4.8. Return on Equity

4.8.1. The Petitioner has claimed for Return on Equity (RoE) based on 30% of the gross value of assets re-vested in HPPTCL by GoHP i.e., Rs. 5.86 Crore. The Petitioner has claimed that original funding of the assets is irrelevant in this case as the tariff sought here is on the basis of assets and liabilities transferred in terms of Transfer Scheme which specifically transferred assets worth Rs. 61.22 Crore, of which existing 12 Intra-state system assets worth Rs. 14.28 Crore has been vested in HPPTCL in the form of 100% equity funding. Further, the Petitioner has invited reference of the Order of Hon'ble CERC in Petition No.112/TT/2017 of Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPL) where Hon'ble CERC had considered debt-equity of 70:30 due to non-availability of funding of old lines.

4.8.2. Also, with regard to the re-vesting of assets in HPPTCL, the Petitioner has submitted that GoHP vide File No. MPP-A(3)-1/2001-V dated 18.08.2020 communicated that Finance Department of GoHP has directed that 30% of the gross value of transferred assets should be considered as equity and paid up capital of HPPTCL to be revised accordingly.

4.8.3. The Commission has analysed the submissions of HPPTCL with regard to the claim of Return on Equity. The Commission in the True-up Order dated 10.04.2017 for the Second Control period (FY12-FY14) had stated the following:

“4.7.2. The Petitioner was asked to provide the details of original funding of the fifteen lines transferred from HPSEBL to HPPTCL. In response, the Petitioner was not able to provide any details regarding the funding (debt, equity, grant, etc.) of these lines. Further, it is observed that some of these lines are very old and have outlived their economic life. It is also observed that no investment / additional expense has been done by HPPTCL on the existing transmission lines which have been transferred to them and therefore the vesting of assets from HPSEBL to HPPTCL by issuance of shares to the GoHP was primarily an accounting entry.

4.7.3. In absence of any details with regard to original funding of the fifteen lines transferred from HPSEBL to HPPTCL and no corresponding transfer of liabilities with regard to these lines, the Commission feels that approving Return on Equity based on the transfer amount would lead to double charging the consumers for the same capital cost.”

4.8.4. During issuance of previous Tariff Orders, the Commission on several occasions have asked the Petitioner to provide the original funding pattern of the transferred transmission assets against the assets. However, the Petitioner has been unable to provide any such details and in absence of adequate information, the Commission was constrained to consider any return on equity against the transferred transmission lines.

4.8.5. It is clarified that the original funding pattern is an important aspect in case of regulatory framework and any change in original cost or funding cannot be considered as a result of transfer of assets from one utility to another. Considering a change in funding of the same asset which was funded originally through grant, if considered to be funded through equity or debt due to re-vesting of assets in a separate company, would result in unfair charging from the Consumers of the State. Therefore, the claim of the Petitioner that original funding of the assets is irrelevant is not correct.

4.8.6. Further, in case of CERC Order dated 27.9.2021 in Petition No. 305/TT/2020 with respect to determination of transmission tariff for the period 2019-24 for the three Inter-state Transmission Lines, the CERC has noted the following:

“33. The Petitioner has submitted that it is not holding any equity in the assets transferred to them by HPSEBL as may be seen in order dated 16.5.2016 in 119/TT/2014. Thus, the Petitioner has not claimed any ROE.”

4.8.7. The Commission has observed contradicting claims of the Petitioner with respect to Inter-state Lines and Intra-state Lines, while both set of lines were transferred to the Petitioner under the same Transfer Scheme. In view of above, as well as in the absence of details of original funding of the assets, the Commission has continued with its previous approach of not allowing any Return on Equity on the transferred assets as part of the True-up for the Third Control Period.

4.8.8. The approved trued-up Return on Equity is summarized in table below:

Table 29: Trued-up Return on Equity (Rs. Cr.)

Particulars	FY15	FY16	FY17	FY18	FY19
Approved in Mid-term Order dated 06.10.2017	-	-	-	-	-
As submitted by Petitioner (Revised)	0.91	0.91	0.91	0.91	0.91
Trued-up Return on Equity	-	-	-	-	-

4.9. Non-tariff Income

4.9.1. HPPTCL has included the connectivity fee and STU charges recovered under the Non-tariff Income as per the actuals in the audited annual accounts for the FY15 and FY19.

4.9.2. Regulation 24 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 as amended from time to time, provides as follows for Non-tariff Income:

“24. Non-tariff income

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

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

4.9.3. In the Mid-term Review Order dated 06.10.2017, the Commission has observed as follows:

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

4.9.4. The same approach has been considered and the Commission has approved the Non-tariff Income vis-a-vis claim of the Petitioner for the Third Control Period as under:

Table 30: Proposed and trued-up Non-Tariff income for Third Control Period (Rs Cr.)

Particulars	FY15	FY16	FY17	FY18	FY19
Approved in Mid-term Order dated 06.10.2017	0.58	0.34	0.34	0.34	0.34
As submitted by Petitioner (Revised)	0.58	0.34	0.59	1.09	1.79
Trued-up Non-Tariff Income	0.58	0.34	0.59	1.09	1.79

4.10. Income Tax

4.10.1. The Petitioner has claimed Income Tax expenses of Rs. 1.28 Crore and Rs. 1.04 Crore for the FYs 2014-15 and 2015-16 respectively. Further, the Petitioner has claimed that it has not paid any Income Tax for the period FYs 2016-17 and 2018-19 as it was in losses for the balance period.

4.10.2. For the true-up of FY 2014-15 and FY 2015-16, the Commission in the Mid-term Review Order dated 06.10.2017 had observed as under:

“4.10.2. The Petitioner was asked to provide the detailed bifurcation of the taxes paid for inter -state and intra state and also calculations for arriving at the income tax of Rs. 1.28 crores and Rs. 1.04 crores for the FY 2014-15 and FY 2015-16 respectively.

4.10.3. In response to the queries of the Commission, the Petitioner submitted that the total tax liability is towards STU and transmission charges income for which the profit and loss account has been prepared while the other income has been adjusted against CWIP expenditure as Pre-Operative Expenditure Statement.

4.10.4. After the detailed scrutiny of the income tax liability and the Income tax returns for FY15 and FY16 submitted by the Petitioner in its subsequent responses, the Commission has considered the actual expenditure of Rs. 1.28 Cr. and Rs. 0.64 Cr. for FY15 and FY 16, respectively. For the balance years as well, the Commission has considered a provisional amount of Rs. 0.50 Cr. towards income tax liability.”

4.10.3. The Commission sought detailed break-up of Income Tax for each year of the Third Control Period along with allocation between Intra-state and Inter-state assets. In response, the Petitioner provided detailed working of the Income Tax for each year and following clarification with respect to the allocation of Income Tax:

“With regard to allocation of the income tax paid between inter-state and intra-state assets, the Petitioner submits that the total tax liability is towards STU and transmission charges income for which the profit and loss account has been prepared while the other income has been adjusted against CWIP expenditure as Pre-Operative Expenditure Statement.”

4.10.4. It was observed that the claim of the Petitioner towards Income Tax did not validate with the amount mentioned in the Audited Accounts. The Commission has considered the Income Tax amount of the Petitioner as per the audited accounts for each year of the third Control Period. Since no revenue towards Inter-state Transmission Lines was booked in FY15 and FY16, the Commission has considered the entire amount towards Intra-state assets. In subsequent years (FY17 to FY19), no Income Tax is applicable on the Petitioner. Accordingly, the income tax liability trued-up by the Commission for the Third Control Period is provided below:

Table 31: Proposed and trued-up Income tax for Third Control Period (Rs. Cr.)

Particulars	FY 15	FY 16	FY 17	FY 18	FY 19
Approved in Mid-term Order dated 06.10.2017	1.28	0.64	0.50	0.50	0.50
As submitted by Petitioner (Revised)	1.28	0.64	-	-	-
Trued-up Income Tax	0.46	1.04	-	-	-

4.11. Trued-up Aggregate Revenue Requirement for the Third Control Period FY15-FY18

4.11.1. Summary of the proposed true-up claim (revised) of the Petitioner for the Third Control Period is as below:

Table 32: True-up ARR proposed by the Petitioner for the Third Control Period (Rs. Cr.)

Particulars	FY15	FY16	FY17	FY18	FY19
Operation & Maintenance Expense	4.42	4.82	5.47	5.18	5.50
Depreciation	0.76	0.76	0.76	0.75	0.69
Interest on Loan-term loan	0.82	0.73	0.63	0.54	0.45
Interest on Working Capital	0.23	0.23	0.23	0.21	0.20
Income Tax	1.28	0.64	-	-	-
Return on Equity	0.91	0.91	0.91	0.91	0.91

Particulars	FY15	FY16	FY17	FY18	FY19
Gross ARR	8.42	8.09	8.00	7.59	7.75
Less: Non-Tariff Income	0.58	0.34	0.59	1.09	1.79
Net ARR	7.84	7.75	7.41	6.50	5.96

4.11.2. The summary of the trued-up ARR approved by the Commission for the third Control Period is provided in table below:

Table 33: Trued-up ARR approved by the Commission for the third Control Period (Rs Cr.)

Particulars	FY15	FY16	FY17	FY18	FY19
Operation & Maintenance Expense	4.40	4.51	5.14	5.12	5.36
Depreciation	0.72	0.72	0.72	0.71	0.66
Interest on Loan-term loan	-	-	-	-	-
Interest on Working Capital	0.17	0.20	0.18	0.16	0.15
Income Tax Expense Advanced	0.46	1.04	-	-	-
Return on Equity	-	-	-	-	-
Gross ARR	5.76	6.46	6.04	6.00	6.18
Less: Non-Tariff Income	0.58	0.34	0.59	1.09	1.79
Net ARR	5.18	6.12	5.45	4.91	4.39

4.12. Revenue and Revenue Surplus/Gap for the Third Control Period

4.12.1. The Petitioner has submitted revenue from Long-term Transmission Customers of the Intra-state Assets as per the Annual Accounts of the respective year for the Third Control Period.

4.12.2. In addition to the revenue from Long-term Intra-state Transmission Charges, the Petitioner has also provided 75% of the revenue recovered from Short-Term Open Access (STOA) Customers in line with HPERC, Transmission Tariff Regulations, 2011 as amended from time to time as below:

Table 34: Proposed Revenue for Third Control Period (Rs Cr.)

Particulars	FY15	FY16	FY17	FY18	FY19
STOA Charges recovered	8.44	11.41	2.77	2.94	2.78
STOA Charges @75%	6.33	8.56	2.08	2.21	2.09
LTOA	3.45	3.47	7.07	6.16	6.04
Total Revenue	9.78	12.03	9.15	8.37	8.13

4.12.3. In response to the queries of the Commission for providing year-wise details of revenue earned from Inter-state and Intra-state Transmission Lines and its reconciliation with the accounts, the Petitioner submitted the following details:

Table 35: Details of Revenue Recorded in Audited Annual Accounts and Revenue from Intra-state and Inter-State Assets (Rs Cr.)

Financial Year	Revenue as recorded in Annual Accounts	Revenue booked for Intra-state Assets	Revenue booked for Inter-state Assets
FY 2014-15	3.45	3.45	-
FY 2015-16	3.47	3.47	-
FY 2016-17	7.07	3.32	-
FY 2017-18	8.75	6.16	2.59
FY 2018-19	8.65	6.04	2.61

4.12.4. The Petitioner has also submitted following clarification in response to the query of the Commission:

“Further, it is submitted that post finalization of ARR by CERC for 2014-19 period with respect to Three Inter-state Transmission Lines vide Order dated 16.05.2016 in Petition No. 119/TT/2014 and further signing of Revenue Sharing Agreement (RSA) and Transmission Sharing Agreement (TSA) with PGCIL on 07.06.2017, the Petitioner started booking the revenue in the Annual Accounts segregating it between Intra-state and Inter-state lines from FY 2017-18 onwards wherein the revenue booked for Inter-state lines during FY 2017-18 and FY 2018-19 in the Annual Accounts is in accordance with the Transmission Charges determined by CERC in said order.”

4.12.5. Also, the Commission sought further clarifications with respect to the adjustments made in the revenue. The Petitioner has clarified that with respect to amount of Rs. 7.07 Cr. booked as revenue towards Long-term Transmission Charges (Intra-state) for FY 2016-17, it had incorrectly made an excess booking of Rs. 1.29 Crore with respect to Transmission Charges as per CERC Order dated 16.05.2016 in Petition No. 119/TT/2014 and has prayed to exclude the same. Details with respect to break-up of the revenue were also provided by the Petitioner.

4.12.6. The Commission has validated the revenue from Long-term Transmission Customers of the Intra-state Lines with the respective year audited accounts. Accordingly, the Commission has considered the revenue of Rs. 5.78 Cr. for FY 2016-17 as claimed by the Petitioner in the revised working of ARR and revenue surplus/gap working submitted for the Third Control Period.

4.12.7. The revenue surplus/ gap for the Third Control Period (FY15-FY19) is, therefore, computed as below:

Table 36: Approved Revenue Surplus/ (Gap) for Third Control Period (Rs. Cr.)

Particulars	FY15	FY16	FY17	FY18	FY19
Approved ARR	5.18	6.12	5.45	4.91	4.39
Revenue from long-term transmission users	3.45	3.47	5.78	6.16	6.04
Revenue Surplus/ (Gap)	(1.73)	(2.65)	0.33	1.25	1.65

4.12.8. Based on the table above, a revenue deficit of Rs. 1.14 Cr. is observed during the Third Control Period. In the Mid-term Review Order date 06.10.2017, the Commission had approved the Revenue Surplus computed for FY15-FY17 and adjusted the same for revision of Revenue Surplus/Gap for second Control Period as under:

"4.12.6. Further, it is observed that in the truing-up for the Second control period for FY12-FY14, the total revenue from short-term open access consumers was considered for adjustment in the transmission charges of long-term consumers. The Commission has accordingly rectified the same and a revised revenue surplus/ (gap) has been computed for the previous Control Period (FY12-FY14) as provided in table below:

Table 34: Revised Revenue Gap for the Control Period FY12-FY14 (Rs. Cr.)

Particulars	Amount
Revenue Gap approved for Control Period FY12-FY14	0.23
<u>Add:</u>	
Revenue from STOA consumers (75%)	2.13
Revised Revenue Gap for Second Control Period	2.36

4.12.7. The revised revenue surplus/ gap for the period FY15 to FY17 based on the revised gap for the Second Control Period is as below:

Table 35: Revised Approved Revenue Surplus/ (Gap) for FY15 to FY17 (Rs. Cr.)

Particulars	Amount
Total Surplus for FY15 to FY17	16.65
Less: Revenue Gap for Second Control Period (FY12-FY14)	2.36
Net Surplus	14.29

4.12.8. HPPTCL is required to refund the above revenue surplus amount to long-term open access consumer i.e. HPSEBL."

4.12.9. In line with the same, the Commission has adjusted the Revenue deficit amount of Rs. 1.14 Cr. with the revised Revenue Gap of second Control Period i.e. Rs. 2.36 Cr. Accordingly, the revised Revenue Gap approved for the third Control Period is as below:

Table 37: Revised Approved Revenue Surplus/ (Gap) for Third Control Period with past Revenue Gap (Rs. Cr.)

Particulars	Amount
Trued-up Revenue Surplus/ (Gap) for third Control Period	(1.14)
Less: Revenue Gap for Second Control Period (FY12-FY14)	(2.36)
Net Surplus/ (Gap)	(3.50)

4.12.10. Regulation 33 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, as amended from time to time, provides for adjustment of transmission charges recovered from short term open access Customers as under:

"33. Allocation of Transmission Service Charge and Losses

(4) 25% of the charges collected from the short term open access customer shall be retained by the transmission licensee and the balance 75% shall be considered as non-tariff income and adjusted towards reduction in the transmission service charges payable by the long term and medium term users.

(5) The energy losses in the transmission system of the transmission licensee, as determined by the State Load Dispatch Centre and approved by the Commission, shall be apportioned between users in proportion to their usage of the intra-State transmission system....."

(Emphasis supplied)

4.12.11. In the additional submissions dated 7.12.2022, the Petitioner submitted that it had inadvertently considered the Short-term Open Access revenue under the Revenue head of ARR Summary and have provided the revised numbers for FY17, FY18 and FY19. The Petitioner had also provided supporting documents with respect to its claim. The Commission has considered the submission of the Petitioner for computing the Short-term Open Access revenue.

4.12.12. Accordingly, the Commission has considered 75% of the total Short-term Open Access (STOA) income earned by HPPTCL during each year of the Third Control Period.

Table 38: Approved Revenue from Short-term Open Access (Rs Cr.)

Particulars	FY15	FY16	FY17	FY18	FY19	Total
Short-term Open Access Charges recovered	8.44	11.41	12.08	11.77	11.10	54.81
75% of Revenue considered	6.33	8.56	9.06	8.83	8.33	41.10

Particulars	FY15	FY16	FY17	FY18	FY19	Total
towards reduction of long-term and medium term transmission charges						

4.12.13. The Petitioner has clarified in the additional submissions that it has credited the amount worked out based on STOA charges recovered upto FY19 to HPSEBL. In view of the share required to be reimbursed to the Long-term Open Access Customers as per Table 38 above, and approved Revenue Gap of Rs. 3.50 Cr. (as per Table 37 above) to be recovered from these customers towards truing-up for Third Control Period, the Petitioner is directed to reconcile the approved amount with the amount already credited to HPSEBL along with other Long Term beneficiaries. Any balance amount should be paid/recovered by the Petitioner from the beneficiaries. Significantly, the Petitioner has not yet filed the Mid-Term Review Petition for the Fourth Control Period. The Petitioner is, therefore, directed to immediately file the said Petition along with the reconciled statement with its Long Term beneficiaries, as discussed above, enabling this Commission to work out the final surplus/ deficit value for the Third Control Period and also to Review the performance of the Petitioner during Fourth Control Period.

Shimla

Dated: 28.12.2022.

Sd/-

(Shashi Kant Joshi)

Member

Sd/-

(Yashwant Singh Chogal)

Member (Law)

Sd/-

(Devendra Kumar Sharma)

Chairman