

HARYANA ELECTRICITY REGULATORY COMMISSION  
BAYS NO 33-36, SECTOR – 4, PANCHKULA

Date of hearing: 30<sup>th</sup> August, 2007

Date of Order: 26/09/ 2007

IN THE MATTER OF:

1. Petition filed by Haryana Power Generation Company Limited (HPGCL) vide its Memo No. HPGC / FIN / Reg – 227/641 dated 6/06/2007 seeking review and / or clarification of the Commission's order dated 8<sup>th</sup> May 2007 with respect to Determination of Bulk Supply Tariff and Trading Margin for FY 2007-08.
2. Objection petition filed by Haryana Vidyut Prasaran Nigam Limited (HVPNL) vide Memo No. Ch-4 / F-71/Vol – II, dated 18<sup>th</sup> June 2007.

The above petitions have been filed under section 10 (1) (h) of Haryana Electricity Reform Act, 1997 and regulations 49 & 78 (1) of the Haryana Electricity Regulatory Commission (Conduct of Business) Regulations, 2004, for review of and / or clarification of the order dated 8<sup>th</sup> May, 2007 passed by the Commission in the case of to Determination of Bulk Supply Tariff and Trading Margin for FY 2007-08.

PRESENT	Shri Bhaskar Chatterjee, Chairman
	Er. T. R. Dhaka, Member
	Shri T. S. Tewatia, Member
On behalf of HPGCL	Smt. Jyoti Arora, Managing Director
	Shri J. C. Kinra, COO
	Shri D. C. Arya, FA/HQ
On Behalf of HVPNL	Shri P. K. Das, Managing Director
	Shri D. P. Tiwari, FA/HQ

ORDER

1. This order of the Haryana Electricity Regulatory Commission (hereinafter referred to as the Commission) disposes of the review petitions filed by HPGCL on 6<sup>th</sup> June, 2007 and by HVPNL on 18<sup>th</sup> June, 2007, against the Annual Revenue Requirement for Bulk Supply

Business and determination of Bulk Supply Tariff (BST) and Trading Margin for FY 2007 order passed by the commission on 8<sup>th</sup> may, 2007.

**Background:**

The factual background of the case leading to present appeal is stated here under:

On 30<sup>th</sup> November 2006 HPGCL, the deemed bulk supply company & trading licensee filed a Trading Margin & Bulk Supply Tariff application for consideration and approval of the Commission. The Commission invited public objections / suggestions on the petition filed by HPGCL and subsequently held a public hearing on 21/02/2007 providing adequate opportunity to all stakeholders to put forward their views & suggestions. After careful examinations of the petition filed by HPGCL and taking into consideration the objections / suggestions received from the stakeholders, the Commission passed its order on Bulk Supply tariff & Trading Margin dated 8<sup>th</sup> May 2007, for power supplied by HPGCL to the distribution licensees' viz. Uttar Haryana Bijli Vitran Nigam (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam (DHBVNL).

Further, in the above order passed, the Commission allowed 12 paisa per unit for HVPNL's BBMB power and 312 paisa per unit for HVPNL's IPGCL power as against 23 paisa and 387 paisa respectively sought by HPGCL.

2. Aggrieved by the above order of the Commission the petitioners, in their respective petitions and presentations made by them during the hearing held on the instant petition on 30/08/2007, have sought separately the following relief:

**A - HPGCL:**

- i) Volume and rate of short term purchases:

HPGCL sought review on the grounds that Haryana is a power deficit state and socio - economic consequences of non-supply of power to the State are very serious. In order to bridge the demand – supply gap, HPGCL makes short term purchase even at a high rate which at times go up to Rs. 7.50/ kWh. Consequently, HPGCL has requested to be allowed short term purchase of 3000 MUs at an average rate of 5.30/

kWh for FY 2007-08 against 2000 MUs allowed by the Commission at an average rate of Rs. 3.77/ kWh.

ii) Transmission Losses:

On the issue of Transmission losses HPGCL submitted that the power is being purchased from different regions under Short Term & Long Term Agreements for which inter-regional losses have to be borne by the HPGCL. Thus HPGCL has requested to be allowed transmission losses @5% on the basis of the losses for FY 2006-07 as per details given in the table below:

Sr. No.	Particulars	Transmission Loss (%)
1	Inter-Region	5.08
2	Inter-State	4.57
3	Intra-State	2.69
4	Weighted average	5.00

iii) Interest on working capital:

It has been submitted that the Commission has considered PLR at a date much prior to the beginning of FY 2007-08 and reduced the same by 200 basis points contrary to CERC norms, which provides for interest on working capital at SBI PLR (State Bank of India, Prime Lending Rate). The present SBI PLR is 12.75% p.a. therefore interest on Normative Working Capital has been requested to be allowed @ 12.75 % instead of @ 10% allowed by the Commission.

iv) Working Capital:

On the issue of working Capital related borrowings HPGCL has sought relief on the basis of its original application filed for approval of the Commission, it inadvertently claimed working capital equal to one-month receivables. However, during the hearing held on 21st February, 2007 they requested to be allowed working capital equivalent to two months of receivables. They further submitted that the hon'ble Appellate Tribunal has also directed the Commission to allow HPGCL working capital equivalent two months receivables till its finances improve. As per the BSA (Bulk Supply Agreement of HPGCL with the Distribution Licensees) the late payment

surcharge begins after 90 days of the date of billing. Thus its actual working capital requirement is that of 3 months receivables. Consequently, at least 2 months of receivables should be allowed as working capital.

v) BBMB & IPGCL Power Stations:

The HPGCL has requested that the power purchase rate from BBMB and IPGCL may be allowed @ Rs. 0.23 / kWh and Rs. 3.87 / kWh instead of Rs. 0.112 / kWh and Rs. 3.12 / kWh respectively, allowed by the Commission.

vi) Net rate of Bulk Supply of power:

HPGCL, in its instant review petition has pointed out that if the calculations of the Commission are as per its order, the Bulk Supply Tariff works out to Rs. 2.4048 / kWh instead of Rs. 2.40 / kWh allowed by the Commission. Since the volume of power purchase is huge the difference of Rs. 0.0048 / kWh leads to an amount of Rs. 12.00 Crore. Consequently, HPGCL has requested that the net sale rate of Bulk supply power be allowed up to at least 4 digits instead of 2 digits allowed by the Commission.

## **B – HVPNL**

HVPNL has sought the review on the issues mentioned below:

- i) Allow interest cost for delay in recovery of cost incurred on BBMB and IPGCL power by HVPNL,
- ii) Direct HPGCL to sign PPA with HVPNL and submit to the Commission for approval,
- iii) Call a public hearing and notify HVPNL as intervenor to HPGCL for further debate on the issue during hearing, and
- iv) Allow depreciation on BBMB/IP Assets owned by HVPNL and tariff @ Rs. 0.23 / kWh for BBMB power and @ Rs. 3.87 / kWh for IPGCL power.

### **Commission's observations & order:**

3. The Commission has examined all the issues raised by the parties while filing their review applications and submissions made by them at the time of public hearing held on 30<sup>th</sup> August, 2007 and gives its findings / decision issue wise as under:

(a) Volume and rate of short term purchases:

HPGCL raised this issue during the hearing also but could not give due justification with regard to fixation of rate at Rs. 5.30 / kWh and the source(s) of purchase of increased volume from 2000 MUs to 3000 MUs Merely stating that economic consequences of non-supply of power to the State are very serious, does not justify purchase of huge volume of additional power from unidentified sources and at unsettled rates. The Commission determines volume and cost of power purchase on a projected basis. This is (except in the case of intra-state generator and a few other sources) based on CEAs generation schedule drawn for the year in consultation with the generators including additional allocations from the 15% unallocated central quota in the CPSUs. Over and above this volume the Commission has been allowing short term / bilateral power based on the PPA / MOU. In the absence of identified short term / bilateral sources in FY 2007-08 the Commission, considering the deficit scenario in Haryana pegged the volume of short term / bilateral draws at 2000 MUs on the basis of past trend @ of Rs. 3.77 / kWh is based on average rate from FY 2005 up to January 2007. The issue has been deliberated at a great length in the Commission's order dated 8<sup>th</sup> May, 2007 under Para 2.1.1.1 H and Para 2.1.1.2 E. As the volume and cost of power purchase is allowed on best estimate basis at the beginning of the year, there are possibilities that the actual drawl and cost may vary. To take care of such exigencies the HERC Tariff Regulations provide for Fuel Surcharge Adjustment Mechanism (FSA) wherein inaccuracies in forecasting both volumes including change in hydel / thermal mix and cost is trued – up on a quarterly basis based on the invoices supporting the claimed volume and cost from the generators. Consequently, as a mechanism exists to address such issues, the Commission is of the view that power purchase volume and cost allowed by it on a projected basis in the ARR is not a subject matter of review. Resultantly, the Commission rejects the review sought by HPGCL on this issue.

b) Transmission Losses:

The interstate transmission losses of 4% allowed by the Commission for FY 2007-08 is based on the transmission loss data upto November 2006 (FY 2006-07) made available by HVPNL to the Commission. The issue has been dealt at length in Para 2.22 of the Commission's order on ARR for Transmission Business for FY 2007-08 dated 8<sup>th</sup> May 2007. The average pooled transmission loss of northern regional grid for the period 1/04/2007 to 19/08/2007, as per the information available on the NRLDC website, is 3.41% and therefore the inter-state transmission loss allowed by the Commission in its order for FY 2007-08 is quite reasonable. So far as intrastate losses are concerned the benchmark of 2.6% has been considered keeping in view the actual achieved and the Capital Expenditure allowed for modernization, augmentation and upgradation of the transmission system in Haryana. The intra – state transmission loss target of 2.6% set by the Commission for FY 2007-08 is not significantly different from 2.69% sought by HPGCL. In the light of the above the Commission rejects the review sought on this issue.

c) Working Capital and Interest thereto:

The interest rate @ 10% was allowed by the Commission based on actual interest rate applicable at the time of passing the order which was 2% below the then prevailing SBI Prime Lending Rate. In compliance to the Commission's direction at the time of the hearing on the instant review petition held on 30/07/2007, HPGCL submitted a few document in support of its claim for higher interest rate. It is observed from the documents that the rate of interest varies from 8.5% to 10.75%. The Commission is of the considered view that interest cost is not an area where HPGCL should be seeking cushion. Hence it ought to be as close to the actual as possible. Consequently, the Commission finds no justification for seeking a review on this issue and rejects the same. The Commission commends HPGCL for its ability to raise short term resources at 250 basis points below the PLR of the nationalized banks.

As far as the review sought for being allowed working capital requirements equivalent to two months of the ARR approved by the Commission, the Commission, based on

the observations of the Appellate Tribunal on this issue accepts the review plea of HPGCL. Accordingly the interest on working capital for two months amounting to Rs. 1023 million is allowed for FY 2007-08 at the interest rate of 10% allowed for the purpose.

d) BBMB & IPGCL Power Cost:

As stated in its order dated 8<sup>th</sup> May, 2007, the matter was referred to the Govt. of Haryana and reply of the Govt. has since been received. The matter is under consideration of the Commission and decision shall be communicated separately in due course of time. Till such time the final decision is taken by the Commission there will be no change in the rates and volume of power from the BBMB and IPGCL Power Stations.

e) Trading Margin for FY 2007-08:

Power purchase rates & costs and other expenditure already approved by the Commission shall remain unchanged. However due to increase in interest on working capital there will be change in the trading margin, which shall be as per workings given in the table that follows:

**Trading Margin for FY 2007-08**

Description	HPGCL Proposal	HERC Approval
<b>Expenditure</b>		
Salary & Wages	12.29	10.85
A&G Expenses	5.5	5.3
Interest on working Capital	586.85	1023
Trading License Fee	10	10
Total Expenditure	614.64	1049.15
Energy Available for sale to Discoms (MU)	25877.83	25164
Trading Margin (Rs / kWh)*	0.0236	0.0417 (Rounded off to 4 Paisa )

- *Claimed on the basis of one month ARR as working capital as against two months claimed in the instant review petition and accepted by the Commission.*

The Commission observes that due to trading business being handled by HPGCL (a power generation company) costs like working capital on intra – state generation gets inflated. The power purchased from inter – state traders gets subjected to first inter – state trading margin and then intra – state trading margin which is an avoidable burden on the electricity consumers. Consequently, as per the provisions of the Electricity Act 2003 and the Tariff Policy issued by the Central Government in compliance with section 3 of the Act, the Commission would very much like the process of assigning the long term PPAs (Power Purchase Agreements) and short term & bilateral power purchases to the Distribution licensees in Haryana i.e. UHBVNL and DHBVNL to be expedited.

This order is signed, dated and issued by the Haryana Electricity Regulatory Commission on 26<sup>th</sup> September 2007.

Date:

Place: Panchkula

T. S. Tewatia  
(Member)

T. R. Dhaka  
(Member)

Bhaskar Chatterjee  
(Chairman)