

**PUNJAB STATE ELECTRICITY REGULATORY COMMISSION
SCO 220-221 SECTOR-34-A CHANDIGARH**

Petition No.14 of 2008
Date of hearing: 26.8.2008
Date of Order: 24.03.2009

In the matter of: Petition under Section 94 of the Electricity Act, 2003 for review of Tariff Order dated July 3, 2008 passed by the Punjab State Electricity Regulatory Commission for the year 2008-09.

AND

In the matter of: Punjab State Electricity Board, The Mall, Patiala.

Present: Sh. Jai Singh Gill, Chairman
Smt. Baljit Bains, Member
Shri Satpal Singh Pall, Member

Petitioner: Shri K.K.Singla, Chief Engineer/Commercial
Shri Subhash Arora, Chief CC&R

ORDER

The Punjab State Electricity Board (Board) has filed this petition for review of the Tariff Order of 2008-09 issued on July 3, 2008. The petitioner was heard on 26.8.2008. The issues raised by the Board as contained in the petition and submissions made thereafter have been considered by the Commission and the same are decided as hereunder:

1. Employee Cost for assets added during the year 2006-07 and 2007-08:

The Board has stated that the Commission has not considered the employee cost for the assets added during the years 2006-07 and 2007-08 even though Regulation 28(6) of the Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of

Tariff) Regulations, 2005 provides for allowing O&M expenses (which includes employee cost) for additional assets added during the year. In Paragraphs 2.10.4 and 3.10.5 of the Tariff Order of 2008-09, the Commission had found no justification for allowing additional employee cost for the assets added during these years, in the absence of revised man-power norms and considering the already high employee cost of the Board. The Commission had in its earlier orders repeatedly noted with concern that employee cost of the Board was one of the highest amongst SEBs and had, therefore, capped the same for the years 2003-04 and 2004-05 to the level of 2002-03. The Board too had earlier admitted that it had surplus manpower. Keeping this in view, the Board was expected to have framed revised norms for its workforce. In an appeal filed against the Tariff Order 2004-05 and 2005-06, the Appellate Tribunal (Electricity) had in its judgement of 26th May 2006 observed that the employee cost of the Board shall remain capped until the performance parameters improve. In the light of the above stated facts, the Commission finds no justification for allowing additional employee cost for the assets added during the years 2006-07 and 2007-08.

2. True up for 2006-07:

2.1 Diversion of Funds:

The Board has stated that the amount of diversion of funds and interest disallowed thereon was not based on audited accounts for the year 2006-07 and further that the grants and subsidy received by it towards cost of capital assets which have been reduced from the capital base as reflected in Table 3.12 Page-48 of Tariff Order 2008-09 also includes incentives of Rs.45.28 crores received from Government of India towards better performance in reduction of losses during the year 2003-04. The amount being performance incentives should not have been considered as contribution towards capital assets for the purpose of working out diversion of capital funds. The Board has, therefore, requested that diversion of funds be reworked based on audited accounts for the year 2006-07 and consequent relief provided to the Board by proportionately reducing disallowance of Rs.100 crores ordered in the Tariff Order of 2008-09.

The Commission after consideration of these issues found that it is a fact that the disallowance of interest of Rs. 389.92 crores on this

account for the year 2006-07 was based on statement of accounts for the year 2005-06 and not on the audited accounts of 2006-07. The Commission has in all the Tariff Orders (except TO of 2002-03) disallowed Rs. 100 crores from the claim of interest on account of deficiencies in the working of the Board leading to diversion of funds. The balance amount of interest disallowed on this account has been to the account of the Government since 2006-07. Thus, any change in the amount of diversion will have the effect of reducing the disallowance made in respect of interest payable to the Government. This principle has already been discussed in detail in Paragraphs 3.14.7 and 4.13.7 of the Tariff Order of 2008-09 wherein with the change in the amount of diversion, disallowance of interest of the Government was reduced to Rs. 289.15 crores and Rs. 209.32 crores for the years 2007-08 and 2008-09 respectively keeping the disallowance of the Board's interest unchanged at Rs. 100 crores. Accordingly the Commission is of the view that no review is called for on this account.

As regards the Board's claim of receipt of Rs. 45.28 crores from the Government of India as incentives for reduction of losses during 2003-04, the Commission is of the considered view that any incentive provided to the Board for systemic improvement under APDRP or for creation or installation of assets (such as LT capacitors and Transformers) and accounted for as 'Funds received from Rural Development Board or any other source' have been correctly deducted by the Commission in Table 3.12 to work out the amount of diversion in the Tariff Order of 2008-09. This also includes grants received towards cost of assets in Schedule-34 to the audited statement of accounts for the year 2005-06. In any case, the Board has not brought on record any evidence contrary to the entries made in its audited accounts. Therefore, the objection of the Board on this issue is not maintainable.

2.2 Metered Energy Sales:

The Board has stated that the Commission has wrongly disallowed 110 MUs out of actual 162 MUs of energy on account of theft based on the revenue shown against theft of energy in the annual accounts on the plea that the revenue realized from theft (Rs.17.90 crore) is not matching with average rate of realization for sale of energy to these

categories. The Board has stated that as per accounting procedures, the amount assessed as theft and the amount assessed under sale of power are required to be booked under different account heads and that sometimes the amount assessed against theft detected is wrongly accounted as sale of power by some of the sub-divisions and is not booked under the correct account head resulting in reflecting lower realization from the theft of energy in the Annual Accounts. The Board has requested to consider energy on account of theft as 162 MU, instead of fixing the energy on account of theft based on the amount realized from theft as shown in the accounts. The Commission while approving the metered sales for the year 2006-07 in its Tariff Order for the year 2008-09 had considered this issue and the plea of the Board was not accepted due to the reasons mentioned in para 2.2.2 (page-8) of the Tariff Order for the year 2008-09. The Commission finds that no new facts have been stated calling for revision of this issue

2.3 Incentive for Thermal Generation based on target PLF:

The Board has submitted that the Commission has considered the incentive for thermal generation at norms other than those provided for by CERC and that while CERC provides incentives for PLF achieved above normative availability, the Commission has given the incentive above the target PLF set in the Tariff Order for 2007-08. The Board has prayed that the incentive for thermal generation may be considered by the Commission as per CERC norms.

The Commission has in the past been allowing the incentive/disincentive with reference to the generation fixed/approved for the year depending upon the maintenance schedules of the thermal plants for the year intimated by the Board in the ARR, without any consideration of the plant load factor. No penalty has ever been imposed on the Board if the plant load factor of any plant was less than 80% due to non-availability of the plant. This practice has been followed by the Commission in all its Tariff Orders. Moreover, there is no case for interference in the Tariff Order on this account as such issue can not be a matter of review.

3. Review for the year 2007-08:

3.1 AP Consumption:

The Board has raised the objection that the Commission while determining AP consumption has deviated from the principles/policies followed in earlier tariff orders to the extent that AP consumption has not been allowed on the basis of sample meter readings. The Board has accordingly urged that AP consumption should be allowed as per readings of sample meters.

The Commission while passing the Tariff Order for the year 2008-09 had considered the issue in detail in para 3.2.3 of the Tariff Order bringing out the basis for not allowing AP consumption on the basis of sample meter readings. However, as mentioned in the Tariff Order, AP consumption adopted is subject to validation by the Commission and will be trued up on that basis in the Tariff Order of 2009-10.

3.2 R&M Expenditure:

The Board has mentioned that R&M expenses for the year 2006-07 were allowed to the tune of Rs.259.99 crores including Rs.5.46 crores for assets amounting to Rs. 634.77 crores added during that year assuming these assets remained in use for 6 months during the year.

The Board has further asserted that in reckoning the R&M expenses for 2007-08, the base cost should have been increased by Rs.5.46 crores to cater for the full value of assets added during the year 2006-07.

Accordingly, the base cost for 2006-07 should have been taken as Rs.265.45 (254.53+5.46+5.46) crores and taking into account a WPI increase of 6.68%, the R&M expenses allowable for the year 2007-08 should have been determined at Rs. 308.77 crores against Rs. 302.95 crores inclusive of R&M cost for the assets of Rs. 2843.22 crores added during the year 2007-08.

There is merit in the submission of the Board and the Commission will take note of this fact after considering the audited statement of accounts of the Board for the year 2007-08 while truing up the costs in the ensuing Tariff Order.

3.3 A&G Expenses :

The Commission has allowed A&G expenses for FY 2007-08 at Rs.69.64 crores by applying an increase on base cost of Rs.59.81 crores determined for FY 2006-07. The Board contends that whereas A&G expenses on additional assets created during 2006-07 are to be allowed

for 6 months of that year, the totality of these expenses are to be taken into consideration while arriving at the base cost for 2006-07.

Accordingly, it is argued that the correct base for A&G expenses in 2006-07 would be Rs.61.08 crores (58.54+1.27+1.27). On that basis A&G expenses to be allowed for 2007-08 would come to Rs.70.99 crores against 69.64 crores allowed in the Tariff Order for 2008-09. The Commission observes that there is force in the plea taken by the Board and the figures of additional assets as depicted in the audited Statement of Accounts of the Board for the year 2007-08 will be taken into account during the course of the truing up exercise which will be undertaken in the ensuing Tariff Order.

3.4 Diversion of Capital Funds:

The Board has further submitted that it has received from the Government of India in 2003-04 an amount of Rs.65.28 crores as performance incentive for reduction of losses which should not be considered as grant and subsidy received towards cost of capital assets. Accordingly, this amount should not be taken into account while reducing amount of grants and subsidy received for capital assets before working out the diversion of capital funds for revenue purposes in the year 2007-08. As already discussed in Para 2.1 above, the objection of the Board in this regard is not tenable for the reasons given therein.

4. Projections for the year 2008-09:

4.1 AP Consumption:

The Board has stated that a normative growth of 5% has been taken in projections of AP consumption for the year 2008-09 which is in line with the Commission's approach. However, the Commission has already assumed AP consumption in 2007-08 on the lower side as has been earlier urged by the Board which further reduces consumption allowed on this account for the succeeding years. The Board has requested that projections of AP consumption be based on actual data of sample meters that has been made available to the Commission. As indicated in para 3.1 above, the Commission will true up figures of AP consumption on the basis of validation exercise which is currently

underway.

4.2 Station Heat Rate (SHR) & Auxiliary Consumption – GNDTP Bathinda Units - I & II:

The Board has objected to SHR and auxiliary consumption values being booked at 2460 kcal/kwh and 9.1% respectively for GNDTP Units-1&2, while calculating the fuel cost. The Board has stated that the design parameters are achievable under ideal conditions only and the actual performance is always lower. The Board has in this connection referred to the revision of SHR in case of Talchar power station after renovation and modernization (R&M) when CERC had examined the design data of Kota, Muzzafarpur and Durgapur thermal power plants and found that the unit heat rate worked out to 2850 Kcal/kwh for 110 MW units. The Board has further mentioned that CERC has in case of Tanda power plant (4x110 MW) approved station heat rate of 2850 kcal/kwh and auxiliary consumption of 12% after completion of the R&M works. The Board has accordingly requested for adopting station heat rate at 3000 kcal/kwh and auxiliary consumption at 11% till actual values recorded at site become available and norms formulated on that basis.

The Commission observes that while seeking its approval for R&M works of Units-1&2 of GNDTP, Bathinda, the Board had intimated that as per terms and conditions of contract with the agency engaged for such works, the auxiliary consumption and heat rate of these units will be 9.1% and 2460 kcal/kwh respectively which the Commission decided to adopt in the Tariff Order. These projections will be reviewed in the Tariff Order of 2009-10 and the Board is at liberty to make any submissions in this regard during the processing of ARR.

4.3 Interest Cost on Approved Gap:

The Board has raised an objection with regard to carrying cost of Rs. 102.15 (84.06+ 18.09) crores allowed by the Commission for the approved gaps for the years 2006-07 and 2007-08. This carrying cost was allowed for the gaps of Rs. 439.51 crores and Rs. 278.27 crores of 2006-07 and 2007-08 for a period of 18 months and 6 months respectively. The amount of interest was determined by applying the Prime Lending Rate of SBI of 12.75% (as on April 07) for the gap of

2006-07 and 13% (as on April 08) for the gap of 2007-08. The Board has contended that since the revenue equivalent to the approved gaps will be recouped over a period of 12 months of 2008-09, the carrying cost need to be allowed for a period of 24 months and 12 months for the gaps determined for 2006-07 and 2007-08 respectively.

The Commission observes that all projected costs are reviewed in the subsequent Tariff Orders. The Board may reiterate this objection during the hearing of ARR of 2009-10 when it will be duly considered by the Commission.

Sd/-
(Satpal Singh Pall)
Member

Sd/-
(Baljit Bains)
Member

Sd/-
(Jai Singh Gill)
Chairman

5.

Place: Chandigarh
Dated: 24-03-2009