

**CENTRAL ELECTRICITY REGULATORY COMMISSION
NEW DELHI**

Coram

1. **Shri Ashok Basu, Chairman,**
2. **Shri K.N.Sinha, Member**

Petition No. 54/2002

In the matter of

Petition for approval of tariff for the Transmission System associated with Faridabad Gas Based Combined Cycle Power Project 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

Haryana Vidyut Prasaran Nigam Ltd, Panchkula

.....**Respondent**

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 (Comm), PGCIL
7. Shri M.K. Kulshrestha, PGCIL
8. Shri R.K. Arora, XEN(Tariff), HVPNL

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

In this petition, the petitioner, Power Grid Corporation of India Ltd has sought approval for tariff for the transmission system associated with Faridabad Gas Based Combined Cycle Power Project 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”). The following assets form part of transmission system associated with Faridabad Gas Based Combined Cycle Power Project:

- (a) 220 kV D/C Faridabad-Samaypur transmission line with associated bays, and
- (b) 220 kV D/C Faridabad-Palla transmission line with associated bays.

2. The petitioner and the respondent had agreed that the petitioner would execute the transmission system associated with Faridabad Gas Based Combined Cycle Power Project, with the following components:

- (a) 220 kV D/C switchyard at Faridabad Gas Power Project,
- (b) 220 kV D/C Faridabad Gas Power Project-Samaypur line,
- (c) Two 220 kV D/C base at Samaypur, and
- (d) 220 kV D/C Faridabad Gas Power Project-Palla line.

3. The Board of Directors of the petitioner company accorded the investment approval for Rs.47.97 crore, including IDC of Rs.3.35 crore for the above components of the transmission system under its delegated powers. The petitioner built and commenced operation of the assets as given herein below:

- | | |
|---|-----------|
| (a) 220 kV D/C Faridabad-Samaypur line with associated bays | 1. 6.1999 |
| (b) 220 kV D/C Faridabad-Palla line with associated bays | 1.2.2000 |

4. Petition No. 7/99 was filed for approval of tariff for 220 kV D/C Faridabad-Samaypur line with associated bays and Petition No. 8/2000 was filed for approval of

tariff for 220 kV D/C Faridabad-Palla line with associated bays for the period from the respective date of commercial operation and up to 31.3.2001. Both these petitions were disposed of by the Commission by a common order dated 31.5.2002. The Commission had considered the following cost for the purpose of tariff for the period up to 31.3.2001:

Name of the transmission asset	Admitted capital cost as on 31.03.2001 (Rs. in lakh)
(i) 220 KV D/C Faridabad-Samaypur transmission line with associated bays	2438.33
(ii) 220 KV D/C Faridabad-Palla transmission line with associated bays	1931.66
Total	4369.99

5. In the present petition, the petitioner has sought approval for transmission charges as under:

(Rs. in lakh)

	220 KV D/C Faridabad-Samaypur transmission line			220 KV D/C Faridabad-Palla transmission line		
Transmission Tariff	2001-2002	2002-2003	2003-2004	2001-2002	2002-2003	2003-2004
Interest on Loan	106.15	96.83	89.64	80.92	75.08	70.56
Interest on Working Capital	13.81	13.96	14.19	11.44	12.45	13.52
Depreciation	72.49	72.49	72.49	56.12	61.77	67.41
Advance Against Depreciation	0.00	0.00	1.18	0.00	0.00	0.00
Return on Equity	248.69	248.69	248.69	188.62	215.02	241.42
O & M Expenses	78.65	83.23	88.36	90.99	96.33	102.23
Total	519.79	515.20	514.55	428.09	460.65	495.14

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

(Rs. in lakh)

	220 KV D/C Faridabad-Samaypur transmission line			220 KV D/C Faridabad-Palla transmission line		
	2001-2002	2002-2003	2003-2004	2001-2002	2002-2003	2003-2004
Spares	26.93	28.55	30.26	20.56	23.45	26.50
O & M expenses	6.55	6.94	7.36	7.58	8.03	8.52
Receivables	86.63	85.87	85.76	71.35	76.77	82.52
Total	120.11	121.36	123.38	99.49	108.25	117.54
Rate of Interest	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%
Interest	13.81	13.96	14.19	11.44	12.45	13.52

7. In addition, the petitioner has prayed for approval of other charges like Foreign Exchange Rate Variation, 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

8. 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.

9. As already noticed, the tariff for the Transmission System was notified by the Commission vide its order dated 31.5.2002 by considering the following capital cost:

Name of the transmission asset	Admitted capital cost as on 31.03.2001 (Rs. in lakh)
(i) 220 KV D/C Faridabad-Samaypur transmission line with associated bays	2438.33
(ii) 220 KV D/C Faridabad-Palla transmission line with associated bays	1931.66
Total	4369.99

10. Therefore, for the purpose of present petition, the capital cost as considered by the Commission earlier has been adopted as the base for computation of tariff in the present petition.

ADDITIONAL CAPITALISATION

11. 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.

12. The petitioner has claimed additional capital expenditure on account of works for the period after 1.4.2001 in the petition for 220 kV D/C Faridabad–Palla transmission line only as below:

(Rs. in lakh)	
01.04.2001 to 31.03.2002	0.00
Balance anticipated capital expenditure to be incurred after 31.03.2002	330.00
Total anticipated capital expenditure	330.00
Apportioned approved cost as per Form 6 of the Petition	2676.00
%age of the approved cost	12.33%

13. As the additional capitalisation claimed in the petition is less than 20% of the capital cost of the transmission line in question, this is not being considered for tariff purposes during the current tariff period. Therefore, the capital cost as already approved by the Commission in its order dated 31.5.2002 will be treated as the opening gross block as on 1.4.2001.

EXTRA RUPEE LIABILITY

14. 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.

15. The petitioner has claimed FERV in accordance with the following method:

Outstanding loan as on 31.3.2001 (in foreign currency) X (exchange rate as on 31.3.2001 - exchange rate as on date of commercial operation/1.4.92)

16. We have considered the matter. The Commission has already taken a view that the FERV to be capitalised for adding in the gross block as on 01.04.2001 would be arrived at in the following manner:

Foreign Loan outstanding as on 31.03.2001 x (Exchange Rate as on 31.03.2001 - Exchange Rate as on DOCO/01.04.1992 as given in the petition).

17. It has been further decided that the FERV amount arrived at in the above manner would be added in the loan and equity, as on 01.04.2001, in the ratio in which the last tariff was allowed by the Commission.

18. Only 220 kV D/C Faridabad–Palla transmission line involves foreign loan. The FERV amount calculated in the manner given at Para 16 above comes to Rs. 14.20 lakh, as shown below:

	220 KV D/C Faridabad-Palla transmission line
Bol Foreign Currency Loan	
Outstanding balance as on 31.03.2001 (in USD in lakh)	4.78
Exchange Rate as on 31.03.2001 (Rs./USD)	46.88
Exchange Rate as on DOCO (01.02.2000) (Rs./USD)	43.91
FERV on the outstanding loan as on 31.03.2001 (Rs. in lakh)	14.20

19. Accordingly, additional capitalisation of Rs.14.20 lakh on account of FERV is approved. The approval of FERV is subject to the condition that the petitioner shall furnish a certificate within four weeks of this order that there has been no drawl of the foreign loan after 01.04.1992 of the transmission elements claimed in the petition. If petitioner fails to submit the certificate within the stipulated time, no amount on account of FERV would be allowed as pass through in tariff of the concerned line.

20. Accordingly, the capital expenditure considered in the calculations for tariff is under:

(Rs. in lakh)

Name of the transmission line	Capital Expenditure up to 31.03.2001	FERV up to 31.03.2001	Capital Expenditure up to 31.03.2001	Additional Capital Expenditure after 31.03.2001	Capital Expenditure
(i) 220 KV D/C Faridabad-Samaypur Transmission line with associated bays in Northern Region	2438.33	0.00	2438.33	0.00	2438.33
(ii) 220 KV D/C Faridabad-Palla Transmission line with associated bays in Northern Region	1931.66	14.20	1945.86	0.00	1945.86

SOURCES OF FINANCING. DEBT – EQUITY RATIO

21. 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 in which they are actually employed. It is pointed out on behalf of

the respondent that taking debt and equity as claimed by the petitioner will result into higher return on equity (ROE). The respondent has 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 1.4.2001 and the Commission while notifying tariff for these assets vide order dated 31.5.2002 had considered the actual debt and equity. Therefore, the debt-equity ratio as considered by the Commission earlier has been maintained for determination of tariff in the present petition. The FERV allowed has been added to the loan and equity as on 01.04.2001 in the same ratio, in which the last tariff was approved by the Commission. Debt-equity ratio considered for the purpose of tariff is as under:

Name of the Element	Debt-Equity ratio
(i) 220 KV D/C Faridabad-Samaypur transmission line with associated bays	36.25:63.75
(ii) 220 KV D/C Faridabad-Palla transmission line with associated bays	39.34:60.66

INTEREST ON LOAN

22. 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.

23. The petitioner has claimed interest on loan in the following manner:

- (i) Closing balance of the loans as on 31.03.2001 as was admitted by the Commission in the petition for previous tariff setting has been taken as the opening balance as on 01.04.2001.

- (ii) In case of loans denominated in foreign currency, the interest has been worked out in foreign currency and the same has been multiplied with exchange rate as on 31.03.2001.
- (iii) Interest on notional loan has been claimed on the basis of
 - (a) division of the FERV into notional loan and equity in the ratio of 50:50,
 - (b) depreciation on FERV as repayment during the year, and
 - (c) weighted average rate of interest of total outstanding loan as on 01.04.2001.

24. In our calculations, the interest on loan has been worked as detailed below, in keeping with the provisions of the notification dated 26.3.2001:

- (i) The gross amount of loan, repayment of loan up to 31.03.2001 and net outstanding loan as on 31.03.2001 as considered by the Commission in its order dated 31.5.2002 for determination of annual transmission charges for the period up to 31.03.2001 has been considered.
- (ii) The repayment for the year 2001-02 to 2003-04 and rate of interest, etc. for the above loan have been worked out from the loan details submitted by the petitioner in the affidavits filed in the proceedings before the Commission.
- (iii) Notional loan arising out of the FERV has been worked out in the manner indicated in Para 21 above.
- (iv) The repayment for the year 2001-02 to 2003-04 of the above notional loan on account of the FERV has been worked out as per

the following formula, since the methodology adopted by the petitioner results in double payment:

Notional net loan at the beginning of the year x (actual repayment of the respective foreign loan / actual net respective foreign loan at the beginning of the year

- (v) Rate of interest, etc. on the notional loan has been taken of the respective foreign loan from the loan details submitted by the petitioner in the affidavits filed in the proceedings before the Commission.

25. The table below gives the year-wise comparative details of interest allowed in accordance with the methodology outlined above and that claimed by the petitioner:

(Rs. in lakh)

Name of the Element	Year	Interest on loan allowed	Interest on loan claimed	Difference
(i) 220 kV D/C Faridabad-Samaypur transmission line with associated bays	2001-02	106.04	106.15	(-) 0.11
	2002-03	96.88	96.83	0.05
	2003-04	89.79	89.64	0.15
(ii) 220 KV D/C Faridabad-Palla transmission line with associated bays	2001-02	79.58	80.92	(-)1.34
	2002-03	73.88	75.08	(-)1.20
	2003-04	69.47	70.56	(-)1.09

26. In addition, following is observed for Faridabad-Palla Transmission line:

(i) As per Accounting Standard 11 of the Institute of Chartered Accountant of India, exchange difference arising of repayment of liabilities incurred for the purpose of acquiring fixed assets, which are carried in terms of historical cost, should be adjusted in the carrying amount of the respective fixed assets. In other words, the FERV allowed above should be added in the respective head of gross block, which was financed, from the foreign loan. As the above details are not available, the FERV amount is allocated to all the heads of gross block in proportion to their ratio to the total gross block. The petitioner has allocated the FERV amount claimed on transmission line, sub-station and PLCC only.

(ii) As the notional loan has arisen due to revaluation of the outstanding balance as on 31.03.2001 of Bol Foreign Currency loan, terms and conditions viz. repayment, rate of interest of Bol Foreign Currency loan is applied to the notional loan. The repayment instalment of Bol Foreign Currency loan has been worked out from the details of loan submitted by the petitioner in its affidavits as below:

Repayment Instalment of Bol Foreign Currency loan X (Outstanding Bol Foreign Currency loan as on 31.03.2001 allocated for the element / Outstanding Bol Foreign Currency loan as on 31.03.2001).

27. The difference in case of 220 kV D/C Faridabad-Palla transmission line is mainly due to

(i) 1/12th of the Gross Loan - BOI loan in foreign currency multiplying with exchange rate as on 31.03.2001 in the petition against exchange rate as on DOCO considered in the calculations,

(ii) Division of FERV into notional loan & equity in the ratio of 50:50 in the petition against actual debt-equity ratio in the calculation,

(iii) Repayment of BOI loan in foreign currency multiplying with exchange rate as on 31.03.2001 in the petition against exchange rate as on DOCO in the calculation, and

(iv) Repayment of notional loan not considered in the petition.

28. The petitioner has not shown repayment of Corp loan in the year 2003-04, while as per the details of loan submitted by it vide affidavit dated 30.04.2003, repayment installment is to be effective from 10.03.2004. Therefore, the repayment amount as per the details of loan submitted by the petitioner vide affidavit dated 30.04.2003 has been considered for working out interest on loan and consequently Advance Against Depreciation.

29. Corp Bank, PNB, SBI-II and SBI-I loan carry floating rate of interest. The interest rate as submitted by the petitioner in its affidavits filed before the Commission in the present proceedings to be prevailing as on 01.04.2001 has been taken in the calculations. In view of this, any change/resetting of the interest rate of the above loans during the tariff period would require to be settled mutually between the parties. In case of any dispute on this account, any one of them is at liberty to approach the Commission for appropriate directions.

DEPRECIATION

30. With regard to depreciation, para 4(b) of the 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.

31. The petitioner has claimed the depreciation on the total capital expenditure.

32. Based on the methodology noted above, the depreciation for individual items of capital expenditure has been calculated on the capital cost as per para 20 above at the rates as prescribed in the notification dated 26.3.2001. For working out cumulative depreciation, the depreciation as considered by the Commission 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 depreciation are as under:

220 kV Faridabad-Samaypur D/C transmission line

	Total cost up to 31.3.2001	FERV UP TO 31.3.2001	Total Cost, including FERV	Approved capital cost	Rate of Depreciation	Depreciation
Capital Expenditure as on 31.03.2001						
Land	302.73	0.00	302.73		0%	0.00
Building & Other Civil Works	32.50	0.00	32.50		1.80%	0.59
Transmission Line	1528.82	0.00	1528.82		3.60%	55.04
Sub-Station Equipment	512.83	0.00	512.83		2.57%	13.18
PLCC	61.45	0.00	61.45		6.00%	3.69
Total	2438.33	0.00	2438.33	2121.00		72.50

220 kV Faridabad-Palla D/C transmission line

	Total cost up to 31.3.2001	FERV UP TO 31.3.2001	Total Cost, including FERV	Approved capital cost	Rate of Depreciation	Depreciation
Capital Expenditure as on 31.03.2001						
Land	302.73	2.22	304.95		0%	0.00
Building & Other Civil Works	0.00	0.00	0.00		1.80%	0.00
Transmission Line	1139.87	8.38	1148.25		3.60%	41.34
Sub-Station Equipment	429.92	3.16	433.08		2.57%	11.13
PLCC	59.14	0.43	59.57		6.00%	3.57
Total	1931.66	14.20	1945.86	2676.00		56.04

33. In case of 220 kV D/C Faridabad-Palla transmission line, the difference in petitioner's claim with that being allowed is due to

- (i) allocation of FERV to transmission line, sub-station and PLCC only in the petition against all the heads of gross block in proportion to their ratio to the total gross block in the calculation,
- (ii) Additions after 31.03.2001 considered for calculation of depreciation in the petition while the same are not considered in the calculations as per the notification dt.26.03.2001.

ADVANCE AGAINST DEPRECIATION

34. 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 1/12th of original loan amount minus depreciation as per schedule.

35. The petitioner has claimed advance against depreciation in the following manner:

- (i) 1/12th of gross loan is worked out from the gross loan as was admitted by the Commission in the petition for previous tariff setting along with notional loan worked out by division of FERV into debt and equity in the ratio of 50:50
- (ii) Repayment of loans during the year has been considered excluding of repayment of notional loan arising due to FERV.
- (iii) In case of loans denominated in foreign currency, the repayment is worked out in foreign currency and the same has been multiplied with exchange rate as on 31.3.2001.
- (iv) Depreciation as claimed in the petition.

36. In our calculations, Advance Against Depreciation has been worked out as detailed below:

- (i) 1/12th of gross loan worked out the gross loan as was admitted by the Commission for the previous tariff setting along with notional loan arising on account of capitalisation of FERV,
- (ii) repayment of loans during the year as considered for interest on loan, and
- (iii) depreciation as claimed in the petition.

37. The petitioner is entitled to Advance Against Depreciation as calculated below:

(Rs. in lakh)

	220 KV D/C Faridabad-Samaypur Transmission line			220 KV D/C Faridabad-Palla Transmission line		
Advance Against Depreciation	2001-2002	2002-2003	2003-2004	2001-2002	2002-2003	2003-2004
1/12th of Gross Loan(s)	73.67	73.67	73.67	63.80	63.80	63.80
Scheduled Repayment of the Loan(s)	0.00	21.50	126.37	0.00	13.40	78.55
Minimum of the above	0.00	21.50	73.67	0.00	13.40	63.80
Depreciation during the year	72.50	72.50	72.50	56.04	56.04	56.04
Advance Against Depreciation	0.00	0.00	1.17	0.00	0.00	7.76

38. The petitioner has not claimed Advance Against Depreciation in case of 220 kV D/C Faridabad-Palla transmission line whereas we have allowed an amount of Rs.7.76 lakh on this account. The difference is for the reasons that

- (i) 1/12th of the Gross Loan - BOI loan in foreign currency multiplying with exchange rate as on 31.03.2001 in the petition against exchange rate as on the date of commercial operation in the calculation,

- (ii) Division of FERV into notional loan and equity in the ratio of 50:50 in the petition, against actual debt-equity ratio allowed in the calculation,
- (iii) Repayment of BOI loan in foreign currency multiplying with exchange rate as on 31.03.2001 in the petition against exchange rate as on the date of commercial operation in the calculations, and
- (iv) Repayment of notional loan not considered in the petition

OPERATION & MAINTENANCE EXPENSES

39. 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:

$$\text{O\&M expenses per Unit of the line length in Kms (OMLL)} = \frac{\text{Expenses for lines (OML)}}{\text{Average line length in Kms (LL)}}$$

$$\text{O\&M expenses for sub-stations (OMBN)} = \frac{\text{O\&M expenses for substations (OMB)}}{\text{Average number of bays (BN)}}$$

- 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.

40. 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

41. 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.

42. 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

43. 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

44. 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

45. 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.

46. 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.

47. 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.

48. 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

49. 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

50. 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

51. 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.

52. 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

Method of Normalizing O&M Expenses

53. 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

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

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

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 substations 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.

54. 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

55. 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.

56. 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).

57. 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)
220 kV D/C Faridabad-Samaypur transmission line	35.38	4	70.213	35.38	4	74.426	35.38	4	78.891
220 kV D/C Faridabad-Palla transmission	31.38	5	81.186	31.38	5	86.057	31.38	5	91.220

RETURN ON EQUITY

58. 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.

59. The petitioner has claimed return on the basis of equity as was admitted in the Commission's order dated 31.5.2002 while notifying tariff for the previous period, along with equity on account of additional capitalisation and the notional equity arising out of FERV claimed for 220 kV D/C Faridabad-Palla transmission line. We have not allowed additional capitalisation for new works during the period from 1.4.2001 to 31.3.2004. Accordingly, this has not been considered for the purpose of return on equity. A part of the additional capitalisation on account of the FERV has been added to the equity. Thus the following amount of equity has been considered in the calculation of return of equity:

(Rs. in lakh)

Name of the Element	Equity allowed in previous tariff setting	Notional Equity arising out of FERV	Total considered for tariff calculations	Equity as claimed in the petition	Difference
(i) 220 KV D/C Faridabad-Samaypur transmission line with associated bays	1554.33	0.00	1554.33	1554.33	0.00
(ii) 220 KV D/C Faridabad-Palla transmission line with associated bays	1171.66	8.61	1180.27	1178.87	1.40

60. The difference in the amount of equity considered in case of 220 kV D/C Faridabad-Palla transmission line is on account of

- (i) Additional equity corresponding to capital expenditure subsequent to 31.03.2001 considered in the petition which has not been considered in the calculations as explained above, and
- (ii) Division of FERV into notional loan and equity in the ratio of 50:50 in the petition against actual debt-equity ratio in the calculations.

61. The petitioner is allowed the following amount each year during the current tariff period on account of Return on Equity calculated @ 16%:

	(Rs. in lakh)
(i) 220 kV D/C Faridabad-Samaypur transmission line	248.69
(ii) 220 kV D/C Faridabad-Palla transmission line	188.84

INTEREST ON WORKING CAPITAL

62. 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 1/5th 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%.

63. The petitioner has claimed the maintenance spares on the basis of maintenance spares allowed for the previous tariff period, escalating the same @ 6% p.a. for the years 2001-02 to 2003-04 and deducting the 1/5th of the initial

capitalized spares therefrom. The claim of the petitioner on account of O&M expenses and receivables is in accordance with the notification dated 26.3.2001.

64. 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 2000-2001 has been taken as considered by the Commission in its order of 31.5.2002 and the same has been escalated @ 6% per annum for the tariff period 2001-02 to 2003-04.

65. 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 the respondent. The detailed calculations in support of interest on Working Capital are as under:

Interest on Working Capital

(Rs. in lakh)

		220 KV D/C Faridabad-Samaypur Transmission line			220 KV D/C Faridabad-Palla Transmission line			
Working Capital		2001-2002	2002-2003	2003-2004		2001-2002	2002-2003	2003-2004
Escalation for Maintenance Spares	6%				6%			
Period in 2001-2002	1.00				1.00			
On capital Expenditure up to 31.3.2000	25.38				17.53			
On capital Expenditure for the year 2000-2001	0.08				1.98			
Maintenance Spares	25.46				19.51			
Less: 1/5 th of Initial Spares	0.05				0.05			
Maintenance Spares	25.41	26.94	28.55	30.27	19.46	20.57	21.81	23.12
O & M expenses		5.85	6.20	6.57		6.77	7.17	7.60
Receivables		85.17	84.37	84.16		69.46	69.35	70.83
Total		117.96	119.12	121.00		96.80	98.33	101.55
Rate of Interest		11.50%	11.50%	11.50%		11.50%	11.50%	11.50%
Interest		13.56	13.70	13.91		11.13	11.31	11.68

TRANSMISSION CHARGES

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

TABLE

(Rs. in lakh)

	220 KV D/C Faridabad-Samaypur Transmission line			220 KV D/C Faridabad-Palla Transmission line		
Transmission Tariff	2001-2002	2002-2003	2003-2004	2001-2002	2002-2003	2003-2004
Interest on Loan	106.04	96.88	89.79	79.58	73.88	69.47
Interest on Working Capital	13.56	13.70	13.91	11.13	11.31	11.68
Depreciation	72.50	72.50	72.50	56.04	56.04	56.04
Advance against Depreciation	0.00	0.00	1.17	0.00	0.00	7.76
Return on Equity	248.69	248.69	248.69	188.84	188.84	188.84
O & M Expenses	70.21	74.43	78.89	81.19	86.06	91.22
Total	511.01	506.20	504.95	416.78	416.13	425.01

67. In addition to the transmission charges, the petitioner shall be entitled to other charges like 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 respondent in five monthly installments of Rupees forty thousand each. This is subject to confirmation that the amount is not already included in the O&M charges. The petitioner shall not be entitled to Development Surcharge which is applicable only in cases where transmission charges are recovered at the regional level.

68. 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.

69. This order disposes of Petition No.54/2002.

Sd/-
(K.N. SINHA)
MEMBER

Sd/-
(ASHOK BASU)
CHAIRMAN

New Delhi dated the 15th October, 2003