

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram:

Shri G.S. Rajamani, Member

Petition No.109/2000

In the matter of

Payment of fees and charges to RLDCs for undertaking load dispatch
functions

And in the matter of

Power Grid Corporation of India Ltd.

....**Petitioner**

Vs

1. Himachal Pradesh State Electricity Board, Shimla
2. Uttar Pradesh Power Corporation Ltd., Lucknow
3. Power Development Department, Govt. of J&K, Srinagar
4. Delhi Vidyut Board, New Delhi
5. Rajasthan Rajya Vidyut Prasaran Nigam Ltd, Jaipur
6. Punjab State Electricity Board, Patiala
7. Chandigarh Administration, Chief Engineer and Secretary, Chandigarh
8. Haryana Vidyut Prasaran Nigam Ltd, Panchkula
9. Bihar State Electricity Board, Patna
10. Damodar Valley Corporation, Calcutta
11. West Bengal State Electricity Board, Calcutta
12. Grid Corporation of Orissa Ltd., Bhubaneswar
13. Power Deptt., Govt. of Sikkim, Gangtok
14. Madhya Pradesh State Electricity Board, Jabalpur
15. Maharashtra State Electricity Board, Mumbai
16. Gujarat Electricity Board, Vadodara
17. Goa Electricity Department, Panaji, Goa
18. Collector, Union Territory of Dadra and Nagar Haveli, Silvassa
19. Electricity Department, Admn. Of Daman & Diu, Daman
20. Andhra Pradesh Transmission Corporation Ltd., Hyderabad
21. Karnataka Power Transmission Corporation Ltd., Bangalore
22. Kerala State Electricity Board, Trivandrum
23. Tamil Nadu State Electricity Board, Chennai
24. Electricity Department, Govt. of Pondicherry, Pondicherry
25. Assam State Electricity Board, Guwahati
26. Meghalaya State Electricity Board, Shillong
27. Electricity Deptt., Govt. of Manipur, Imphal
28. Deptt. of Power, Govt. of Mizoram, Aizwal
29. Electricity Deptt., Govt. of Nagaland, Kohima

30. Electricity Deptt., Govt. of Tripura, Agartala
 31. Deptt. of Power, Govt. of Arunachal Pradesh, Itanagar
 32. Jharkand State Electricity Board, Jharkhand
 33. Chhatisgarh State Electricity Board, Chhatisgarh
 34. Uttranchal State Electricity Board, Dehradun
-Respondents**

The following were present:

1. Shri R.G. Yadav, PGCIL
2. Shri V. Mittal, PGCIL
3. Shri V.K. Dayal, Chief Manager, PGCIL
4. Shri A Roy, PGCIL
5. Shri Alok Roy, PGCIL
6. Shri V.K. Veluchamy, PGCIL
7. Shri S.K. Soonee, SRLDC
8. Shri S. Mehrotra, Dy. Mgr. (F), PGCIL
9. Shri S.K. Banerjee, AGM ERLDC
10. Shri L.K. Kanungo, DGM, SRLDC
11. Shri Sunil Agrawal, CM (SO), PGCIL
12. Shri R.K. Mediratha, Mgr, PGCIL
13. Shri R.G. Yadav, PGCIL
14. Shri M.G. Rawat, PGCIL
15. Shri T.P.S. Bawa, SE, PSEB
16. Shri J.S. Bhargava, AEM (SSP), RRVPNL
17. Shri H.M. Sharma, ASEB

ORDER
(Date of Hearing: 11.12.2002)

The Commission in its order of 22.3.2002, had approved, under Section 55(10) of the Electricity (Supply) Act, 1948, payment of fees and charges for the years 1998-99 and onwards to the Regional Load Despatch Centres (RLDCs) for undertaking load dispatch functions. The petitioner filed a petition for review of the said order dated 22.3.2002, being review petition No. 84/2002. The review was allowed by the Commission by its order of 18.11.2002. I was entrusted to study the issues afresh and make appropriate recommendations for

consideration of the Commission. I have heard the parties and proceed to state my views on the issues before me.

RLDC Charges for 1998-1999 and 1999-2000

2. The Commission had directed that RLDC charges for 1998-99 and 1999-2000 should be reimbursed based on the principles contained in CEA's letter dated 15.07.1998 as the Commission was opposed to retrospective adjustment of the RLDC charges though, the petitioner had claimed these charges, based on actuals. The petitioner has submitted that the Commission vide its order dated 22.06.99 had allowed billing of RLDC charges based on CEA's said letter dated 15.07.98 provisionally and, therefore, authorisation of payment of actual expenses would not be termed as the retrospective revision of these charges. The petitioner has reiterated that the actual expenditure incurred by RLDCs be reimbursed for 1998-99 and 1999-2000.

3. I have considered the submission made on behalf of the petitioner. In my opinion, the direction contained in the order dated 22.3.2002 does not call for any modification. Even though the initial direction was for payment of fees and charges on provisional basis the Commission, as a matter of principle feels concerned to insulate the utilities from the regulatory shocks through retrospective revision of fees and charges. Therefore, I do not consider it appropriate to make any recommendation for revision of charges based on actuals.

Employee Cost

4. The Commission in the said order dated 22.3.2002 had approved Rs. 1145.80 lakhs as employee cost for the base year 2000-01 as against Rs. 1667.15 lakhs claimed by the petitioner. The increase in the employee cost on account of any increase in number of employees beyond 2000-01 was not allowed by the Commission. The petitioner has argued that the expenditure claimed has already been incurred, which was duly audited by the statutory auditors and should be reimbursed. According to the petitioner, while deciding the manpower strength the Commission should have compared sanctioned manpower strength of RLDCs when they were operated by CEA before their transfer to the petitioner. It is further submitted that with adoption of new regulatory measures like ABT, IEGC, etc there has been a many fold increase in activities of RLDCs since then. The aspect of increase in inter-regional exchanges over the last few years was in particular highlighted by the petitioner during the hearing. The petitioner has also placed on record extracts of the PIB memo which studied the manpower requirement for the RLDCs and also the sanctioned strength of REBs prior to taking over of RLDCs by the petitioner, in support of its claim for higher fees and charges on account of manpower requirements.

5. I have very carefully considered the matter. The actual audited expenditure on account of RLDC charges need not necessarily be reimbursed. This view has been expressed by the Commission in its order of 13.8.2002 while

admitting the review petition. The view gets fortified by the judgement of the Hon'ble Supreme Court in West Bengal Electricity Regulatory Commission Vs Calcutta Electricity Supply Co. Ltd. (AIR 2002 SC 3588). The past staff strength of RLDCs or for that matter the recommendations contained in the PIB memo submitted by the petitioner have little relevance when the present staff requirement is based on an in-depth study carried out by CEA. In view of the change in the nature of duties performed by RLDCs as well as the technological changes in the form of computerization and the improvement in communication facilities, such comparisons may not be appropriate. The additional requirement of staff has to be estimated based on systematic studies by an appropriate authority, considering the present day scenario. The petitioner has not supported its claim based on any such study. However, undoubtedly in the recent past there have been increases in inter-regional exchanges. These are likely to go up further with the commissioning of new inter-regional links. Implementation of ABT is also likely to give boost to bilateral trading within or even outside the region. On these considerations the drawl schedules may have to be revised during the day on account of UI charges and penalty provisions associated with mis-declaration of generating capability. I am also of the view that the need for transparency brought about by the new regulatory/commercial regime, coupled with growing awareness among the constituents shall impose additional liability on RLDCs for collection, compilation and analysis of the information relating to system operation functions. I, therefore, recommend an increase of 15% in the staff strength (executives as

well as non-executives) over the employee strength considered for the year 2000-01 for all the RLDCs from 2001-02 and onwards. The summary of my recommendation in regard to manpower strength is as under:

RLDC	2000-2001 (same as in impugned order)				2001-2002 and onwards			
	Executi- ves	Non- Executives	Total staff	Employee cost (Rs. in Lakhs)	Executi- ves	Non- Executives	Total staff	Employee cost (Rs. in Lakhs) (with escalation)
NRLDC	35	42	77	266.98	40	48	88	326.48
WRLDC	31	36	67	233.18	36	41	77	287.38
SRLDC	31	36	67	233.18	36	41	77	287.38
ERLDC	31	36	67	233.18	36	41	77	287.38
NERLDC	23	29	52	179.28	26	33	59	217.49
Total	151	179	330	1145.8	174	204	378	1406.11

Share of corporate office expenses

6. The Commission had directed that employee cost of 17 personnel in the System Operation group at the corporate office attending exclusively to RLDC related work should be considered a part of the RLDC expenses. Employee cost for executive and non-executive categories was taken as Rs 4.34 Lakhs and Rs 2.74 lakhs respectively, which is the employee cost arrived at by CEA for NRLDC for 2000-2001. The petitioner has reiterated its earlier submission that sharing of corporate office expenses should be done as per its corporate policy, that is, Corporate Office expenses, chargeable to revenue, be allocated to RLDCs in the same proportion as the RLDC O&M expenses bear to the O&M expenditure of the Corporation (excluding Corporate office expenses) for the current year. It has further been contended that if the Commission decides to continue with the allocation of employee cost as directed, then total of 37 persons should be

considered exclusively for RLDC work, the details of which have been suggested as under:

System operation	17
HRM/Admn.	5
HRD	2
Commercial	3
Law	2
Finance	5
Contract & Materials	3
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Total	37
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7. In the contention of the petitioner, in addition, expenses for higher management should also be included in the employee cost of corporate office allocated towards RLDC.

8. In my opinion, the test for allocation of corporate office expenses should be that the even if the Central Government on a future date decides to entrust control of RLDCs to any other organization, (for which the Central Government is competent) the transmission tariff and RLDC charges need not be modified merely on that ground. The method of allocation suggested by the petitioner fails this test. Once the control of RLDCs is entrusted to any other organization, the method of maintaining ratio of O&M charges of RLDCs to O&M charges decided for transmission tariff suggested by the petitioner, will lose its significance. On the other hand, the method approved by the Commission shall still be valid, in the event of the petitioner is divested of function of control of RLDCs. Ideally, the number of employees exclusively working for transmission business should remain with the petitioner and those working for RLDC related functions should

be transferred to new entity. Earlier, the petitioner had not submitted the list of employees exclusively performing RLDC related functions. In the absence of this information, the Commission considered 17 employees working in the System Operation group as exclusively working for RLDC related functions. Now the petitioner has submitted details of 37 employees exclusively working for RLDC related functions. Since RLDCs have their own full-fledged departments viz. HRM, Administration, Accounts & Finance etc, I am of the opinion that a total of not more than 30 persons should be required for RLDC related functions in the corporate office.

9. The revised computation for share of corporate office expenses based on the proposed strength of 30 employees shall be as under:

Revised share of corporate office expenses in the RLDC charges

=Share of corporate office expenses as per 17 persons in the order dated 22.03.2002 x (30/17)

=(120.74x30)/17

=Rs. 213.07 Lakhs

Communication Expenses

10. The Commission had earlier approved the communication expenses as recommended by CEA for various RLDCs for 2000-2001. However, it was also directed that these expenses would remain fixed and would not be escalated for future years till 2003-04. The petitioner has now submitted that use of communication facilities is likely to increase in future due to value added services

such as video conferencing and load dispatching, scheduling, meter data collection, etc. The petitioner has therefore, suggested reimbursement of these charges on actuals.

11. The Commission had directed not to escalate communication charges in future years taking into account declining trend in the long distance telephony charges. The petitioner in its affidavit dated 18.12.2002 has also admitted that video conferencing facilities, etc are presently not available in any of the RLDCs. Even with the increase in volume of communication requirement, the related expenses can be maintained at (or even be reduced from) the level of 2000-2001 because of general decline in rates of STD charges. Therefore, no revision of communication expenses is recommended.

Repair & maintenance charges

12. The Commission had accepted the recommendation of CEA for not allowing Rs 17.78 lakhs in respect of WRLDC as the petitioner had failed to satisfy that some of the items covered under the head R&M charges had not been covered under the heads "miscellaneous expenses" and "other expenses" and had ordered accordingly. The petitioner has stated that Rs. 17.78 lakhs not allowed by the Commission in respect of WRLDC are actual audited expenses and there is no scope for duplication. The petitioner, in its affidavit dated 28.08.2002 has submitted audited expenditure of WRLDC for 2000-2001 along with break-up of the "other expenses" to allay the apprehension expressed by CEA regarding duplication of claim. The petitioner has therefore, prayed that

entire amount of Rs. 27.39 lakhs (including Rs 17.78 lakhs) may be allowed as R&M charges in case of WRLDC.

13. In my order dated 13.12. 2002, I had inter-alia directed the petitioner to submit detailed break-up of R&M charges from 1997-98 onwards and detailed breakup of "miscellaneous expenses" for 2000-2001. It is disturbing to note that there are wide variations in the data submitted by the petitioner earlier to CEA and now filed on 18.12.2002, as may be seen from the table below:

Break up of R&M charges (in Rs.) for WRLDC for 1999-2000

<u>Item</u>	As submitted to CEA vide Letter 02.08.2001	As submitted to Commission vide affidavit dated 18.12.02
Office building	165820	613403
Material Cost	1342760	1014894
Maintenance Cost	1919734	*1882941
Vehicle repair	141605	58681
Total	3569919	3569919

* AMC charges + Equipment repair + Maintenance cost of township

14. Further, in its letter dated 06.09.01 submitted to CEA, the petitioner had indicated break up of maintenance cost of Rs. 1919 734/- into various sub-heads viz. Water charges, Printing & stationery, EDP expenses, Security charges, Vehicle running/hiring, Misc./meetings/hospitality. However, the sub-head-wise break up of R&M charges have not been submitted to the Commission in the affidavit dated 18.12.2002. These factors raise doubts on the authenticity, correctness and credibility of the information submitted by the petitioner. In view

of the inconsistency and consequential discrepancies mentioned above, I am not inclined to take a different view on this issue and make recommendation for upward revision of R&M charges as prayed for by the petitioner.

Travelling expenses

15. The Commission had accepted the recommendation of CEA for reimbursement of traveling expenses as per claim made by the petitioner. However, the Commission had directed that these expenses would remain fixed and would not be escalated for the future years till 2003-04. The petitioner has prayed for reimbursement of travelling expenses on the basis of actuals due to increasing trend in fares. During the hearing, the petitioner also pleaded that the meetings are not necessarily held at the RLDC headquarter as observed by the Commission. However, no evidence whatsoever has been submitted to support the claim. Shri S.K. Sooni, AGM, SRLDC who was present at the hearing submitted orally that at times he and his officers were required to travel for discussions at the request of state utilities for matters unrelated to RLDC functions but otherwise considered to be in the over all interest of grid operation.

16. The argument of the petitioner for reimbursement of travelling expenses on actuals cannot be accepted for reasons mentioned in para 5 of the Commission's order dated 13.08.2002. I am of the opinion that RLDCs are expected to concentrate on the work assigned to it under the statute or as per IEGC approved by the Commission. This shall not only increase their

effectiveness but may also curtail their expenditure towards travelling, communication etc. to a greater extent. RLDCs should therefore, budget their travel expenses and undertake traveling judiciously so as to limit their expenses to the budget allocation. In case RLDC employees need to travel outside headquarter at the instance of the state utility, the necessary expenditure may be borne by the concerned state utility on its own account.

Rebate and interest on working capital

17. The Commission had approved interest on Working Capital considering one month's receivables instead of two months' receivables claimed by the petitioner. The Commission had also approved late payment surcharge of 1.5% per month, rebate of 2.5% for payment through LC and rebate of 1% on payment within one month of presentation of the bill. The petitioner has submitted that rebate of 2.5% on payment through LC corresponds to interest on working capital based on 2 months' receivables. In case only one month's receivables are to be taken for calculation of interest on working capital, the rebate on LC should be 1% and no rebate afterwards.

18. It is noted that the Interest on Working Capital component in the RLDC charges is of the order of 0.9% of the total charges. Therefore, the argument of the petitioner to allow only 1% rebate on the payment through LC is based on sound logic. Since only one month's receivables have been included in the

Working Capital, the rebate for early payment (within a month) may not be allowed.

Absorption of difference of up to 5%

19. The Commission had directed that any difference up to 5% between the actual expenditure and the charges calculated as per the Commission's order, should be absorbed by the petitioner. The petitioner has now submitted that since there is no profit element involved in the RLDC functions, it is not possible to absorb any liability and, therefore, it has prayed that the actual expenses may always be reimbursed.

20. The float of 5% was provided only to avoid review on the pretext of even small deviations from the charges approved by the Commission. However, if the petitioner has objection to this float, the next best course would be to abolish this float and no expenses beyond the limit approved by the Commission shall be recoverable from the beneficiaries.

Taxes, duties etc.

21. The Commission in the order dated 22.3.2002 had directed that taxes (except income tax), levies and duties imposed by the Government and other statutory authorities be reimbursed to RLDCs. In regard to income tax, it was directed that it should be borne by the petitioner/RLDCs from their own income. The petitioner has now submitted that RLDCs are to receive only reimbursement of their actual expenses and do not have income to bear the liability of the

income tax. It is argued by the petitioner that the direction of the Commission makes a deviation from the practice adopted granting tariff for transmission assets.

22. It is true that normally RLDCs are not expected to have any income as they are generally expected to recover their expenses. However, RLDCs may have income if actual expenditure is less than the charges approved by the Commission for a particular year. In such a situation, RLDCs shall be liable to pay income tax and logically this should be borne by the RLDCs themselves. If the petitioner wants to avoid liability for payment of income tax, it may consider returning the excess amount so recovered, which may represent the income of RLDCs, to the beneficiaries. RLDC charges cannot be equated with the tariff, as the latter includes assured return on the equity employed. Therefore, the departure from the original direction as contained in the order dated 22.3.2002 is considered unnecessary.

Prior period expenses

23. The Commission had not approved prior period expenses of Rs. 109.14 lakhs claimed by the petitioner. At that time, specific details of these expenses had also not been furnished. The petitioner has now submitted details and reasons for not recovering this amount in previous years. The petitioner has prayed for reimbursement of the same.

24. However, the Commission has already directed that for the previous years, the RLDC expenses would be paid as per CEA letter dated 15.07.98 to avoid retrospective upward revision. Therefore, it would not be proper to include any of the expenses for the previous years in the expenses for the base year of 2000-2001. Therefore, in my opinion the Commission's earlier direction on this issue does not call for any reconsideration.

Other income

25. The Commission had directed that the amount indicated by the petitioner under the head "other income" should be deducted from the total RLDC expenses to arrive at the net RLDC charges payable for 2000-01. The "other income" in the base year should be escalated to arrive at "other income" in future years. The petitioner has contended that the amount of Rs. 45.98 lakhs deducted by the Commission is basically the amount of interest on employee loan repaid by the employees. If this amount is to be deducted, amount of Rs. 73.28 lakhs equivalent to 16% ROE on the loan advanced to employees (Rs 458 lakhs) should be considered as expenditure and reimbursed to the petitioner. The petitioner has also submitted details of the "other income" for all the RLDCs in response to order dated 13.12.2002.

26. It is seen that for the base year 2000-2001, out of the total amount (for all the RLDCs) of Rs. 45.98 lakhs shown as " other income", amount of Rs. 30.74 lakhs and Rs. 5.75 lakhs is on account of income from interest on employee loans and recovery of rent from employees respectively. I accept the contention

of the petitioner that income from interest on employee loan should not be deducted from the O&M expenses. I am also of the opinion that recovery of rent from employees should also not be deducted from the O&M expenditure as no compensation has been allowed on account of the capital expenditure on the staff quarters. The details of the portion of the "other income" for the year 2000-01, which in my view should be deducted from O&M expenditure to arrive at net O&M expenses, are as under:

(Amount in Rs.)

RLDC	Other income (a)	Income from interest on employee loans (b)	Recovery of rent from employees (c)	Part of other income to be deducted from O&M expenditure (a-b-c)
NRLDC	1021581	1016581		5000
WRLDC	2061107	853265	514656	693186
SRLDC	872182	577923	60758	233501
ERLDC	391905	377807		14098
NERLDC	251057	248010		3047
Total	4597832	3073586	575414	948832

27. The total Impact of the revisions considered by me in the present order are incorporated in the table annexed to this order.

28. I was to submit my report/recommendations to the Commission by 31.12.2002. However, because of the extremely busy schedule and pre-occupations with other official assignments, I have been able to finalize my recommendations now, which I place before the Commission.

Sd/-
(G.S. Rajamani)
Member

New Delhi, dated the 7th February 2003.