

Additional Comments

1. O&M Expenses Norms

a. Reasons for variation

Reasons for variation of O&M expenses for each region under major heads wherein the year-on-year variation was +/- 20% has provided. Hon'ble Commission has excluded such variations at the time of normalising the O&M expenses for finalising the O&M norms on per bay, per MVA and per ckm basis. It is requested that the variations excluded in above normalisation process may please be considered for arriving at the O&M norms for transmission systems. Details attached at **Annexure-A**.

b. Consideration of increase due to Minimum Wage Revision

There has been steep increase of 43% in minimum wages w.e.f 01.04.2017 as notified by the Chief Labor Commissioner – Central. Impact of increase in wages in FY 2017-18 works out to Rs 131.92Crore which needs to be considered in the O&M expenses for 5 years. Calculations attached at **Annexure -B**.

c. Consideration of increase due to GST

Introduction of GST has two fold impact in O&M expenses – (1) on services and (2) on materials. The total annual impact of GST for the year 2017-18 is around Rs. 52.34crores, which needs to be considered in O&M expenses for 5 years. Calculations attached at **Annexure- C**.

d. Escalation Rate

Hon'ble Commission has linked the rate of escalation in O&M to basket of WPI and CPI in the ratio of 60:40. However, WPI is not representative of economic indicator for calculating inflation since it skips the prices of non-commodity sector like services, which forms around 75% of our GDP. In the case of POWERGRID, around 69% of O&M expenses comprises of services including employee benefit expenses, payment to contractual labourers for repair and maintenance, etc. It is therefore submitted that escalation @ 4.49% per annum considering CPI: WPI of 69:31 may be allowed for O&M expenses. Calculations attached at **Annexure-D**.

The above factors may be considered while finalising O&M norms for transmission systems for the tariff block 2019-24.