

HARYANA ELECTRICITY REGULATORY COMMISSION

BAYS 33-36, SECTOR-4, PANCHKULA

CASE NO: HERC/ RA 3 of 2007

Date of Hearing: 30.8.2007

Date of Order: 26.09.2007

In the matter of

Petition filed by Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) vide Memo No. Ch-80/SE/RA/N/F-25 Vol. XIII and dated 5.6.2007 seeking review and/or modification of the order dated May 8, 2007, passed by the Commission in case no. HERC/PRO-8 of 2006 in respect of determination of ARR for Distribution and Retail Supply Business of UHBVNL for FY 2007-08

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| PRESENT: | Shri Bhaskar Chatterjee, Chairman |
| | Shri T.R. Dhaka, Member |
| | Shri T.S. Tewatia, Member |
| On behalf of UHBVNL | Apoorva Kumar Singh, Managing Director |

ORDER

This order relates to the petition filed by UHBVNL 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.

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

1. **Repair and Maintenance Expenses:-** The Commission has approved Rs.362.01 million as R&M expenses for FY 2007-08 @ 2% of average GFA as against 2.86% proposed by the licensee.

UHBVNL has claimed that R&M norms submitted by them provide for normative preventive maintenance expenditure of 0.75% of GFA and it was claimed that maintenance cost is within these parameters except for additional expenditure on transformer repairs. The last five year average shows a percentage of 2.86% of average GFA as R&M expenses. The licensee claims that it is not feasible to bring down the expenditure by about 30% in a single year. The expenses could be reduced gradually over a period of time. HERC should allow at least 2.50% if not 2.86% for FY 2007-08. The licensee has proposed strengthening of distribution system during the year but the benefit of the same shall accrue in later years and as such the amount of R&M expenses allowed may be reviewed.

The Commission while allowing 2% of average GFA as R&M expenses for FY 2007-08 had suggested that “the licensee should draw a time bound plan for bringing the transformer failure rate within parameters for which additional funds may be allocated”. The licensee, instead of drawing up a time bound plan for reduction of transformer failure rate to address the problem at the gross-root level, has again chosen to plead for higher R&M expenses. The Commission reiterates that the solution to high transformer failure rate and consequently a high R&M expenditure does not lie in allowing additional R&M expenditure as this would only postpone the problem and further compound it. Thus, the Commission finds no merit for review on this ground and hence the request is rejected.

2. **Interest on loans**

The Commission has approved interest on borrowings for working capital equivalent to one month of ARR in accordance with the orders of the Hon’ble Appellate Tribunal for Electricity.

Grounds for Appeal (A)

UHBVNL has sought review for being allowed working capital borrowings and interest thereon as per its projected balance sheet.

The issue of working capital was dealt with by the Hon'ble Appellate Tribunal for Electricity in its order dated 10.11.2006 whereupon it had commented that the distribution utilities have access to advanced consumption deposit and security deposit which should suffice for their working capital requirement. The cause for instant appeal stated by the licensee is that "in the given situation, the collection efficiency of the licensee is less".

The Commission is not convinced with the argument and feels that inefficiency in collections by the licensee should not lead to additional financial burden for the consumers of the State. The licensee should gear up its collections mechanism so that the funds that are locked-up as 'receivables' are available to sustain its day to day cash flow. The Commission finds no ground for appeal in this issue and hence rejects the same.

Grounds for Appeal (B)

It was pleaded by the licensee that the rate of interest on working capital has been allowed at 8.31% whereas at present the prevailing rate of interest is about 11%. Since most of the working capital loans of the licensee are on a 'floating rate' basis linked to the PLR, the rate would be adjusted upwards for the existing loans. As such interest should be allowed at 11%.

The Commission has considered the submission of the licensee on this issue and is of the view that the licensee in its filing for ARR for FY 2007-08 had projected weighted average rate of interest at 8.31% inclusive of existing borrowings and the proposed borrowings. The Commission limited the amount to one month of ARR at licensee proposed rate of interest of 8.31%. As the licensee has now provided details of its latest borrowings which show a trend of higher rate of interest on borrowings, the Commission accepts the review plea to allow interest on working capital borrowings at 11% p.a.

3. Capital Expenditure

HERC has reduced the capital expenditure of UHBVNL for FY 2007-08 by about Rs.1000 million.

Grounds for Appeal

The licensee has submitted that in the past the Commission had observed that the utilities have not been undertaking adequate capital expenditure and it should strengthen its system for long term efficiency gains. During the current year the utility made an ambitious capex plan, but the same has been reduced by the Commission. UHBVNL has requested that the entire expenditure proposed by it should be allowed.

The Commission, in its order dated 8.5.2007, had reduced the CAPEX plan of the licensee by Rs. 1015.6 million. Out of this, reduction of Rs. 540 million was on account of the amount to be reimbursed by HSIDC/HUDA for their works and thus the said amount was rightly not allowed as part of capex plan. The balance reduction in capex (Rs. 475.6 million) was made in respect of different works keeping in view the past performance of the licensee and stage of action in regard to the procurement of these works. The review petition doesn't contain any additional input to justify any revision of their approved capex plan and, hence, the commission rejects the same. However, the completion date of 27 No. 33 KV sub-stations mentioned as June, 2008 in Commission's order dated 8.5.2007 is on account of a typographical error and may be read as January, 2008. The Commission is, however, prepared to consider the proposal of the licensee favorably if satisfactory progress of capex is shown in the later part of the year.

4. Reasonable Return on Loans

The Commission has allowed return on approved loans @ 0.5% which works out to Rs.42.62 million.

The licensee has proposed that it should be allowed 0.5% return on loans proposed by it instead of returns on loans approved by the Commission.

The Commission has examined the submission of the licensee and is of the view that the Tariff Regulations provide for return of 0.5% on approved loans which has been duly provided by the Commission. The Licensee cannot be allowed return on excessive borrowings not approved by the Commission. Thus, the Commission finds no merit in the review plea on this account and hence rejects the same.

5. Distribution losses

The Licensee had projected distribution loss level of 28.50% for FY 2007-08 on account of massive system improvement initiatives planned by it during 2007-08 whereas the Commission passed the ARR calculations at a loss level of 28.50% as mentioned in the order but has finally allowed a loss level of 26%.

UHBVNL while pleading for review has expressed its apprehension that an additional loss reduction of 2.50% considered by the Commission is highly optimistic and may not be achieved. It has requested that a loss level of 28.50% be allowed in the ARR. In case a stringent target is given for the first year of its five year loss reduction plan, it would have an adverse impact on the financial health and the commercial viability of the licensee.

The Commission observes that the ARR of UHBVNL has been determined at a loss level of 28.50%. However, keeping in view the fact that the proposed capital expenditure plan towards strengthening distribution system for FY 2007-08 is almost five times its normal capex plans so far considered by the Commission, the Commission in its order commented that “if the proposed investment plan is competently executed and an effective energy audit mechanism is planned and put in place well in time, there is certainly going to be improvement in the system and the resultants savings for the company”. Further the Commission appreciated the initiative of the licensee towards popularizing energy saving devices such as CFL, efficient agriculture pump sets and realistic feeders specific load management. Resultantly, the Commission is hopeful that by the end of the year, the licensee would be able to save another 2 ½ % distribution loss over and above 2% which has been accounted for in the ARR calculations. Thus, the additional 2 ½ %

reduction in losses is an efficiency target given to the utility and has no relation to the consumption estimates at 28.5% losses considered in the order under review. Thus the grounds for appeal submitted by the licensee are not tenable and hence the Commission rejects the same.

6. Consumption Estimates

UHBVNL has requested that projected category-wise sales at loss level of 26% be provided to the licensee for its reference.

The Commission observes that the consumer category wise sale of power for the purpose of ARR has been determined at a loss level of 28.50% which is provided in the ARR order dated 8th May, 2007. The reduction of 2.5% is an efficiency target given to the licensee in view of the extensive system improvement plan sanctioned by the Commission. Therefore, for the purpose of consumption estimations, the consumer category-wise sales given in the order are adequate and no revised calculation is required. Thus the review sought on this issue is rejected.

7. Subsidy from the State Government

UHBVNL has claimed that the Commission had asked for additional commitment of Rs.336 crores towards agriculture subsidy over and above Rs.1873.82 crores budgeted by the State Government. As against this the final order provided for an additional subsidy of only Rs. 300.5 crores as against Rs. 336 crores committed by the State Government. Thus, two different sets of calculations appear to have been used. Further, while allocating the subsidy finally, the loss level was changed to 26% which has resulted in under estimation of subsidy. As a result, the additional commitment of subsidy of Rs.336 crores given by the State Government is not fully allocated to the distribution companies which are already in financial distress. It has requested that the Commission may re-calculate and share the same with the utility and the State Government, so that a reasonable amount of additional subsidy can be allocated to the utilities.

The Commission is of the view that for a licensee, only the final order passed by the Commission is binding. What transpired between the Commission and the State Government prior to the passing of order has no relevance to the final order to be implemented by the licensee. More so, the calculation submitted to the State Government was tentative and indicative in order to expedite the process of passing the final order on the ARR. Consequently, the Commission rejects the review plea on this ground.

8. Interest on Market Committee Loans:

UHBVNL in its review petition against the ARR and Tariff order for Transmission and SLDC charges dated 8.5.2007, had objected to the classification of Market Committee loans as CAPEX loan. In view of Commission order on review petitions filed against ARR and Tariff order of transmission tariff and SLDC charges on the issue of treatment of market committee loan, the Commission allows UHBVNL to treat the market committee loans as loan for capital works and allows it to recover to Rs. 16.23 million in its ARR in addition to Rs. 315.68 million as interest for capex loans already allowed.

Date : 26.09.2007

Place : Panchkula

(T.S.Tewatia)
(Member)

(T.R.Dhaka)
(Member)

(Bhaskar Chatterjee, IAS (Retd.))
(Chairman)