

HARYANA ELECTRICITY REGULATORY COMMISSION

SCO – 180, SECTOR – 5, PANCHKULA

CASE NO: HERC RA – 2 of 2006

Date of Hearing: 3.11.2006

Date of Order: 1.12.2006

In the matter of

Petition filed by the Haryana Vidyut Prasaran Nigam Limited vide its Memo No. Ch-1/F-68/Vol-II dated 24.08.2006 seeking review and / or modification of the order dated July 26, 2006 passed by the Commission in respect of determination of tariff of Transmission Business and SLDC Charges for FY 2006-07

PRESENT:	Shri Bhaskar Chatterjee, Chairman
	Shri T.R. Dhaka, Member
	Shri T.S. Tewatia, Member
On behalf of HVPNL	Shri P.K. Das, Managing Director
	Shri A.S. Chugh, Director (P)
	Shri S.K. Singal, Director (T)
	Shri D.P. Tiwari, FA/Hq
On behalf of UHBVNL	Shri A.K. Gupta, SE/RA

ORDER

Through the petition filed under section 10(i) (h) of Haryana Electricity Reforms Act, 1997, section 94 of the Electricity Act, 2003 read with Regulation 78, 79, 80,85 to 91 of the Haryana Electricity Regulatory Commission (Conduct of Business) Regulations, 2004, HVPNL has sought review and / or modification and / or clarification of the Commission's order dated July 26, 2006.

The Commission vide its Memo No.HERC/RA-2 of 2006/1442 dated 23.10.2006 issued notice to HVPNL (the petitioner) communicating to them that a hearing on

its review petition has been scheduled for 03/11/2006 at 11.00 A.M. in the conference hall of the HERC. The hearing on the issues raised by HVPNL vide its review petition was held as per schedule. The Commission heard the petitioner's contention on each issue at length and reserved its order. The said petition is now disposed of vide the instant order.

The factual background of the order under review and Commission's observations & order on the same is stated, hereunder.

1. **Employee Cost** (Sub head 3.3 of the said order) the petitioner has sought a review and reconsideration of the amount of terminal benefits allowed by the Commission.

The Commission in its order dated 26.7.2006 had allowed terminal benefits on actual payment basis at Rs. 1160.79 million less Rs. 184.74 million being adjustment of excess payment in previous years.

The Hon'ble Appellate Tribunal in its order dated 12.09.2006 has ruled on the issue of terminal benefits that the same may be allowed on accrual basis. As the Commission in its order on case no. HERC RA – 5 of 2006 has already decided to implement the order of the Hon'ble Appellate Tribunal on this issue, terminal benefits for FY 2006-07 are also allowed on accrual basis.

The licensee has proposed Rs. 1645.69 millions as terminal benefits on accrual basis as per its ARR filing for FY 2006 – 07. However, as part of its presentation on the date of hearing, the licensee has revised this amount to Rs, 1979.68 millions. The Commission desired the licensee to provide a provisional estimation by a certified actuary for FY 2006 – 07 for which the licensee expressed its inability. The Commission, therefore, allows Rs. 1645.69 millions as terminal benefits on accrual basis for FY 2006 – 07 as proposed by the licensee in the ARR filing which has already been subject to public hearing. Any difference between the projected

amount and the actual amount as per actuary certificate will be allowed to the licensee at the time of next ARR.

3. **Interest on Loans** (Sub head 3.6 of the said order)

The Commission in its order for FY 2006 – 07 has allowed working capital equivalent to one month of ARR. The Hon'ble Appellate Tribunal in its order dated 12.9.2006 has ordered that working capital may be allowed equivalent to 2 months of ARR till the finances of licensees improve. In accordance with the order of the Hon'ble Appellate Tribunal and Commission's order in case no. HERC RA – 5 of 2006, working capital equivalent to 2 months of ARR amounts to Rs. 855 million. Interest @ 8.61% of the above amount comes to Rs. 73.62 million.

4. **Interest on PF Bonds**

In accordance with In accordance with the order of the Hon'ble Appellate Tribunal and Commission's order in case no. HERC RA – 5 of 2006, the Commission allows Rs. 303.34 millions as interest on PF bonds for FY 2006 – 07.

5. **Depreciation**

5.1 The licensee in the hearing has withdrawn its claim on depreciation on the basis of rates notified by Ministry of Power, Government of India notification dated 29.03.1995.

5.2 Advance against depreciation (sub head 3.8 of the said order) An additional amount of Rs. 41.08 million is allowed to the licensee as (Advance against depreciation) AAD for FY 2006 – 07. The conditions for claiming this amount shall be the same as given in Commission's order dated 26.07.06.

6. **Administration and General Expenses** (sub head 3.5 of the said order)

These expenses form part of audited accounts of the licensee for FY 2005 – 06 and form part of truing up exercise that the Commission has undertaken vide its order in case no. HERC RA – 5 of 2006 pursuant to the orders of Hon'ble Appellate Tribunal dated 12.09.2006 and 07.07.2006. This expenditure therefore is excluded from the subject matter review petition.

7. Return on equity and Income Tax

HVPNL has proposed ROE of Rs. 859.68 millions and Rs. 12.05 millions (Revised to Rs. 15.52 millions) for its transmission and SLDC business respectively.

The Commission allows ROE amounting to Rs. 854.61 million and Rs. 12.05 million on average equity for transmission and SLDC business respectively.

8. Other Income/ Non Tariff Income

These expenses form part of audited accounts of the licensee for FY 2005 – 06 and form part of truing up exercise that the Commission has undertaken vide its order in case no. HERC RA – 5 of 2006 pursuant to the orders of Hon'ble Appellate Tribunal dated 12.09.2006 and 07.07.2006. This expenditure therefore is excluded from the subject matter review petition.

Revised Total Expenditure

The total expenditure approved by the Commission with respect to the transmission business for the financial year 2006-07 is revised to Rs. 4324.84 million and SLDC charges to Rs. 85.01 million. Table 1 & 2 presents the details of Commission approved expenditures in respect of Transmission business & SLDC charges as per HERC order dated 26.7.2006, revised expenditure filed by HVPNL vide their review petition and Commission's order on the review petition.

Table 1 Transmission Business Approved Expenditure

For FY 2006-07(Rs. million)

Description	HERC as per Order dated 26.7.2006	HVPNL Review Petition	HERC Revised Approval
Expenditure			
Employees' cost	1622.28	2649.12	2307.83
R&M expenses	98.49	98.49	98.49
A & G Expenses	79.34	80.98	79.35
Interest on Capital Expenditure Borrowings	538.06	538.06	538.06
Debenture Interest (PF Bonds) Excluding Pension Bonds	0	303.34	303.34
Interest on Working Capital	22.34	84.66	73.62
Financial Charges (Guarantee fee)	6.42	6.42	6.42
Depreciation	449.05	855.33	449.05
Advance against depreciation	174.67	174.67	215.75
Fringe Benefit Tax	2.29	2.29	2.29
Total Expenditure	2992.94	4793.36	4074.19
Special Appropriations			
Tax on Income & Profit	0	72.34	71.91
Instalments of written down amounts	0.80	0.80	0.80
Contribution to Contingency Reserve	46.99	46.99	46.99
Past dues payable (Fringe benefit Tax for FY 2005-06)	130.95	130.95	130.95
Total Special Appropriations	178.74	251.08	250.65
Total "expenditure" (including special appropriation)	3171.68	5044.44	4324.84

**Table 2 SLDC Approved expenditure
For FY 2006-07(Rs. million)**

Description	HERC Approval	HVPNL Review Petition	HERC Revised Approval
Expenditure			
Employees' cost	16.34	16.34	16.34
R&M expenses	1.52	1.52	1.52
A & G Expenses	4.10	4.10	4.10
Interest & Finance Charges on Capital Expenditure	35.22	35.22	35.22
Interest on Working Capital	0.56	1.73	1.20
Depreciation	25.31	50.10	25.31
Total Expenditure	83.05	109.01	83.69
Special Appropriations			
Tax on Income & Profit	0	1.31	1.31
Contribution to Contingency Reserve			
Total "expenditure" (including special appropriation)	83.05	122.37	85.00

Table 3 Non- tariff income for FY 2006-07 (Rs. million)

Description	HERC Approval	HVPNL Review Petition	HERC Revised Approval
Investment income	13.03	13.03	13.03
Ancillary and incidental income	45.86	-46.17	49.45
Total of "Non-tariff Income"	58.89	-33.14	62.48

Aggregate Revenue Requirement

In light of the above analysis, the Commission approves Rs. 5116.97 million as the revised net aggregate revenue requirement of the Transmission business and Rs. 96.85 million as SLDC charges for FY 2006-07. The details are presented in table 4 & 5.

Table 4 Transmission ARR for FY 2006-07 (Rs. million)

Description	HERC Approval	HVPNL Review Petition	HERC Revised Approval
Return on equity	0	859.68	854.61
Total expenditure	3171.68	5044.44	4324.84
<i>Minus</i> Non-tariff income	(58.89)	33.14	-62.48
Total Aggregate Revenue Requirement	3112.79	5937.26	5116.97

Table 5 SLDC ARR for FY 2006-07 (Rs. million)

Description	HERC Approval	HVPNL Review Petition	HERC Revised Approval
Return on Investments	0	12.05	12.05
Total expenditure	83.05	110.32	85.00
<i>Minus</i> Non-tariff income	(0.198)	0.19	0.20
Total Aggregate Revenue Requirement	82.85	122.18	96.85

9. Tariff Design

HVPNL sought review of the HERC transmission tariff design based on coincidental peak and the justification that it is appropriate as it provides incentive to the Discoms with respect to the management of their peak load hence an effective demand side management tool. The instant review for allowing transmission tariff based on transformation capacity has been sought on the grounds that co-incident peak has inherent drawback of manipulation and over recovery. Besides the tariff becomes Discom driven which is likely to affect recovery corresponding to investment made by it. Further, the demand side management is the duty and responsibility of the Discoms which they are supposed to carry out for achieving better distribution system management.

The Commission has considered the views of HVPNL and is of the view that peak load governs the size, capacity and investments in a transmission system. Thus, estimation of cost causation and hence tariff based on sharing of the 'peak' are best-suited tariff design and the same forms the basis of widely used 'cost to serve model'. Consequently, the Commission rejects the review plea of HVPNL on this issue.

10. Transmission loss

HVPNL has submitted that Inter – State transmission losses may be allowed on actual basis and the limit of transmission losses pegged at 4.4% by the Commission be removed.

The Commission, given the fact that Haryana has considerable base as well as peaking shortage and the status is not likely to change in the next two to three years given the robust demand, believes that in order to bridge the demand - supply gap considerable volume of power would be sourced from East / North - East and other far – off states, thereby incurring incremental inter – state transmission losses. Thus, the Commission is inclined to accept the licensee's plea for allowing inter – state transmission losses as per actual. However, as far as intra – state transmission loss is concerned, the Commission has directed HVPNL to file loss reduction trajectory, based on which decision would be taken. The Commission observes from the filing submitted by HVPNL vide memo no. Ch-12/SE/RAU/F-42/Vol – IV dated 8/11/2006 that the total transmission loss during FY 2006-07 (up to August) is 4.4%, and is likely to decline in line with the past trend. Thus the Commission would like to pass an order on this after getting the actual interstate transmission losses for the current year.

11. Wheeling charges billing

HVPNL has sought review of the order of the Commission viz. 'wheeling charges recovered from open access customers shall be reduced from the transmission tariff to be recovered from distribution licensees. The Transmission Utility has

requested for being allowed to retain 25% of the charges recovered from short term open access customers in line with Clause – 16 (VI) of the CERC Open Access regulations.

The Commission has noted HVPNL's plea and would consider the same while finalizing its regulations on terms and conditions of tariff as mandated by the Electricity Act 2003. As far as the instant petition is concerned, since there is no short term open access customer the review plea on this issue is academic in nature having no financial impact. Thus the Commission, for now, rejects the review plea.

12. Date of implementation of Tariff & SLDC charges:

The licensee has sought review of the order of the Commission providing for implementation of the Transmission tariff and SLDC charges approved for FY 2006-07 w.e.f 1st August. The grounds for appeal put forth is that the Commission has failed to appreciate that the financial year (FY 2006-07 in the instant case) starts from 1st April and ends on the 31st March. The revenue from approved tariff should meet the HERC approved net aggregate revenue requirement.

The Commission has considered the review plea of the licensee, and is of the considered view that the transmission tariff is paid to HVPNL by the two-distribution licensees viz. UHBVNL & DHBVNL and open access customers, if any. Since the approved ARR of the distribution licensees to be recovered by way of retail tariff incorporates net aggregate revenue requirement (of HVPNL) for the entire financial year. As a corollary, the transmission tariff and SLDC charges should also enable recovery of the entire ARR amount approved by the Commission. Consequently, the Commission accepts the review plea of the licensee and orders implementation of the approved tariff & SLDC charges w.e.f 1st April 2006.

This order is signed, dated and issued by the Haryana Electricity Regulatory Commission on 1st day of December 2006.

Date: 1st December, 2006

Place: Panchkula

**T. S. Tewatia
(Member)**

**T. R. Dhaka
(Member)**

**Bhaskar Chatterjee
(Chairman)**