

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram

1. Shri Ashok Basu, Chairman,
2. Shri G.S. Rajamani, Member
3. Shri K.N.Sinha, Member

Petition No. 21/2002

In the matter of

Petition for approval of tariff for Salal Stage II Transmission System in Northern Region for the period 1.4.2001 to 31.3.2004.

And in the matter of

Power Grid Corporation of India Ltd.

.... Petitioner

Vs

1. Rajasthan Rajya Vidyut Prasaran Nigam Ltd, Jaipur
2. Himachal Pradesh State Electricity Board, Shimla
3. Punjab State Electricity Board, Patiala
4. Haryana Vidyut Prasaran Nigam Ltd, Panchkula
5. Power Development Department, Govt. of J&K, Srinagar
6. Uttar Pradesh Power Corporation Ltd., Lucknow
7. Delhi Vidyut Board, New Delhi
8. Chief Engineer, Chandigarh Administration, Chandigarh
9. Uttranchal Power Corporation Ltd, Dehradun

.....Respondents

The following were present:

1. Shri S. S. Sharma, PGCIL
2. Shri A.K. Nagpal, PGCIL
3. Shri S.K. Jain, Manager (Law), PGCIL
4. Shri R Prasad, PGCIL
5. Shri Mahesh Kumar, PGCIL
6. Shri R.K. Vohra, ED (Comml), PGCIL
7. Shri M.K. Kulshrestha, PGCIL
8. Shri R.N Pathak, ACE (Comml-LD), RVPNL
9. Shri K.K. Mitta, XEN (ISP), RVPNL
10. Shri R.K. Arora, XEN(Tariff), HVPNL
11. Shri Mahendra Kumar, EE, UPPCL
12. Shri D.D. Chopra, Advocate, UPPCL
13. Shri T.P.S Bawa, SE, PSEB

**ORDER
(DATE OF HEARING: 13.12.2002)**

In this petition, the petitioner, Power Grid Corporation of India Ltd has sought approval for tariff for Salal Stage II Transmission System in Northern Region for the period from 1.4.2001 to 31.3.2004 based on terms and conditions of tariff contained in the Commission's notification dated 26.3.2001, (hereinafter referred to as "the notification dated 26.3.2001").

2. Approval of the Central Government for setting up of Salal Hydro Electric Project Stage-II, including associated transmission system was accorded vide Ministry of Power letter dated 12.9.1989, for a total capital investment of Rs.30378.00 lakh including an IDC of Rs.2381.00 lakh. This included the capital investment of Rs.9374.00 lakh (including Rs.735.00 lakh on account of IDC on pro-rata basis) for the associated transmission system. Subsequently, Ministry of Power vide letter dated 10.1.2000 approved the revised cost estimate of Salal Stage-II Transmission System for capital investment of Rs.10175.00 lakh, including an IDC of Rs.930.00 lakh. The approved scope of work covered under the subject Transmission System has been completed from 1.5.1994 to 1.8.1996 matching with completion of generating project as under:

Sl.No.	Name of Transmission Line	Date of commercial operation
1.	220 kV D/C Salal-II Kishenpur line	1.8.1996
2.	220 kV D/C Kishenpur-Sarna line	1.1.1995
3.	220 kV S/C Salal-II Jammu line	1.1.1995
4.	220 kV D/C Sarna-Dasua line	1.5.1994

3. The tariff for Kishenpur-Sarna 220 kV D/C line, Salal II-Jammu 220 kV S/C line and Sarna-Dasuya 220 kV line, forming part of the Salal Stage II Transmission

System was notified by the Central Government in Ministry of Power vide its notification dated 16.11.1998 at an admitted capital cost of Rs. 8013.00 lakh. The tariff for Salal II-Kishenpur 220 kV D/C line for the period from 1.8.1996 to 31.3.2001 was approved by the Commission by its order dated 9.6.2002 in petition No 66/2000 at a cost of Rs. 1662.77 lakh. Thus, the total admitted cost of Salal Stage II Transmission System is Rs. 10147.77 lakh. The tariff notified by Ministry of Power was valid up to 31.3.2002. However, as the terms and conditions for determination of tariff notified by the Commission have come into effect on 1.4.2001, the transmission charges approved by Ministry of Power were rendered valid up to 31.3.2001. The present petition for approval of tariff for the period from 1.4.2001 to 31.3.2004 has been filed against the above backdrop.

4. Based on the above-noted facts, the petitioner has sought approval for transmission charges as under:

(Rs. in lakh)			
Transmission Tariff	2001-2002	2002-2003	2003-2004
Interest on Loan	211.50	183.75	156.01
Interest on Working Capital	50.32	51.31	52.50
Depreciation	277.73	277.73	277.73
Advance against Depreciation	0.00	0.00	0.00
Return on Equity	729.66	729.66	729.66
O & M Expenses	382.48	403.60	429.58
Total	1651.69	1646.05	1645.48

5. The details furnished by the petitioner in support of its claim for Interest on Working Capital are as extracted below:

	(Rs. in lakh)		
	2001-2002	2002-2003	2003-2004
Spares	130.39	138.21	146.51
O & M expenses	31.87	33.63	35.80
Receivables	275.28	274.34	274.25
Total	437.54	446.18	456.56
Rate of Interest	11.50%	11.50%	11.50%
Interest	50.32	51.31	52.50

6. In addition, the petitioner has prayed for approval of other charges like Income Tax, incentive, Development Surcharge, late payment surcharge, other statutory taxes, levies, cess, filing fee, etc in terms of the notification dated 26.3.2001.

CAPITAL COST

7. As laid down in the notification dated 26.3.2001, the project cost, which includes capitalised initial spares for the first 5 years of operation, as approved by CEA or an appropriate independent agency, other than Board of Directors of the generating company, as the case may be, shall be the basis for computation of tariff. The notification dated 26.3.2001 further provides that the actual capital expenditure incurred on completion of the project shall be the criterion for the fixation of tariff. Where the actual expenditure exceeds the approved project cost the excesses as approved by the CEA or an appropriate independent agency, as the case may be, shall be deemed to be the actual capital expenditure for the purpose of determining the tariff, provided that excess expenditure is not attributable to the 'Transmission

Utility' or its suppliers or contractors and provided further that where a transmission services agreement entered into between the Transmission Utility and the beneficiary provides a ceiling on capital expenditure, the capital expenditure shall not exceed such ceiling.

8. As already noticed, the tariff for the Transmission System for the period ending 31.3.2001 was notified by Ministry of Power/the Commission by considering cost of Rs. 10147.77 lakh. Therefore, for the purpose of present petition, the capital cost as considered by Ministry of Power the Commission has been adopted as the base for computation of tariff by the Commission in the present petition.

ADDITIONAL CAPITALISATION

9. The notification dated 26.3.2001 provides that tariff revisions during the tariff period on account of capital expenditure within the approved project cost incurred during the tariff period may be entertained by the Commission only if such expenditure exceeds 20% of the approved cost. In all cases, where such expenditure is less than 20%, tariff revision shall be considered in the next tariff period.

10. The petitioner has not claimed any additional capital expenditure on works for the period after 01.04.2001 in the petition. Accordingly, the question of considering additional capitalisation on works does not arise.

EXTRA RUPEE LIABILITY

11. The notification dated 26.3.2001 provides that

- (a) Extra rupee liability towards interest payment and loan repayment actually incurred, in the relevant year shall be admissible; provided it directly arises out of foreign exchange rate variation and is not attributable to Utility or its suppliers or contractors. Every utility shall follow the method as per the Accounting Standard-11 (Eleven) as issued by the Institute of Chartered Accountants of India to calculate the impact of exchange rate variation on loan repayment.
- (b) Any foreign exchange rate variation to the extent of the dividend paid out on the permissible equity contributed in foreign currency, subject to the ceiling of permissible return shall be admissible. This as and when paid, may be spread over the twelve-month period in arrears.

12. The petitioner has not claimed FERV, as the transmission system does not involve foreign loan. As such FERV has not been considered.

SOURCES OF FINANCING. DEBT – EQUITY RATIO

13. As per Para 4.3 of the notification dated 26.3.2001, capital expenditure of the transmission system shall be financed as per approved financial package set out in the techno-economic clearance of CEA or as approved by an appropriate independent agency, as the case may be. The petitioner has claimed tariff by taking debt and equity in the ratio of 50:50 of the net fixed assets as on 1.4.1997. It is pointed out on behalf of the respondents that taking debt and equity as claimed by the petitioner will result into higher return on equity (ROE). The respondents have submitted that equity of 20% or 30% should be considered for the purpose of fixation of tariff. In the present case, the assets were commissioned before 01.4.1997 and Ministry of Power/the Commission while notifying tariff for the tariff period ending 31.3.2001 had considered

debt and equity on notional basis in the ratio of 50:50 of the Net Fixed Assets as on 1.4.1997 in view of the notification dated 16.12.1997. Therefore, the debt-equity ratio of 50:50 as considered by Ministry of Power/the Commission has been maintained for determination of tariff in the present petition.

INTEREST ON LOAN

14. As provided in the notification dated 26.3.2001, interest on loan capital is to be computed on the outstanding loans, duly taking into account the schedule of repayment, as per financial package approved by CEA or any independent agency.

15. The petitioner has claimed interest on the notional loan arrived at by reducing cumulative depreciation from 1997-1998 to 2000-2001 from notional loan as on 01.04.1997 as was admitted in the Ministry of Power tariff notification for the previous tariff setting. Depreciation during the years 2001-02 to 2003-04 has been taken as repayment of loans during the respective years. Weighted average rate of interest is worked out on the basis of actual outstanding loans as on 1.4.2001 and their actual rate of interest, as on 01.04.2001. The above weighted rate of interest is applied on the average normative loan during the respective year to arrive at the interest on normative loan.

16. In the calculation, the interest on loan has been worked out as detailed below:

- (i) Closing balance of the notional loan as on 31.03.2001 is taken as opening Balance of the loan as on 1.4.2001.

- (ii) Repayment of the loan during the year has been worked out in accordance with the following formula or as per the actual repayment during the year as claimed by the petitioner, whichever is higher:

Actual repayment during the year x normative net loan at the beginning of the year/ actual net loan at the beginning of the year.

- (iii) On the basis of actual rate of interest on actual average loan, the weighted rate of interest on loan is worked out and the same is applied on the notional average loan during the year to arrive at the interest on loan.

17. Based on the above methodology, repayment of loan during 2001-2002 arrived at Rs. 2255.94 lakh, has been considered. The loan gets repaid during 2001-2002 and as such no repayments need be considered during 2002-2003 and 2003-2004

18. On the basis of the details available on record, interest on loan has been worked out as under:

	(Rs. in lakh)		
	2001-02	2002-03	2003-04
Gross Loan -Opening	4560.39	4560.39	4560.39
Cumulative Repayment up to the previous Year	2304.44	4560.39	4560.39
Net Loan-Opening	2255.94	0.00	0.00
Repayment during the year	2255.94	0.00	0.00
Net Loan-Closing	0.00	0.00	0.00
Average Loan	1127.97	0.00	0.00
Rate of Interest	9.9922%	0.0000%	
Interest	112.71	0.00	0.00

DEPRECIATION

19. With regard to depreciation, para 4(b) of the CERC notification dated 26.3.2001 provides:

- (i) The value base for the purpose of depreciation shall be the historical cost of the asset.
- (ii) Depreciation shall be calculated annually as per straight-line method at the rate of depreciation as prescribed in the Schedule attached to the notification.

Provided that the total depreciation during the life of the project shall not exceed 90% of the approved Original Cost. The approved original cost shall include additional capitalisation on account of foreign exchange rate variation also.

- (iii) On repayment of entire loan, the remaining depreciable value shall be spread over the balance useful life of the asset.
- (iv) Depreciation shall be chargeable from the first year of operation. In case of operation of the asset for part of the year, depreciation shall be charged on pro-rata basis.
- (v) Depreciation against assets relating to environmental protection shall be allowed on case-to-case basis at the time of fixation of tariff subject to the condition that the environmental standards as prescribed have been complied with during the previous tariff period.

20. The petitioner has claimed the depreciation on the capital expenditure in accordance with above principles.

21. It is noted that repayment of the entire notional loan considered for tariff calculation is over in the year 2001-02. Therefore, depreciation for the years 2002-2003 and 2003-04 is to be calculated by spreading the same over the balance useful life of the asset.

22. The assets covered by this petition were declared under the commercial operation from 1.5.1994 to 1.8.1996. Thus these assets have been in operation for about 6 years as on 1.4.2001. As per the notification dated 26.3.2001, the useful life of the transmission line at 66 kV and above is 35 years, for sub-station equipment 25 years. The life prescribed for communication equipment is (PLCC) is 15 years and that of building is 50 years. The assets covered in the present petition are transmission lines, sub-stations, PLCC and buildings. Therefore, the useful life of the transmission system is to be the weighted average life of all the assets. The weighted average life of the transmission system has been calculated by taking the completion cost of the different assets as given below:

Item	Completion cost (Rs in lakh)	Useful life (in Years)
Transmission Line	7451.07	35
Sub-station	2037.05	25
PLCC	77.37	15
Buildings	458.88	50

Weighted Average Life = $(7451.07 \times 35 + 2037.05 \times 25 + 77.37 \times 15 + 458.88 \times 50) / (7451.07 + 2037.05 + 77.37 + 458.88) = 33.50$ years (Say, 34 years)

23. The balance useful life as on 1.4.2001 has thus been arrived at 28 (34 -6) years.

24. Based on the above, the depreciation for individual items of capital expenditure has been calculated on the capital cost of Rs. 10147.77 lakh at the rates as prescribed in the notification dated 26.3.2001. While approving depreciation component of tariff, the weighted average depreciation rate of 2.74% has been worked out. For working out cumulative depreciation, the depreciation as per considered by Ministry of Power for the previous tariff setting has been taken into consideration. The break up of the capital cost has been considered as per the details furnished by the petitioner. The necessary calculations in support of calculation of weighted average rate of depreciation are as under:

	Total	FERV UP TO 31.3.2001	Total Cost including FERV	Approved capital cost	Rate of Deprecia- tion	Deprecia- tion
Capital Expenditure as on 31.03.2001						
Land	123.40	0.00	123.40		0%	0.00
Building & Other Civil Works	458.88	0.00	458.88		1.80%	8.26
Transmission Line	7451.07	0.00	7451.07		2.57%	191.49
Sub-Station Equipment	2037.05	0.00	2037.05		3.60%	73.33
PLCC	77.37	0.00	77.37		6.00%	4.64
Total	10147.77	0.00	10147.77	10175.00		277.73
Weighted Average Rate of Depreciation	10147.77	0.00				2.74%

25. The calculations in support of depreciation allowed are appended hereinbelow:

		(Rs. in lakh)		
		2001-02	2002-03	2003-04
Rate of Depreciation	2.74%			
Depreciable Value	9132.99			
Balance Useful life of the asset	28.00	28.00	27.00	26.00
Remaining Depreciable Value		5801.55	5421.52	5220.72
Depreciation		277.73	200.80	200.80

ADVANCE AGAINST DEPRECIATION

26. In addition to allowable depreciation, the petitioner becomes entitled to Advance Against Depreciation when originally scheduled loan repayment exceeds the depreciation allowable as per schedule to the notification dated 26.3.2001. Advance Against Depreciation is computed in accordance with the following formula:

AAD = Originally scheduled loan repayment amount subject to a ceiling of $1/12^{\text{th}}$ of original loan amount minus depreciation as per schedule.

27. The petitioner has not claimed Advance Against Depreciation.

28. For working out Advance Against Depreciation, $1/12^{\text{th}}$ of the loan as per the petition has been considered while repayment of loan as worked out above has been taken as repayment of the loan during the year. The petitioner is entitled to Advance Against Depreciation as calculated below:

(Rs. in lakh)

Advance Against Depreciation	2001-02	2002-03	2003-04
1/12th of Gross Loan(s)	380.03	380.03	380.03
Scheduled Repayment of the Loan(s)	2255.94	0.00	0.00
Minimum of the above	380.03	0.00	0.00
Depreciation during the year	277.73	200.80	200.80
Advance Against Depreciation	102.30	0.00	0.00

OPERATION & MAINTENANCE EXPENSES

29. In accordance with the notification dated 26.3.2001, Operation and Maintenance expenses, including expenses on insurance, if any, are to be calculated as under:

- i) Where O&M expenses, excluding abnormal O&M expenses, if any, on sub-station (OMS) and line (OML) are separately available for each region, these shall be normalised by dividing them by number of bays and line length respectively. Where data as aforesaid is not available, O&M expenses in the region are to be apportioned to the sub-station and lines on the basis of 30:70 ratio and these are to be normalised as below:

O&M expenses per Unit of the line length in Kms (OMLL) =
Expenses for lines (OML)/Average line length in Kms (LL)

O&M expenses for sub-stations (OMBN) = O&M expenses for substations (OMB)/Average number of bays (BN)]

- ii) The five years average of the normalised O&M expenses for lines and for bays for the period 1995-96 to 1999-2000 is to be escalated at 10% per annum for two years (1998-99 and 1999-2000) to arrive at normative O&M expenses per unit of line length and per bay for 1999-2000.
- iii) The normative O&M per unit length and normative O&M per bay for the year 1999-2000 for the region derived in the preceding paragraph is to be escalated @ 6% per annum to obtain normative values of O&M expenses per unit per line length and per bay in the relevant year. These normative values are to be multiplied by line length and number of bays (as the case may be) in a given system in that year to compute permissible O&M expenses for the system.
- iv) The escalation factor of 6% per annum is to be used to revise normative base figure of O&M expenses. Any deviation of the escalation factor computed from the actual inflation data that lies within 20% of the notified escalation factor of 6% shall be absorbed by utilities/beneficiaries.

30. The different elements of Operation & Maintenance expenses have been considered in the succeeding paragraphs in the light of provisions of the notification dated 26.3.2001 based on the data available since 1995-96.

Employee Cost

31. The petitioner has, inter alia, claimed incentive and *ex gratia* as a part of employee cost. The petitioner was asked to specify the amount of minimum statutory bonus paid to its employees under the Payment of Bonus Act. The petitioner vide its affidavit dated 6.2.2003 has stated that the incentive paid to employees does not

include minimum statutory bonus. The petitioner has further stated that the *ex gratia* was being paid in lieu of bonus, as is customary and a normal practice followed in private and public sectors. The petitioner has also furnished a write-up on Incentive scheme in support of the claim. It has been clarified on behalf of the petitioner that even the top management of the petitioner company is paid incentive and *ex gratia* included as a part of employee cost in O&M expenses claimed. The payment of incentive other than the statutory minimum bonus is at the discretion of the petitioner company and should be borne out of its profits or incentive earned from the respondents for higher availability of the Transmission System. In view of the above, the incentive and *ex gratia* payments made by the petitioner to its employees have been kept out of consideration for calculation of employee cost.

32. The petitioner was directed to furnish details of the arrears on account of pay and allowances for the period prior to 1995-96, but paid between 1995-96 to 1999-2000. The petitioner has submitted the details of such arrears, amounting to Rs. 14.99 lakh and Rs 19.33 lakh paid for Northern Region during 1995-96 and 1996-97. Similarly, the arrears for the previous years included in the employee cost for 1995-96 and 1996-97 for Corporate Office were stated to be Rs. 9.61 lakh and Rs. 35.60 lakh. The petitioner has also submitted that the arrears on account of pay revision from 01.01.97 to 31.03.2000 have been paid during the years 2000-01 and 2001-02 also. The amounts of these arrears as claimed by the petitioner are Rs. 362.56 lakhs and Rs. 263.86 lakhs for Northern Region and Rs. 297.13 lakh and Rs. 109.95 lakh for the Corporate Office for the years 2000-01 and 2001-02 respectively. The petitioner has prayed that the arrears on account of pay and allowances for the period prior to 1995-96 should be deducted while those pertaining to the period from 1995-96 to

1999-2000 but paid subsequent to 1999-2000 should be added to O&M charges. The petitioner has argued that since these pay arrears pertain to the period being considered for fixation of normative O&M, the arrears should be considered while fixing the normative O&M. We find the submission of the petitioner to be logical and have considered the submission in the calculation of employee cost.

Repair & Maintenance Expenses

33. The petitioner has submitted that the increase of 152.77 % in Repair & Maintenance expenses in 1997-98 (Rs 1121.85 lakh) over the previous year (Rs 443.82 lakh) is due to major repair of converter transformer under HVDC project. HVPNL has prayed for exclusion of such abnormal charges for calculating average O&M expenses. It is noted that the converter transformers in the Rihand-Dadri HVDC project have been under outage several times, which is not a normal phenomenon. It may be mentioned that in view of repeated outages in converter transformers, the petitioner has procured 3rd spare transformer for which the Commission has approved the tariff. In view of this, such major repair has been considered as abnormal and hence increase in expense has been limited to Rs 532.58 lakh (i.e. 20% over the previous year). In the next year i.e. 1998-99, the petitioner has claimed Repair and Maintenance expenses of the same order (Rs 1131.38 lakh) as in 1997-98. Thus, the Repair and Maintenance expenses in 1998-99 are also substantially high. Hence, in this year also the increase has been limited to Rs 639.10 lakh (i.e. 20% over the expenses considered admissible in previous year) for the purpose of normalisation. The abnormal increase of Repair and Maintenance expenses during 1997-98 and 1998-99 is evident from the O&M expenses for the year 1999-2000, which is Rs. 602.4 lakh. However, if any major repairs are undertaken during the tariff period

covered by this order, the petitioner may approach the Commission with proper justification to claim the actual expenses as a part of O&M expenses.

Power Charges

34. In case of Corporate Office, the power charges as claimed by the petitioner have been considered in the calculation of O&M expenses. As regards Northern Regional Transmission System (for short “ the NRTS”) the petitioner was directed to submit break up of power charges between sub-station facilities and residential colonies. The petitioner expressed its inability to furnish the data as it was not maintained. However, the petitioner has furnished details of power consumption for the residential colony in Western and Eastern Regions, which work out to be in the range of 20% of the total power charges. On the same basis, the power charges for the residential colony have been considered as 20% of total power charges claimed for Northern Region. As power charges for the residential colony need to be recovered from the employees, admissibility of power charges in case of the NRTS has been limited to 80% of the total claim.

Insurance

35. It has been noted that the petitioner has a policy of self-insurance for which it has created the insurance reserve. The insurance charges claimed by the petitioner are credited to the insurance reserve. The petitioner was directed to furnish the management policy on creation of insurance reserve, items of loss secured and the conditions thereto. The petitioner has submitted insurance policy of the petitioner company under affidavit dated 6.2.2003. The key features of the policy submitted by the petitioner are as under:

- (a) Insurance reserve is created @ 0.1% on gross value of fixed assets at the close of the year, to meet the future losses arising from uninsured risks, except machinery breakdown for valve hall of HVDC, and fire risk of HVDC equipment and SVC sub-stations.
- (b) The policy generally covers following:
 - (i) Fire, lightning, explosion/implosion, and bush fire
 - (ii) Natural calamity: flood, earthquake, storm, cyclone, typhoon, tempest, hurricane, tornado, subsidence and landslide
 - (iii) Riot, strike/ malicious and terrorist damage
 - (iv) Theft, burglary, Missile testing equipment, impact damage due to rail/ road or animal, aircraft and articles dropped there from.
- (c) The losses of assets caused by the above causes are adjusted against insurance reserve as per the corporation guidelines.
- (d) The amount so set aside in the insurance reserve has not been separately claimed from the respondents and the expenses have been met from the permitted O&M charges under the tariff.

36. The petitioner has stated that the policy of self-insurance has also been followed by NHPC, where 0.5% per annum of the gross block of O&M projects is transferred to self-insurance reserve account. It has also been informed that the rate of 0.1% as booked under O&M expenses towards self-insurance reserve is lower than the insurance premium (0.22%) being charged by the insurance companies for the

risks covered in the self-insurance policy. In support of this claim, the petitioner has placed on record a letter from Reliance General Insurance Company quoting for the insurance rate of the assets covered in the self-insurance policy of the petitioner company.

37. In view of the explanation furnished on behalf of the petitioner, the insurance charges as claimed have been considered in O&M expenses. We, however, make it explicit that the self-insurance provided by the petitioner is for replacement of the damaged assets and the beneficiaries shall not be charged anything in case of damage due to any of the events mentioned in the insurance policy.

38. In case of Training & Recruitment expenses, Communication expenses, Traveling, Rent, and Miscellaneous Expenses as claimed by the petitioner have been considered for calculation, both in the case of the NRTS as well as Corporate Office.

Other Expenses

39. In case of NRTS, under the subhead "provisions", the petitioner has claimed amount of Rs 10.69 lakh, Rs 30.08 lakh and Rs 5.71 lakh for the years 1997-98, 1998-99 and 1999-2000 respectively for loss of stores. Similarly, amount of Rs 5.15 lakh in 1998-99 has been claimed on account of writing off of advance. These have not been considered admissible, since, these items are controllable by the petitioner and reflect the managerial efficiency of the petitioner. In case of Corporate Office, following expenses have not been admitted for reimbursement:

- (a) Donation of Rs. 0.05 lakh, Rs. 30 lakh, Rs. 34.78 lakh and Rs. 600.03 lakh for the years 1995-96, 1996-97, 1998-99 and 1999-2000, as these donations are not related to transmission business. The expenditure on account of the donations need be borne by the petitioner out of other profits of the corporation.
- (b) Provisions of Rs. 1107.61 lakh, Rs. 385.8 lakh and Rs. 0.27 lakh for the year 1996-97, 1997-98 and 1999-2000. These provisions were made for the loss of stores in Eastern Region and North Eastern Region, for bad and doubtful debt in Northern Region and for shortage of store in North Eastern Region. As all these items are controllable by the petitioner and reflect the managerial efficiency. However, an amount of Rs. 11.14 lakh on account of fire at the corporate office in 1998-99 has been considered as admissible under the head provisions.
- (c) Legal expenses amounting to Rs. 2.65 lakh in the Corporate Office on legal opinion on CERC matters have not been allowed in line with the Commission's policy of allowing only the fees for the petitions filed in the Commission. However, other legal expenses for disputes related to compensation, contracts, service matters and labour cases have been admitted.

Recoveries

40. The details of the recoveries for the NRTS and the Corporate Office were furnished by the petitioner vide affidavit dated 6th February 2003. The petitioner in the aforesaid affidavit also furnished the "complete details" of the recoveries for the NRTS. According to the petitioner, the income from sale of bid documents has

already been adjusted for under the sub-head Tender Expenses under the head Other Expenses. Hence, income under this sub-head has not been considered in the recovery for the NRTS as well as Corporate Office. Similarly, electricity charges recovered from employees residential buildings and other residential buildings have not been considered under the head “recovery” as 20% of the power charges for colony consumption have been deducted in case of the NRTS.

Allocation of Corporate Office Expenses to Various Regions

41. The petitioner has submitted the method for allocation of Corporate Office expenses to various Regions. The key steps in the apportionment of Corporate Office expenses among the regions are as under:

- i) Expenses booked under Training & Recruitment, Directors sitting fees, provisions, R&D, Write off of fixed assets/ non-operating expenses and donations are considered exclusively as O&M expenses.
- ii) After deducting these exclusive O&M expenses, the balance Corporate Office expenses are allocated in the ratio of Transmission charges to annual Capital outlay to obtain expenses allocated to O&M and construction activity.
- iii) The allocation to O&M activity obtained in step (ii) is added to exclusive O&M expenses obtained in step (i) to arrive at total O&M expenses in the Corporate Office.

- iv) RLDC expenses are then deducted from the total O&M expenses obtained in step (iii) to arrive at O&M expenses allocated to transmission business.
- v) O&M expenses allocated to transmission business are then allocated to various regions in the ratio of their respective transmission charges.

42. The methodology adopted by the petitioner for allocation of Corporate Office O&M expenses has been approved and followed in the calculation of O&M expenses. The comparative statement of O&M expenses claimed by the petitioner and those allowed and considered for the years 1995-96 to 1999-2000 for the purpose of computation of O&M expenses for the tariff period are given herein below:

DETAILS OF O&M EXPENSES FOR POWERGRID SYSTEM IN NORTHERN REGION

(Rs. in Lakh)

Items	1995-96		1996-97		1997-98		1998-99		1999-2000	
	As per Petitioner	As allowed for	As per Petitioner	As allowed for	As per Petitioner	As allowed for	As per Petitioner	As allowed for	As per Petitioner	As allowed for
Employee Cost	1475.76	1312.61	1651.14	1485.26	2224.24	2266.33	2686.78	2701.83	3287.71	2929.61
Repair & Maintenance	373.53	373.53	443.82	443.82	1121.85	532.58	1131.38	639.10	602.04	602.04
Power Charges	351.00	280.80	501.27	401.02	486.21	388.97	497.64	398.11	602.04	481.63
Training & Recruitment	7.88	7.88	9.54	9.54	11.57	11.57	13.29	13.29	11.57	11.57
Communications	81.37	81.37	69.53	69.53	100.32	100.32	85.82	85.82	75.13	75.13
Traveling	201.61	201.61	208.75	208.75	274.35	274.35	329.98	329.98	347.30	347.30
Printing & Stationery	25.14	25.14	33.62	33.62	30.15	30.15	26.65	26.65	27.59	27.59
Rent	14.93	14.93	15.79	15.79	24.54	24.54	23.48	23.48	20.86	20.86
Miscellaneous Expenses	342.46	342.46	402.74	402.74	495.03	495.03	619.64	619.64	632.82	632.82
Insurance	406.59	406.59	542.03	542.03	719.81	719.81	640.90	640.90	725.33	725.33
Others	215.95	215.95	150.09	150.09	292.18	281.49	188.39	145.16	237.43	231.72
Corporate Expenses Allocation	949.51	929.40	1216.57	598.75	1191.95	1028.16	1068.85	1066.49	1348.99	1090.89
TOTAL	4445.73	4192.27	5244.89	4360.93	6972.20	6153.30	7312.80	6690.45	7918.81	7176.49
Less : Recoveries		44.79		24.31		52.45		13.88		39.17

Net O&M Expenses	4445.73	4147.48	5244.89	4336.62	6972.20	6100.85	7312.80	6676.57	7918.81	7137.32
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Method of Normalizing O&M Expenses

43. The following formulae for calculation of normative O&M expenses as per the notification dated 26.3.2001, as amended vide Central Electricity Regulatory Commission (Terms and Conditions of Tariff) (Second Amendment) Regulations, 2003 published in the Gazette of India on 2.6.2003 have been followed

$$AVOMLL = \frac{1}{5} \sum_{i=1995-1996}^{1999-2000} \frac{OML_i}{LL_i}$$

$$AVOMBN = \frac{1}{5} \sum_{i=1995-1996}^{1999-2000} \frac{OMS_i}{BN_i}$$

Where:

AVOMLL and AVOMBN are average normalized O&M expenses per Ckt. km of line length and per bay respectively.

OML_i and OMS_i are O&M expenses for the lines and for the sub-stations for the ith year respectively.

LL_i and BN_i are the total line length in Ckt. km and total number of bays in the ith year respectively.

44. As per the above method, AVOMLL and AVOMBN are calculated based on the data for the years 1995-96 to 1999-2000. These normalized averages correspond to the year 1997-98. After escalating these averages by 10% per annum for two years, the normative O&M expenses for the base year 1999-2000 have been obtained. Normative O&M expenses for subsequent years are obtained by escalating these

normative figures by 6% per annum. Following table gives comparison of the normative O&M expenses as calculated by the petitioner and as per our calculations allowed for the base year i.e. 1999-2000 and afterwards:

NORMALISED O&M EXPENSES FOR NORTHERN REGION

(Rs. in Lakh)

S. NO.	Items	1995-96	1996-97	1997-98	1998-99	1999-2000	Total for five years 95-96 to 99-00	99-00	2000-01	2001-02	2002-03	2003-04
1	Total O&M expenses(Rs. in lakh)	4147.48	4336.62	6100.85	6676.57	7137.32						
2	Abnormal O&M expenses	0.00	0.00	57.64	107.13	99.08	263.85					
3	Normal O&M expenses (S.No. 1 -S.NO. 2)	4147.48	4336.62	6043.21	6569.44	7038.24						
4	OML (O&M for lines)= 0.7 X S. NO.3	2903.24	3035.63	4230.25	4598.61	4926.77	19694.50					
5	OMS (O&M for substation) = 0.3XS.NO.3	1244.24	1300.99	1812.96	1970.83	2111.47	8440.49					
6	Line length at beginning of the year in Kms.	9622.13	9622.13	9743.48	10561.88	10819.55						
7	Line length added in the year in Kms.	0.00	121.35	818.40	257.67	1705.07						
8	Line length at end of the year in Kms.	9622.13	9743.48	10561.88	10819.55	12524.62						
9	LL (Average line length in the Region)	9622.13	9682.81	10152.68	10690.72	11672.09	51820.43					
10	NO. of bays at beginning of the year	157	157	161	183	185						
11	NO. of bays added in the year	0	4	22	2	31						
12	NO. of bays at the end of the year	157	161	183	185	216						
13	BN (Average number of bays in the Region)	157.0	159.0	172.0	184.0	200.5	872.50					
14	AVOMLL(OML/LL)	0.302	0.314	0.417	0.430	0.422	1.884					
15	AVOMBN(OMS/BN)	7.925	8.182	10.540	10.711	10.531	47.890					
16	NOMLL(allowable O&M per unit of line length)			0.3768	0.4145	0.4560		0.4560	0.4833	0.5123	0.5431	0.5756
17	NOMBN(Allowable O&M per bay)			9.5780	10.5358	11.5894		11.5894	12.2847	13.0218	13.8031	14.6313
	NOMLL(as calculated by petitioner)			0.42				0.51	0.54	0.57	0.60	0.64
	NOMBN(as calculated by petitioner)			10.75				13.01	13.79	14.62	15.50	16.43

45. The differences in NOMLL and NOMBAN as calculated by the petitioner and as allowed are mainly on account of certain expenses disallowed by us as explained in preceding paragraphs. Using these normative values, O&M charges have been calculated.

46. In our calculations the escalation factor of 6% per annum has been used. In accordance with the notification dated 26.3.2001, if the escalation factor computed from the observed data lies in the range of 4.8% to 7.2%, this variation shall be absorbed by the petitioner. In case of deviation beyond this limit, adjustment shall be made on by applying actual escalation factor arrived at on the basis of weighted price index of CPI for industrial workers (CPI_IW) and index of selected component of WPI (WPI_TR).

47. The details of O&M expenses allowed are given hereunder:

2001-02			2002-03			2003-04		
Line length in Ckm	No. of bays	O&M expenses (Rs. in lakh)	Line length in Ckm	No. of bays	O&M expenses (Rs. in lakh)	Line length in Ckm	No. of bays	O&M expenses (Rs. in lakh)
440.17	9	342.704	440.17	9	363.266	440.17	9	385.062

RETURN ON EQUITY

48. As per the notification dated 26.3.2001, return on equity shall be computed on the paid up and subscribed capital and shall be 16% of such capital. It further provides that premium raised by the Transmission Utility while issuing share capital & investment of internal resources created out of free reserve of the existing utility, if any, for the funding of the project, shall also be reckoned as paid up capital for the purpose of computing the return on equity, provided such premium amount and

internal resources are actually utilised for meeting the capital expenditure of the Transmission project and forms part of the approved financial package as set out in the techno-economic clearance accorded by the Authority.

49. The petitioner has claimed return on the basis of equity of Rs. 4560.39 lakh as was admitted by Ministry of Power/the Commission while notifying tariff for the previous tariff setting. The same methodology has been followed for working out the return on equity. The equity considered for each line separately is as under:

(Rs. in lakh)

Transmission Line	Equity allowed by Ministry of Power/Commission	Equity as considered
(i) Salal-II Sarna-Dasuya 2 nd Ckt.	208.00	208.00
(ii) Salal-II a)Salal-Jammu 2 nd Ckt. (iii) Kishenpur-Sarna 2 nd Ckt.	3521.00	3521.00
(iv) 220 kV D/C Salal II –Kishenpur Line	831.39	831.39
Total	4560.39	4560.39

50. On the above basis, the petitioner shall be entitled to return on equity of Rs. 729.66 lakh each year during the tariff period.

INTEREST ON WORKING CAPITAL

51. As provided in the notification dated 26.3.2001, the interest on working capital shall cover:

(a) Operation and maintenance expenses (cash) for one month;

- (b) Maintenance spares at a normative rate of 1% of the capital cost less $1/5^{\text{th}}$ of the initial capitalised spares. Cost of maintenance spares for each subsequent year shall be revised at the rate applicable for revision of expenditure on O & M of the transmission system; and
- (c) Receivables equivalent to two months' average billing calculated on normative availability level, which is 98%.

52. The petitioner has claimed the maintenance spares on the basis of maintenance spares allowed in Ministry of Power for the year 1997-98 escalating the same as per weighted price index taking into account 60% of weightage for WPI & 40% of CPI and @ 6% p.a. for the years 2001-02 to 2003-04 and deducting the $1/5^{\text{th}}$ of the initial capitalized spares therefrom.

53. In keeping with the methodology prescribed in the notification dated 26.3.2001, working capital has been worked out. The value of maintenance spares for 1997-98 has been taken as considered by Ministry of Power and the same has been escalated up to 2000-01 as per respective WPI/CPI and thereafter the same has been further escalated @ 6% per annum for the tariff period 2001-02 to 2003-04. The maintenance spares have been calculated as ere under:

(Rs. in lakh)

Maintenance Spares for Working Capital			1998-1999	1999-2000	2000-2001
Spares for Working Capital for the year 1997-1998	102.74	102.74			
Weighted average Growth Rate of Index $((60\%*W1/W0)+(40\%*C1/C0))-$			6.66%	5.86%	6.00%

1					
Spares for Working Capital for the year 1998-1999 to 2000-01			109.58	116.00	122.96

54 The petitioner has claimed interest on working capital at the rate of 11.5%, based on annual SBI PLR for the year 2001-2002, which has been allowed separately by the Commission in certain other petitions and, therefore, the same has been allowed here also despite the objection of some of the respondents. The detailed calculations in support of interest on Working Capital are as under:

Interest on Working Capital

(Rs. in lakh)

Working Capital		2001-02	2002-03	2003-04
Escalation for Maintenance Spares	6%			
Spares	122.96			
Less: 1/5 th of Initial Spares	0.00			
Maintenance Spares	122.96	130.34	138.16	146.45
O & M expenses		28.56	30.27	32.09
Receivables		269.05	223.13	227.03
Total		427.95	391.56	405.57
Rate of Interest		11.50%	11.50%	11.50%
Interest		49.21	45.03	46.64

TRANSMISSION CHARGES

55. In the light of above discussion, we approve the transmission charges as given in the Table below:

TABLE

(Rs. in lakh)

Transmission Tariff	2001-02	2002-03	2003-04
Interest on Loan	112.71	0.00	0.00
Interest on Working Capital	49.21	45.03	46.64

Depreciation	277.73	200.80	200.80
Advance against Depreciation	102.30	0.00	0.00
Return on Equity	729.66	729.66	729.66
O & M Expenses	342.70	363.27	385.06
Total	1614.32	1338.75	1362.16

56. In addition to the transmission charges, the petitioner shall be entitled to other charges like Development Surcharge, income tax, incentive, surcharge and other cess and taxes in accordance with the notification dated 26.3.2001 subject to directions if any, of the superior courts. The petitioner shall also be entitled to recovery of filing fee of Rs 2 lakh, which shall be recovered from the respondents in five monthly installments of Rupees forty thousand each and shall be shared by the respondents in the same ratio as other transmission charges. This is subject to confirmation that the amount is not already included in the O&M charges.

57. The petitioner is already billing the respondents on provisional basis in accordance with the Commission's notification dated 4.4.2001 as extended from time to time. The provisional billing of tariff shall be adjusted in the light of final tariff now approved by us.

58. The transmission charges approved by us shall be included in the regional transmission tariff for Northern Region and shall be shared by the respondents in accordance with the notification dated 26.3.2001.

59. This order disposes of Petition No. 21/2002.

Sd/-
(K.N. SINHA)
MEMBER

Sd/-
(G.S. RAJAMANI)
MEMBER

Sd/-
(ASHOK BASU)
CHAIRMAN

New Delhi dated the 31st July 2003