



COMMISSION'S ORDER

ON

**ANNUAL REVENUE REPORT FOR TRANSMISSION
BUSINESS & SLDC FOR FY 2009-10 AND TRANSMISSION
TARIFF & SLDC CHARGES**

May 18, 2009

HARYANA ELECTRICITY REGULATORY COMMISSION

Bay No. 33-36, SECTOR - 4, PANCHKULA - 134 112, HARYANA

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HERC/PRO - 2 OF 2009

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PANCHKULA

HARYANA ELECTRICITY REGULATORY COMMISSION
BAY No. 33-36, SECTOR - 4, PANCHKULA - 134 112, HARYANA

CASE NO. HERC / PRO - 2 OF 2009

Date of Order: 18.05.2009

In the matter of applications filed by Haryana Vidyut Prasaran Nigam Limited (HVPNL) for approval of Annual Revenue Requirement for Transmission business and operating cost of SLDC for FY 2009-10 and determination of Transmission Tariff and SLDC Charges.

PRESENT:	Shri Bhaskar Chatterjee, Chairman Shri T.S. Tewatia, Member Shri Rohtash Dahiya, Member
On behalf of HVPNL	Shri. Ankur Gupta, M.D Shri Niraj Gulati , CE Shri. D.P. Tiwari. FA/Hqr Shri Sanjeev Aggrawal, CAO
On behalf of Public	Shri Sampat Singh
On behalf of HERC Staff	Shri Surjeet Singh, Secretary Shri Sanjay Varma, Director/Tariff Smt. Surbhi Jain, Joint Director Shri S. K. Goyal, Deputy Director Shri Gulshan Aggarwal, Deputy Director

ORDER

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1. PROCEDURAL ASPECTS OF THE ARR FILING

The Haryana Electricity Regulatory Commission (the Commission), in exercise of the powers vested under section 62 of the Electricity Act, 2003 and section 26 of the Haryana Electricity Reform Act, 1997 and all other powers enabling it in this behalf, determines Annual Revenue Requirement (ARR) for Transmission and State Load Dispatch Centre (SLDC) business of Haryana Vidyut Prasaran Nigam Ltd (HVPNL) for the Financial Year 2009-10.

1.1 Enactment of the Electricity Act 2003

The Electricity Act, 2003 (the Act), enacted in June 2003, repealed the Indian Electricity Act, 1910, the Electricity (Supply) Act, 1948 and the Electricity Regulatory Commissions Act, 1998. The Government of Haryana, in exercise of the powers conferred by clause (d) of section 172 of the EA - 2003 , vide its notification no. 1/4/2003 -1 Power dated 8/09/2003 notified that all the provisions of the Act except Section 121 which has not been enforced by the Central Government vide notification no. S.O 699 (E) dated 10/6/2003 shall not apply in the State of Haryana for a period of six months from the appointed date i.e. 10/6/2003. Resultantly, EA 2003 came into force in the State of Haryana w.e.f. 10/12/2003.

1.2 Procedure envisaged in the Act for Tariff Order

Section 64 of the Act lays down the procedure to be followed for issuance of tariff order. Sub-sections (1) & (3) of Section 64 of the Act provide as under:

Sub-section (1): “An application for determination of tariff under section 62 shall be made by a generating company or licensee in such manner and accompanied by such fee, as may be determined by regulations”.

Sub section (3): “The Appropriate Commission, shall within one hundred and twenty days from receipt of application under sub-section (1) and after considering all suggestions and objections received from the public:-

(a) issue a tariff order accepting the application with such modifications or such conditions as may be specified in that order;

(b) reject the application for reasons to be recorded in writing if such application is not in accordance with the provisions of this Act and the rules and regulations made there under or the provisions of any other law for the time being in force:

Provided that an applicant shall be given a reasonable opportunity of being heard before rejecting his application.”

1.3 Procedural History

Government of Haryana vide notification No. 1/10/2003-1/Power dated 9/12/2003 notified HVPNL to be Haryana State Transmission Utility (STU) for the purpose of the Act w.e.f. 10th December, 2003.

Section 31 (1) of the Act provides “the State Government shall establish a Centre to be known as State Load Dispatch Centre (SLDC) for the purpose of exercising the powers and discharging the functions under this Act”. while sub section 31(2) provides that the “State Load Dispatch Centre (SLDC) shall be operated by a Government company or any other authority or corporation established or constituted by or under any State Act, as may be notified by the State Government:

Provided that until a Government company or any authority or corporation is notified by the State Government, the State Transmission Utility (STU) shall operate the State Load Dispatch Centre.

Provided further that “no State Load Dispatch Centre shall engage in the business of trading in electricity”.

The Government of Haryana vide their notification No. 1/11/2003-1/Power notified that the SLDC at Sewah (Panipat) established for the purpose under Section 31(1) of the Act is to be operated by the Haryana State Transmission Utility w.e.f 10th December 2003.

Further, Section 39 (1) of the Act provides that “the State Government may notify the Board or a Government company as the State Transmission Utility; Provided that the State Transmission Utility shall not engage in the business of trading in electricity”. This provision was deferred for period of one year by the Government of India vide notification dated 9th June 2004. Resultantly HVPNL continued Transmission and Bulk Supply business till 9th June 2005.

Clause 21.2 of the transmission license states that if the report referred to in Clause 21.1 indicates a significant difference between its expected aggregate revenues and its expected cost of service, the Licensee shall also submit with its report an explanation of the measures it proposes to take, including any proposed tariff amendments, to eliminate the difference.

HVPNL filed its ARR petition for FY 2009-10 vide Memo No.Ch- 69/SE/RAU /F-76/Vol-I dated 28th November, 2008 in respect of its Transmission and SLDC business. The Commission conducted a preliminary analysis of the petition submitted by HVPNL and vide Memo No. HERC/D (Tariff)/HVPNL/ARR-09-10/2679 dated 15th January, 2009 pointed out deficiencies in the filing and directed HVPNL to provide additional data / clarifications. HVPNL vide Memo No. Ch.89/SE/RAU/F-76/Vol-1 dated 29th January 2009 furnished supplementary information as required by the Commission.

The transmission and SLDC charges are mostly to be recovered from the distribution licensees UHBVNL & DHBVNL and other long term / short term open

access customers, if any. The transmission and SLDC charges for FY 2009-10 proposed by HVPNL are presented in table 1.1.

Table1.1 HVPNL proposal for Transmission Tariff & Charges

Monthly Transmission Charges (Rs. Millions)	UHBVNL	DHBVNL	Total
	501.92	385.17	887.09
Transmission Tariff for Short term Customers (Rs / kWh)	0.34		
SLDC Charges (Rs. Million / month)	4.9535	4.9535	9.907

The Commission, in Chapter - 2&3 of this order, has dealt with HVPNL's proposal as presented in table 1.1.

Section 64 (1) of the Act provides that an application for determination of tariff under Section 62 is required to be made by a generating company or licensee in such manner and accompanied by such fee as may be determined by regulations. The Commission vide its notification (No. HERC / 20 / 2008 dated 19/12/2008 notified the Haryana Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2008 notified in Haryana Government Gazette (Extra). Regulation 6(3) provides that "If the Commission is satisfied that the expected revenue of a transmission licensee differs significantly from the revenue it is permitted to recover, it may order the transmission licensee to file an application within the time specified by the Commission to amend its tariffs appropriately failing which the Commission shall suo moto start the proceedings for determination of tariff". Further, Regulation 7(6) provides that "where the Commission has not approved the aggregate revenue requirement for the financial year in which the proposed tariff is to be implemented, the Annual Revenue Requirement should accompany the filing of proposed tariff for that financial year". The instant transmission tariff petition and SLDC charges are based on the expected revenue requirement for transmission and SLDC business of HVPNL for FY 2009-10. As the Commission has not

approved the ARR for FY 2009-10, it will first consider the ARR and based on the same shall determine transmission tariff and SLDC charges for FY 2009-10.

Section 64(2) of the Electricity Act 2003 provides that “every applicant shall publish the application, in such abridged form and manner as may be specified by the Appropriate Commission”. Further, Section 64(3) provides that “the Appropriate Commission shall, within 120 days from the receipt of an application under sub section (1) and after considering all suggestions and objections received from the public- (a) issue a tariff order accepting the application with such modifications or such conditions as may be specified in that order; (b) reject the application for reasons to be recorded in writing if such application is not in accordance with the provisions of the Act and the rules and regulations made there under or the provisions of any other law for the time being in force. Provided that an applicant shall be given a reasonable opportunity of being heard before rejecting his application.

In accordance with Section 64 of the Act, HVPNL, in order to ensure public participation, published its application in two newspapers i.e. The Indian Express (English) and Dainik Bhaskar (Hindi) dated 8/12/2008 and 6/12/2008 respectively. Objections from public and other stakeholders were invited up to 7/01/2009. The complete set of documents related to ARR and tariff were made available for public consultation during office hours on any working day at the head quarter of HVPNL and offices of SEs (Operation) of UHBVNL and DHBVNL. A complete set of these documents was made available on payment of Rs.1000/-, copy of main ARR without Annexure at Rs.300/- and copy of condensed summary at Rs.50/- in cash or through demand draft, from the office addresses mentioned in the public notice. The public notice as well as the condensed summary of the application was also hosted on the website of HVPNL.

The salient features of the ARR's for Transmission business and SLDC as filed by HVPNL, on a projected basis for FY 2009-10, for consideration and approval of the Commission are discussed in the following paragraphs.

1.4 Salient features of the Transmission ARR

HVPNL has projected an Annual Revenue Requirement (ARR) for FY 2009-10 at Rs. 10645.13 Millions consisting of total expenditure in respect of transmission business amounting to Rs. 9585.49 Millions, return on equity @ 14% amounting to Rs. 1088.66 Millions less non-tariff income of Rs. 29.02 Millions, to be deducted to arrive at net aggregate revenue requirement.

As per HVPNL's ARR petition for FY 2009-10 there is an uncovered revenue gap of Rs. 4596.84 Millions. The Licensee has proposed to bridge this revenue gap through suitable increase in transmission tariffs for which they have filed the tariff proposal under consideration. The proposed transmission tariff is a single part tariff based on the respective share of UHBVNL and DHBVNL to the total transformation capacity projected for FY 2009-10 at 11954 MVA (6763 MVA UHBVNL & 5191 MVA DHBVNL). HVPNL has proposed to charge Rs. 0.34 / unit to short term open access consumers as wheeling charge. Fifty percent of the amount collected is proposed to be retained by HVPNL and the balance is proposed to be passed on to the long term consumers including the Distribution companies (UHBVNL & DHBVNL) in proportion to their transformation capacity.

1.5 Salient features of SLDC ARR

The SLDC ARR for FY 2009-10 has been projected at Rs. 118.884 million; this includes an expenditure of Rs. 111.69 Millions, return on equity of Rs.7.85 million less other income (fee etc.) of Rs.0.656 million. Recovery of the SLDC fees and charges for the financial year 2009-10 has been proposed on a monthly basis by dividing the total recoverable charges by 12. The proposed SLDC charges to be recovered on a monthly basis from UHBVNL and DHBVNL is Rs. 4.9535 million each. HVPNL has proposed to charge a composite fee

and charges from a short-term customer for each transaction as per the rates approved and notified by CERC for State Load Dispatch Centre from time to time.

The Commission issued public notice inviting comments / objections by 10th February, 2009 on the application filed by the HVPNL for approval of ARR & tariff and charges for FY 2009-10 in 'The Times of Times' (English) Delhi & Chandigarh editions and 'Dainik Bhaskar' (Hindi) Chandigarh and Haryana editions on 22/01/2009 and 23/01/2009. All the documents relating to ARR filings were made available to the public on payment of a nominal fee so that interested person / organizations could examine and file their objections / comment on the ARR application of the Licensee.

The public hearing on the ARR application of HVPNL for FY 2009-10 was scheduled for 25th February 2009 at 11.30 A.M. in the courtroom of the Commission and was held as per the schedule.

1.6 Interveners / Objectors

The Commission received three objections / comments to the petition filed by HVPNL. Shri Sampat Singh of Hisar appeared before the Commission and made oral submissions during the public hearing held on 25/02/2009. Objections were also filed by the distribution licensee UHBVNL vide Memo No. Ch-25/GM/RA/N/F-25/Vol XXII(22) dated 20/02/2009. A brief synopsis of the objections raised and the Commission's view on the same is presented hereunder.

1. **Return on equity (ROE) / Reasonable Return:** The intervener objected to ROE claimed by HVPNL @ 14% and submitted that ROE may not be allowed in excess of 10%. Allowing a higher return on equity, which in all probability is eroded, is an avoidable burden which is ultimately passed on to the electricity consumers i.e as against Rs. 515.5 Millions in FY 2008-

09 it has shot up to Rs. 1088.6 Millions in FY 2009-10. The Commission has considered the objection raised on ROE and is of the view that financial impact of such claim has to be seen on the distribution companies all owned by the State Government and the electricity consumers of the state before reckoning with ROE. It is a fact that entire equity of HVPNL is contributed by the State Government thus any ROE allowed has cascading effect on the distribution companies who are not being allowed any return as their equity base stands eroded due to accumulated losses while consumer's appetite for any increase in already high retail tariff is very less. Further, besides burdening the retail consumers the ROE allowed increases the tax liability of HVPNL which is projected at Rs. 565.9 Millions while the Distribution companies who bear the burden of transmission / SLDC charges are in deep financial distress as they are unable to absorb or pass on any additional financial burden. Consequently, in view of the above facts as well as the massive financial impact of implementation of the recommendations of the sixth pay Commission during the current year the Commission is not in favour of allowing any ROE to HVPNL in FY 2009-10.

2. **State Advisory Committee (SAC):** The objectors submitted that the State Advisory Committee (SAC) constituted by the Commission under section 87 of the Electricity Act 2003 comprises only of ex – officio members. It has no member to represent the interests of the commercial, transport, agriculture, labor and domestic consumers. The Commission has considered the above submission. It is of the view that as per the Act the SAC shall constitute of not more than 21 Members. The existing SAC consists of 17 Members incorporated as per the Act and regulations framed under it. The Commission is in the process of further broadening the SAC to ensure representations of any left out stakeholder(s) / interest groups to have the benefits of their comments / suggestions on various issues relating to the power sector in Haryana.

3. **Wages & Salary:** It was submitted by the intervener that the proposed employees cost has shot up by Rs. 1301 Millions in FY 2009-10 over the previous year. Due to pay revision in the light of the sixth pay revision committee as approved by the Haryana Government the impact should not exceed Rs. 300 Millions based on the existing employee strength of HVPNL. The Commission has considered the above objections. During the public hearing held on 25/02/2009 HVPNL agreed to curtail the proposed employee's cost commensurate with the existing staff strength and realistic assessment of new recruitments.

4. **Interest on working Capital:** It was submitted by the intervener that the interest on working capital has increased from Rs. 98.5 Millions in FY 2008-09 to Rs. 230.6 Millions in FY 2009-10 i.e. an increase of 134% which is not feasible and should be rejected. The Commission is of the view that working capital requirement relates to the size of the business so there will be some increase in the same. The Commission, in line with the Appellate Tribunal's order on the issue shall consider working capital requirement equivalent to one month ARR determined by the Commission.

5. **Wheeling Charges (Rs / kWh):** Objections were raised on the proposed wheeling charges of Rs. 0.34 / kWh in FY 2009-10 as against Rs. 0.19 / kWh in the previous year. Further, it was also pointed out that the energy sale is projected to increase by 10% while the transmission cost has been projected to increase by 95% as compared to the previous year. The Commission has examined the submission of the intervener and is of the view that wheeling charges referred to above is only applicable in the case of short term open access consumers. Any revenue earned on this account will reduce the transmission charges recoverable from the Distribution Companies to be passed on to the consumers. The

Commission while determining cost component of the ARR shall review each and every cost element as well as projected volume of energy and allow only to the extent that is reasonably justified.

6. **Interest on Capital Expenditure Borrowings:** The intervener pointed out that for the financial year 2009-10 the interest on Capital Expenditure has been unjustly projected at Rs. 1070.4 Million as compared to Rs. 621.6 Millions in the previous year. The Commission has considered the issue raised by the intervener and is of the view that interest is directly related to the size of investment plan and the rate at which the loans have been tied up. The Commission allows Capital Expenditure after assessing the funds required commensurate with the required transformation capacity in the State. Consequently, the Commission shall limit the interest cost linking to the size of investment plan approved by it for FY 2009-10.

7. The issue of **Fringe Benefit Tax** and tax on Income and Profit was also raised by the intervener. It was submitted that during FY 2008-09 the tax on income and profit was only Rs. 13.5 Millions which has shot up to Rs. 566 Millions in FY 2009-10. The contention of the intervener has been examined by the Commission it is of the view that the profit of the transmission licensee i.e. HVPNL is restricted to the ROE allowed by the Commission. Resultantly, while reckoning with income tax element in the ARR the Commission shall restrict the same to the ROE. As the Commission has not allowed any ROE, therefore for the purpose of FY 2009-10 ARR the tax incidence has also been considered nil.

In addition to the objections the intervener also suggested that the over loaded transformers / 11 KVA feeders ought to be augmented and additional transformers may be installed. The Commission has noted the suggestions and is of the view that augmentation / modernization / expansion etc. is a continuous process in the light of load growth and

other technical requirements. The Commission keeps such factors in mind while considering Capital Expenditure of the Transmission licensee and passes required directions on the same from time to time.

8. Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL), the distribution licensee in the Northern Circles of Haryana, submitted as under:-

8.1 Actuarial Valuation Methodology: UHBVNL has submitted detailed procedure for making contributions towards provident fund, pension and other retirement liabilities of all the employees allocated to the three companies i.e. HVPNL, DHBVNL and UHBVNL on actuarial valuation methodology to the master pension trust fund. They have requested that the terminal benefits in ARR may be allowed only after verifying the methodology adopted by HVPNL in respect of the discoms. The Commission has examined this issue in its previous order and reiterates that it would be in fitness of things to have uniformity in the valuation process and the discounting rate considered for the purpose.

8.2 Interest not accounted for: UHBVNL pointed out that the HVPNL has not taken into account the interest earned by the pension fund while calculating liability on account of terminal benefits. The amount of liability on this account should be reduced by the amount of interest earned. The proposed methodology of giving credit to interest earned is also in line with the Accounting Standard – 15 and has also been supported by the actuary as well as auditors.

8.3 Pension Liability for retired employees: UHBVNL submitted that employee cost in ARR for FY 2009-10 of HVPNL includes an amount towards pension liability of the employees including the pensioners / family pensioners who have retired from the services of the HVPN / UHBVN / DHBVN. It has further been submitted that since contribution towards pension fund is made regularly during the service of an employee no expenses on this account should be allowed in case of retired employees because their dues are to be met from the pension fund.

The Commission has already dwelt at length on this issue in its previous order and reiterates that “true up” on actual basis shall be done in subsequent ARRs.

8.4 Debt redemption obligation of provident fund and pension bonds: UHBVNL has submitted that as per second transfer scheme “all obligation in respect of payment of pension and other retirement benefit including provident fund, leave encashment, commutation of pension, medical facilities, superannuation and gratuity to the personnel who have retired from services of HPVN and/or the board on or prior to the effective date shall be discharged by HPVN and neither transferee shall have any obligation with respect to such retired personnel. Corresponding asset were also available with HVPN in the opening balance sheet equal to the amount of this liability Therefore, HVPN should not be allowed to recover the repayment of liabilities (debt redemption) as it would amount to double payments especially when all the liabilities have already been matched by way of corresponding assets, out of which fixed assets are being recovered in the shape of depreciation and the current assets are being paid by the discoms. Expenses on this account were disallowed prior to FY 2007-08 which practice may be maintained. This amount also attracts income tax liability as it is part of the revenue from wheeling charges for HVPN. Therefore it is a factor contributing to additional financial burden to the distribution companies

In its reply the HVPNL has submitted that it has issued PF & Pension Bonds against their liabilities which are due for redemption from 2016 onward. It is correct that the total liabilities assigned to each company were matched with the total assets allocated to it. HVPNL was given assets in the form of investment in UHBVNL & DHBVNL on which HVPNL is not earning any interest or income.

The Commission is of the view that the valuation of liability at the time of the transfer scheme provided for an adequate amount of assets to fund it. In the last 8 years, the Commission has observed that there has been a substantial increase in the terminal benefits on actuarial valuation which does not bear out the valuation as on the date of transfer. It implies that the consumers again paying for the increase in liability even though they have already paid for the liability as on the date of “transfer” by way of depreciation and interest and now return on equity and advance against depreciation. Thus, to make them pay for the redemption of the same liability at this stage would amount to double charge. The Commission will examine and issue appropriate directions. It is reiterated that the amount earned by way of sale of assets or utilization of assets for other business would be used for balancing the deficit arising in the pension fund. In case of utilization of assets for other business, minimum earnings should be more than the RBI bank rate earned on the notional market value of the assets.

8.5 Profit from Sale / Supply of Electricity (from shared generation) and Income Tax thereon: UHBVNL has pointed out that the actual / expected profit from the sale / supply of power generated by the shared projects of HVPNL is being recovered from the discoms because the power generated by these shared projects is purchased by HPGCL and the cost of same is considered in the determination of Bulk Supply Tariff. This profit element on the sale/ supply of power generated by the shared power projects is also contributing to the increase of annual revenue requirement for HVPNL by increasing the income tax burden. UHBVNL has requested that the profit generated from the sale/ supply of

electricity generated from the shared project along with the income tax thereon be deducted from the annual revenue requirement of HVPN for FY 2009-10.

It is reiterated that the Commission estimates the cost of power from BBMB power stations on the basis of O&M expenses and share of capital cost and the same is used for calculating the cost of power sourced from BBMB while determining ARR of the Distribution licensees i.e. UHBVNL & DHBVNL.

8.6 Non Tariff Income: UHBVNL has submitted that the projection for non tariff income has been made on the lower side by HVPNL in comparison to the actual audited amount of non tariff income for FY 2009-10 i.e against the actual audited amount of Rs. 432.34 Millions the projection is a meager Rs. 103.68 Millions which needs to be revised.

The Commission has noted the above submission and shall determine the transmission ARR after due scrutiny of the relevant facts including the audited accounts of HVPNL.

8.7 Prior Period (Charges)/ Credits: UHBVNL has submitted that in the projections of ARR for FY 2009-10 HVPNL, on one hand, has considered Rs. 9.13 Millions as prior period expenditure and on the other, the actual prior period income for FY 2007-08 amounting to Rs. 9.13 Millions has not been considered. They have requested the Commission to evolve a mechanism for monitoring over / under recovery of revenue as claimed by HVPNL in their ARR.

The Commission is of the view that the expenses of HVPNL prior to 1.4.2006 have been tried up in the Commission's order dated 1.12.2006 in accordance with the orders of the Hon'ble Appellate Tribunal for Electricity and the Commission has ordered a recovery of Rs. 1602 Millions. HVPNL has reported prior period recovery relating to the same period thus the amount shall be adjusted against the prior period expenses.

8.8 Working capital requirement: UHBVNL objected to HVPNL's claim of interest on working capital considering the receivables from the distribution companies as two months whereas the fact is that the distribution companies pays HVPNL the transmission charges within 30 days. Resultantly, the working capital requirement and the interest claimed on it are overstated.

The Commission has considered the objections on the issue of working capital and interest thereto. In line with the Appellate tribunal's order on this issue, the Commission shall restrict the working capital requirement of HVPNL to one month approved ARR for FY 2009-10. Interest on the working capital requirement shall be considered as per HERC norms.

8.9 Expenditure on Account of IT plan: UHBVNL has submitted that Rs. 103.5 Millions sought by HVPNL on account of IT Plan expenditure as part of other expenditure should not form part of revenue expenditure as the same shall be incurred in creation of tangible / intangible assets.

The Commission has examined the above objections and shall take appropriate decisions in the light of standard practice of classification of an expenditure into capital / or revenue expenditure.

8.10 Advance Against Depreciation (AAD): UHBVNL has objected to Rs. 655.42 Millions claimed by HVPNL in FY 2009-10 as AAD. In support of their objections UHBVNL has relied on the fact that CERC Regulations on Terms and Conditions of determining transmission tariff for the period 2009-14 has not considered AAD.

The Commission has considered the objection of UHBVNL on AAD. The Commission has examined the depreciation, advance against depreciation as well as the cumulative loan repayment. The cumulative loan repayment is more than

the depreciation in FY 2009-10. The claim is justified, with some moderation in the amount claimed, as it is in line with the HERC Regulations on Terms and Conditions for determining transmission tariff.

8.11 Shared Generation projects (BBMB & IPGCL): UHBVNL has objected to less generation projected in FY 2009-10 from the shared generation projects as compared to FY 2007-08 and FY 2008-09.

The Commission has noted the above contention and is of the view that the quantum of energy available from the shared projects is determined by the Commission on the basis of generation targets as determined by the Central Electricity Authority (CEA) in consultation with the generators and Haryana's share in different BBMB projects and IPGCL. The details of source wise volume / cost shall form part of ARR of the distribution licensee(s).

8.12 Fringe Benefit Tax (FBT) for FY 2005-06 and Interest paid there too: UHBVNL has objected to HVPNL being allowed interest on Rs. 95.64 Millions deposited as advance fringe benefit tax in FY 2005-06. The basis of submission is that HVPNL is being allowed working capital and interest thereto, which also includes all payments made in advance. Consequently, interest on advance FBT should only be allowed in case the working capital allowed to HVPNL is unable to meet the actual expenditure. The Commission has noted the objection and in principle agrees with UHBVNL. In addition to the above mentioned objections UHBVNL also raised the issue of pass through of service tax in Discoms ARR if claimed by HVPNL, given credit to the Discoms for the revenue earned from the short term open access consumers. UHBVNL also objected to the incentive on achieving annual availability target beyond 98% claimed by HVPNL as well as reactive charges claimed from 1/04/2009.

The Commission has noted the above issues and has dealt with the same at relevant paragraphs of the instant order.

9.0 State Advisory Committee (SAC):

The Commission, in order to have the benefit of the views of SAC members, convened a meeting of the State Advisory Committee (constituted under Section 87 of the Electricity Act, 2003) on 1/05/2009. The members were briefed on the transmission / SLDC application of HVPNL for FY 2009-10. The SAC members expressed concern about the massive increase in the capital expenditure proposed by HVPNL for FY 2009-10 as well as the employees cost. After due deliberations, they opined that given the substantial increase in evacuation of power) requirement in the next two years and the impact of implementation of the recommendations of the Sixth Pay Commission, the substantial increase in capital expenditure requirement and employees cost is inevitable.

2. ANALYSIS OF THE ARR FILING AND COMMISSION'S

ORDER

The ARR for the Transmission Company & SLDC covers the fixed annual cost including capital expenditure and operating expenditures. In this chapter, various elements of transmission and SLDC expenditures proposed by HVPNL including capital base, reasonable return, non-tariff income and incidence of taxation are analyzed and the Commission's order on each item is presented.

HVPNL's proposal refers to the ARR & Tariff application dated 28/11/2008; additional information provided vide Memo No. Ch.89/SE/RAU/F-76/Vol-1 dated 29th January 2009, oral submissions made by HVPNL during the public hearing held on 25/2/2009 and subsequent discussions.

2.2 Operating and Maintenance Expenditure (O&M)

Employees' cost, administration and general expenses and repair and maintenance expenses are analyzed under this sub-head. HVPNL has estimated its O&M related expenditure for FY 2009-10 at Rs. 4812.27 million in its ARR application submitted to the Commission. The details of proposed O&M expenses sought for by HVPNL for FY 2009-10 vis-à-vis the corresponding amounts for FY 2008-09, as approved by the Commission and the corresponding expenditure in FY 2007-08 as per their audited accounts is presented in Table 2.1.

Table 2.1 O&M expenses (Rs. million)

Particulars	HVPNL audited (FY 2007-08)	HERC Order FY (2008-09)	HVPNL Proposal (FY 2009-10)
Wages, salaries & related costs	2412.07	2354.16	4570.77
Repair & Maintenance Expenses	103.23	117.55	146.26
Administration & General Expenses	435.41	76.64	95.24
Total	2950.71	2548.32	4812.27

The Commission has considered the latest available audited accounts i.e. FY 2007-08 of HVPNL with appropriate adjustments / changes for calculating the allowable expenses as part of the ARR for FY 2009-10. The expenses that form part of the ARR are discussed in detail in the paragraphs below.

2.3 Employees' cost

Employees' cost includes cost incurred for the working employees as well as the retirees. The cost of working employees comprises of salary and dearness allowance payable to them and other allowances such as HRA, CCA, LTC, medical reimbursement, etc. In the case of retired employees and those retiring during the financial year under consideration, HVPNL has to discharge their liability towards pension, gratuity, and leave encashment benefit / payments applicable to them.

The employees' cost is an important constituent of the ARR and it is possible to project the same with fair degree of accuracy.

2.3.1 Salary, DP and DA

The expenditure on account of salary and DA has undergone a substantial increase in view of the implementation of the recommendations of the 6th pay Commission. The annual average basic salary, grade pay and DA rate has been considered as proposed by the licensee. The approved expenditure on account

of salary and dearness allowance works out to Rs. 1035.03 million for FY 2009-10 as compared to Rs. 1465 million proposed by HVPNL. The licensee has proposed addition of 1813 employees in FY 2008-09 and 772 in FY 2009-10. However, the Commission has considered the supplementary information filed by HVPNL wherein actual appointments are reported at 116 in FY 2008-09. For FY 2009-10, the addition is limited to the expected number of retirees in view of the submissions made during the public hearing. This has resulted in lower estimates of salary, dearness pay and dearness allowance. In addition to this, the Commission approves Rs. 166.90 million as other allowances at the average cost per employee as proposed by the licensee in the absence of relevant audited figures because of revision in allowances etc. **The expenditure on account of salary, grade pay and other allowances etc. allowed by the Commission shall be adjusted when audited figures of the impact of implementation of the recommendations of the 6th pay Commission are available.**

2.3.2 Salary wages of employees through contractor

The expenditure of Rs. 55.81 millions, on account of salary/ wages of employees outsourced (through contractors), has been approved as proposed by HVPNL. However, considering the fact that only lower level non technical nature of work is likely to be outsourced, Commission is of the view that the estimated cost of outsourcing is fairly high. **The Commission directs HVPNL to submit data on number and nature of work outsourced, man hours input by contract workers and average cost per man hour for FY 2008-09 before September 30, 2009.**

2.3.3 Terminal benefits

The Commission approves terminal benefits of Rs. 1852.12 million on accrual basis as proposed by the licensee. The Commission had advised that for future ARR's, the licensee may explore the possibility of actuarial valuation on an estimated basis from a certified actuary for the ensuing year in order to

accurately project such expenses. **The licensee has neither responded to the suggestion nor provided any justification for not accepting the same. Thus they are directed to submit their response within a month.**

2.3.4 Employees' Cost Capitalised

The amount of employees' cost capitalized ought to relate to the cost of the employees who are engaged in capital projects. The Commission is allowing capitalization of employees cost in the same ratio as the actual expenditure incurred in the construction divisions bear to total expenditure as per the audited accounts of the licensee for FY 2007-08. Resultantly, the employees cost capitalized works out to Rs. 216.25 million. The rate of capitalization being 17.19%.

2.3.5 SLDC Cost

The total employee cost for the transmission business for FY 2009-10 as worked out earlier includes the cost of employees engaged in SLDC activities as well. The licensee has proposed Rs. 23.88 million for FY 2009-10 as cost of SLDC employees, the same is being allowed by the Commission. **This amount is to be reduced from the total employee cost as estimated above in order to arrive at the employee cost for the transmission business.**

2.3.6 Arrears of Salary

The licensee has proposed that they expect to incur an additional expenditure of Rs. 1301.21million on account of revision of pay due to implementation of the recommendations of the 6th pay Commission. On the basis of filings submitted by the licensee, the Commission estimates that an additional burden of Rs. 538 million will fall upon the licensee. As the actual cost will be known only when the exact calculations are done, the Commission allows Rs. 538 million as expenditure on this account on an estimated basis as. **The expenditure allowed on this account shall be adjusted as and when actual data is available.**

The employees' cost approved by the Commission is Rs. 3407.73 million, net of the amount capitalized of Rs. 216.25 million. The computation of employee cost is presented in table 2.2.

Table 2.2 Employees' cost for FY 2009-10 (Rs. millions)

Particulars	HVPL Proposal	HERC approval
Basic+DA	1465	1035.03
Other allowances	219.4	166.90
Contract employees	55.81	55.81
Terminal benefits	1852.12	1852.12
Total	3592.33	3109.86
Employee cost capitalised	299	216.25
Net Employee Cost Expended	3293.33	2893.61
SLDC Cost	23.88	23.88
Transmission Cost	3269.33	2869.73
Arrears of Salary	1301.44	538.00
Total	4570.77	3407.73

The licensee shall not divert any subscription received from employees towards provident fund to its business.

2.4 Repairs and Maintenance Expenses (R&M)

Repair and maintenance (R&M) expenditure is essential for the upkeep of the transmission system. The Commission allows 0.48% of average GFA as R&M expenses as proposed by the licensee which works out to Rs. 143.38 Millions. Out of this Rs. 6.31 million is allocated towards R&M of SLDC as proposed by the licensee and Rs. 137.07 million is for Transmission system for FY 2009-10.

2.5 Administrative and General Expense (A&G)

The licensee has proposed A&G expenses for FY 2009-10 by escalating the audited expenses of FY 2007-08 by 5% p.a. except for training expenses which have been estimated at 1.5% of the employees cost. The training expenses are

proposed to go up from Rs. 6.14 million in FY 2007-08 to Rs. 25.57 million in FY 2009-10, an increase of more than 400% which is excessive in our view. The licensee has set up a power training institute for which expenses are already being allowed. **Therefore, the Commission approves A&G expenses as proposed by HVPNL amounting to Rs. 86.75 million except for the abnormal hike in training expenses and net of capitalization and SLDC expenses.**

2.6 Interest on Loans

In line with the orders of the Hon'ble Appellate Tribunal for Electricity, the Commission has been allowing working capital borrowings equivalent to 2 months ARR for the Transmission business. As per directions of the Hon'ble Appellate Tribunal for Electricity in case no. 24 of 2006 Para 29, this was to be done till the financial position of the licensee improves. The Commission has examined the audited accounts of FY 2007-08 of HVPNL and with a net profit of 17% for the year, finds it to be on a sound financial footing. Further, in accordance with the payment terms HVPNL also charges penal interest on payments delayed beyond one month of billing. **Therefore keeping in view that HVPNL is required to fund O&M expenses for one month from its internal sources; the Commission allows interest on working capital amounting to one month of ARR from this year onwards which includes non cash expenses like depreciation also.** Interest @ 12 % (being the average rate of interest on working capital as proposed by the licensee) on the allowed borrowings works out to Rs. 72.39 millions as against Rs. 230.64 million proposed by the licensee for the Transmission business. The allowed interest on working capital for the SLDC business works out to Rs. 0.73 million as against Rs. 2.08 million proposed by the licensee.

The Commission has restricted the additional investment on Capital works to Rs. 19000 million. Consequently, the additional borrowings stand reduced by Rs. 5010 million. The licensee has also revised the Capital investment plan for FY

2008-09 from Rs. 6601.41 million (approved by the Commission) to Rs. 7248.75 Millions without filing the revised investment plan and seeking approval of the Commission. The Commission therefore restricts the borrowings for FY 2008-09 to the amount relating to the investment plan approved in its order. The Commission has also excluded interest of Rs. 23.32 million on account of generation and Rs. 20.78 million on account of SLDC business. The balance interest cost for transmission business is further reduced by amount of interest capitalized i.e. Rs. 1356.76 million as against Rs.1401.16 million projected by HVPNL. On the new capital works started during 2009-10, interest is capitalized for a period of six months only as the loans are assumed to be received evenly during the entire year. **The Commission allows Rs. 752.63 million as interest on borrowings for capital works for FY 2009-10.**

The licensee has proposed to recover interest amounting to Rs. 22.49 million on loan from market committee. Since the Commission has already allowed interest and repayment of full loan from this source during FY 2008-09, no interest is to be allowed in FY 2009-10 arising due to the failure of the licensee to repay the loan from the amount already allowed in the ARR. The Commission has taken a serious view of the failure of the licensee and in future may take punitive actions. HVPNL is directed to explain the diversion of the amount allowed as interest on Market Committee loans.

In the case of SLDC business, all additions to CWIP are assumed to be capitalized during the year and thus interest on new loans used to fund these assets is also capitalized. Interest on PF bonds and pension bonds is allowed as proposed by HVPNL. The computations of interest expenses are presented in table 2.3 & 2.4 below.

Table 2.3 Transmission - Interest Cost for FY 2009-10 (Rs. Millions)

Particulars	HVPNL Proposal	HERC approval
Interest on Loans for Capital Expenditure		
Total interest on borrowings for Capex	2492.45	2492.45
Less interest on loan from Market Committee		22.49
Less interest on borrowings related to generation		23.32
Less interest on borrowings for disallowed capital works for FY 2008-09		65.00
Less interest on borrowings for disallowed capital works FY 2009-10		251.50
Gross Interest for Transmission Works	2492.45	2130.17
Less: Interest Cost Capitalized	1422.03	1356.76
Interest cost net of capitalization (1)	1070.42	773.41
Less interest on borrowings related to SLDC		20.78
Net interest for Transmission Works		752.63
Interest on Pension bonds (2)	673.00	673.00
PF Bonds(3)	206.99	206.96
Interest on Loans for Working Capital (4)	262.99	72.39

Table 2.4 SLDC - Interest Cost for FY 2009-10 (Rs. Millions)

Particulars	HVPNL (Proposal)	HERC (approval)
Interest on Loans for Capital Expenditure	50.03	50.03
Less: Interest Cost Capitalized	0	29.25
Interest cost net of capitalization (1)	50.03	20.78
Interest on Loans for Working Capital		
Working Capital Borrowings limited to two Month of ARR		
Interest on working capital borrowings (2)	2.08	0.78

2.7 Depreciation

The depreciation amount as per CERC norms (Terms & Conditions of Tariff) Regulations, 2004 for FY 2009-10 has been estimated at Rs. 771.10 million by HVPNL. The Commission's estimate of GFA as on 1.4.2009 is lower, the rate of depreciation as per audited accounts for FY 2007-08 (3.04%) when applied yields a reduced depreciation amount of Rs. 750.02 million which is approved by

the Commission. This is after excluding Rs. 22.18 million on account of depreciation on SLDC assets as proposed by HVPNL. It is observed that HVPNL has been projecting high volume of capital works without being able to provide adequate justification for the same. Resultantly, the high capital investment plan inflates the allowable depreciation. A perusal of audited accounts of HVPNL reveals depreciation of Rs. 553.77 million for FY 2007-08 as against Rs. 617.47 allowed by the Commission leading to an over recovery of Rs. 63.70 million. Thus the consumers end up paying for the system which has not been made available / erected for the purpose of transmission service.

Table 2.5 Depreciation for FY 2009-10 (Rs. Millions)

Particulars	HVPNL (Proposal)	HERC (approval)
Gross fixed Assets (Excluding land) at the beginning of the year including SLDC	26210.18	25921.06
Depreciation Rate (%)	3.08	3.04
Depreciation for FY 2009-10	808.57	787.49
Less depreciation against Capital reserve	15.29	15.29
Less Depreciation against SLDC assets	22.18	22.18
Net Depreciation for FY 2009-10 for Transmission Business	771.1	750.02

2.8 Other expenses

The licensee has claimed other expenses amounting to Rs. 106.77 Millions comprising of Rs. 103.50 million as expenditure on IT. **The balance amount of Rs. 3.74 million is other debits for which no details are available.** The licensee may provide details of these other debits and the same may be considered by the Commission at a later stage by way of truing up. **As far as the proposed IT expenditure is concerned, the Commission is of the view that this being expenditure of capital nature should form part of Capex plan and therefore is not being considered as part of the instant ARR.**

2.9 Fringe Benefit Tax (FBT)

The Commission allows FBT amounting to Rs. 2.64 Millions as proposed by the licensee. However, excess amount allowed in FY 2007-08 i.e. Rs.3.13 million (Rs. 5.52 million less Rs. 2.39 million as per audited accounts) is reduced from this amount. In addition, the Commission allows the licensee to recover Rs. 11.48 million as interest on borrowings to fund Rs. 95.64 million at an average rate of borrowings for working capital till the resolution of dispute. **The licensee is directed to submit the status of Rs. 95.64 million as on 31.3.2009 before June 30th 2009.** The expenditure on account of fringe benefit tax is allowed subject to the following conditions:

- a) The licensee will provide proof of payment of the amount of fringe benefit tax along with the next filing;
- b) The provision being allowed in the ARR will be adjusted against actual liability on account of fringe benefit tax on final assessment.

2.10 Income Tax

The incidence of Income Tax is linked to the amount of ROE allowed for Transmission & SLDC business. The Commission as explained at Para 1.6(1) of this order has not allowed ROE to HVPNL in FY 2009-10. Resultantly, the allowed return being the only source of profit no income tax on profit is payable. However, income tax on return on equity allowed but not paid during FY 2007-08 amounting to Rs. 1.05 million is to be recovered from the ARR for FY 2009-10 for SLDC business.

2.11 Advance against Depreciation (AAD)

The licensee has proposed to recover Rs. 655.42 million as Advance against depreciation for FY 2009-10.

The Commission allows depreciation and AAD in line with CERC regulations. Regulation 56 (ii) b of Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004, provides for Advance against depreciation as below:

Advance against Depreciation

In addition to allowable depreciation, the transmission licensee shall be entitled to Advance against Depreciation, computed in the manner given hereunder:

*AAD = Loan repayment amount as per regulation 56 (i) subject to a ceiling of 1/10th of loan amount as per regulation 54 minus depreciation as per schedule
Provided that Advance Against Depreciation shall be permitted only if the cumulative repayment up to a particular year exceeds the cumulative depreciation up to that year;*

Provided further that Advance Against Depreciation in a year shall be restricted to the extent of difference between cumulative repayment and cumulative depreciation up to that year.

The licensee may note that this treatment is available only for those capital works that are approved by the Commission.

In accordance with the above regulation, the Advance against depreciation comes to Rs. 648.95 million, the difference between loan repayments for transmission business (Rs. 1448.40 million) , limited to 1/10th of loans (Rs. 1421.15 million) and the amount of depreciation allowed by the Commission. The commission allowed AAD amounting to Rs. 473.06 million in FY 2007-08. As per audited accounts and ARR filings, the amount of AAD comes to Rs. 312.09 million. The difference amounting to Rs. 160.97 million is reduced from Rs. 648.95 million leaving a balance amount of Rs. 487.98 million to be recovered in

the ARR. The Commission had directed the licensee to create an AAD reserve. In future, when depreciation amount exceeds loan repayment amount, the reserves is to be drawn down to meet depreciation requirement, thereby reducing the cost passed on to the consumers. However, the licensee has not reported the compliance of this direction.

In the order dated 8.5.2007, HVPNL was directed to ensure that the proposed repayments are made on time. In case the licensee did not make the proposed repayments during FY 2007-08, any excess amounts allowed during the year shall be recovered in the subsequent ARR with interest. The licensee is also required to ensure that the depreciation and AAD allowed for repayment of Capex loans are not diverted and to provide documentary support of payment in the next ARR. The licensee is directed to file a compliance report on timely repayment of loan during 2008-09 by 30th June 2009.

The Licensee is directed to submit a report showing year wise cumulative depreciation and instrument wise cumulative repayment of loans for capital works upto 31.3.2009 within 3 months of this order to ensure compliance of the 1st proviso to Regulation 56 (ii) (b) of Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004.

2.12 Contribution to Contingency Reserve

The Commission is not allowing any contribution towards contingency reserves for FY 2009-10 as it feels that the current reserve of Rs. 282.87 million has not been utilized and it is not necessary to burden the consumer additionally. **The Commission directs that any drawl from the Contingency Reserve shall be made only with the explicit approval of the Commission.**

2.13 Debt redemption obligation

The Commission has allowed the licensee to recover Rs. 481.93 million towards cost of redemption of PF and pension bonds. The Commission has allowed Rs. 284.07 million as interest on PF bonds in FY 2007-08 out of which only Rs. 264.79 million has been paid as per the ARR filing. The excess amount allowed (Rs. 19.28 million) is reduced from Rs. Rs. 481.93 million thereby allowing the licensee to recover Rs. 462.65 million in the ARR. However, the licensee will redeem PF bonds amounting to Rs. 481 million in FY 2009-10 making up the difference from the amount already realized in FY 2007-08.

The recovery of debt redemption amount has been allowed to the licensee only because there was no other means for the licensee to be able to redeem these debts being of a peculiar nature where assets formed out of these liabilities were not earning enough money. Consequently, the licensee was directed by the Commission vide its order on the ARR for FY 2008-09 to ensure that any amount received on sale of assets was to be utilized to reduce these liabilities and reduce that burden on the consumers who are not a party to creation of this liability. The licensee is directed to report compliance by 30th June 2009.

2.14 Total Expenditure

The total expenditure approved by the Commission with respect to the transmission business for the financial year 2009-10 is Rs. 7048.16 million and SLDC expenditures of Rs. 78.72 Millions. Table 2.6 & 2.7 presents the details of HVPNL's proposed expenditures in respect of their Transmission business & SLDC charges viz-a-viz those approved by the Commission.

**Table 2.6 Transmission Business Approved expenditure for FY
2009-10 (Rs. Millions)**

Description	HVPNL Proposal (Revised)	HERC Approval
Expenditure		
Employees' cost	3269.77	2869.73
Salary Arrears	1301.00	538.00
R&M expenses	146.26	137.07
A & G Expenses	95.24	86.75
Interest on Capital Expenditure Borrowings	1070.42	752.63
Debenture Interest (PF Bonds)	206.96	206.96
Debenture Interest (Pension Bonds)	673.00	673.00
Interest on Working Capital	230.64	72.39
Depreciation	767.03	750.02
Advance against depreciation	655.42	487.98
Other expenses	106.77	0.00
Fringe Benefit Tax	2.64	-0.49
Total Expenditure	8525.15	6574.03
Special Appropriations		
Tax on Income & Profit	565.98	0.00
Interest on FBT Rs. 95.64 million	12.43	11.48
Debt redemption obligation (PF and Pension Bonds)	481.93	462.65
Contribution to Contingency Reserve	0	0
Total Special Appropriations	1060.34	474.13
Total "expenditure" (including special appropriation)	9585.49	7048.16

Table 2.7 SLDC Approved expenditure for FY 2009-10 (Rs. million)

Description	HVPNL Proposal	HERC Approval
Expenditure		
Employees' cost	23.88	23.88
R&M expenses	6.31	6.31
A & G Expenses	5.84	5.84
Interest & Finance Charges on Capital Expenditure	50.03	20.78
Interest on Working Capital	2.08	0.78
Depreciation	22.18	22.18
Other Expenses	0.47	0.47
Special Appropriations		
Tax on Income & Profit	0.89	-1.05
Total "expenditure" (including special appropriation)	111.69	78.72

The methodology for working out the various components of SLDC ARR is the same as discussed in respect of the transmission ARR.

2.15 Return on Equity (ROE)

The entire equity of HVPNL is contributed by the State Government, any ROE allowed has cascading effect on the distribution companies who are not being allowed any return as their equity base stands eroded due to accumulated losses while consumer's appetite for any increase in already high retail tariff is very less. Further, besides burdening the retail consumers the ROE allowed increases the tax liability of HVPNL which is projected at Rs. 565.9 Millions while the Distribution companies who bear the burden of transmission / SLDC charges are in deep financial distress as they are unable to absorb or pass on any additional financial burden. Consequently, in view of the above facts as well as the massive financial impact of implementation of the recommendations of the sixth pay Commission during the current year the Commission is not allowing any return on equity during FY 2009-10.

2.16 Capital Base & CWIP

Capital Works in Progress (CWIP)

The opening balance of CWIP as on 1.4.2008 is as per the audited accounts of HVPNL for FY 2007-08. The additions during FY 2009-10 are dependent on the planned additions as well as availability of funds during FY 2009-10. The Licensee had proposed investments of Rs. 24010 million in its filing for FY 2009-10 which subsequent to the discussions was reduced to Rs. 21194 Millions considering the fact that certain NCRPB funded projects for which Rs. 19,240 Millions were sought stands deleted. It is also observed that there are considerable delays in issue of NIT's and contracts with reference to the schedule dates. Thus considering the present status of ordering of equipments and past record of HVPNL in actual spending vis- a-vis the proposed expenditure the Commission for the purpose of FY 2009-10 ARR has considered capital expenditure of Rs. 19,000 millions as against Rs. 6601 millions allowed in FY 2008-09 against which the actual expenditure is estimated at Rs. 5961 millions. Though the Commission, based on the past trend, is not very convinced of the Licensee's capabilities to utilize the allowed CAPEX, however, given the required massive augmentation of the transmission system the Commission has allowed Rs. 19000 Millions for FY 2009-10. The Commission will periodically review the physical and financial progress of the Capital works approved by it.

HVPNL is directed to gear up their resources and speed up procurement of material and execution of works to meet with the demand for evacuation of additional power from new generation projects as well as modernize and augment their existing transmission system and SLDC.

The Commission has always considered the capitalization schedule of 30:60:10 meaning that 30% of the works included in the ARR for FY 2009-10, 60% of works initiated during FY 2007-08 and 10% of works initiated during FY 2008-09 will be completed and hence transferred to GFA during FY 2009-10. **However,**

on detailed examination of capital investment plan submitted by the licensee, it was observed that the licensee has projected that it will be able to complete transmission works amounting to Rs. 8343.28 million before 31/03/2010. This includes capital works initiated in FY 2008-09, FY 2009-10 and even earlier. Consequently, the Commission has capitalized Rs. 8343.28 million out of CWIP for FY 2009-10 for calculating the closing balance of CWIP and GFA as on 31/03/2010 for as per the details presented in table 2.8 below

Table 2.8 Calculation of CWIP for FY 2009-10 (Rs. millions)

Description	HVPNL Proposal	HERC Approval	
	2009-10	2008-09	2009-10
Opening balance of CWIP	6986.01	5375.64	6627.79
Additions during the year	24009.55	6601.41	19000.00
Transfer to GFA	12078.94	5349.26	8343.28
Closing balance of CWIP	18916.62	6627.79	17284.50
Funding of CAPEX :			
Equity	2882.00	1352.70	2882.00
Loan funds	21127.55	5248.71	13572.58
Total Funds (Including IDC and Expenses Capitalised)	24009.55	6601.41	19000

2.17 Gross Fixed Assets (GFA)

The opening balance of GFA as on 1.4.2008 is based on the closing balance of GFA as on 31.3.2008 as per the audited accounts of HVPNL. The additions to GFA are derived from the CWIP workings. The computation of gross fixed assets for FY 2009-10 is presented in table 2.9

Table 2.9 Determination of GFA for FY 2009-10 (Rs. millions)

	HVPNL Proposal	HERC Approval
Opening Balance of gross fixed assets	26210.18	25921.06
Add: Additions to GFA	12078.94	8343.28
Less: Retirement	0.00	0.00
Closing balance	38289.12	34264.35
Consumers Contribution	533.81	533.81
SLDC	929.53	929.53

2.18 Working Capital (Capital Base Purpose)

2.18.1.1 Cash and Bank Balances

HVPNL has projected average cash and bank balance of Rs. 159.36 million based on closing balance as on 31/03/2008. The projected average balance based on the closing balance for FY 2009-10 is Rs. 134.8 million.

2.18.1.2 Stores

HVPNL has projected Rs. 687.03 million towards average cost of stores for FY 2009-10 based on closing balance of stores as on March 2008.

2.19 Amount of Compulsory Investment

The amount allowed as Contingency Reserves is required to be invested by HVPNL in the specified securities.

2.20 Non Tariff Income

HVPNL has proposed that it will earn Rs. 38.15 million on account of non - tariff income during FY 2009-10. Out of this the licensee proposes to recover prior period expenses amounting to Rs.9.13 million, leaving a net balance of Rs. 29.02 million. However, as per schedule 27 of the filing, the non tariff income is stated as Rs.103.68 million which is allowed by the commission after reduction of interest on staff loans amounting to Rs. 10.09 million as arising out of treasury operations thereby allowing Rs. 93.59 million for FY 2009-10.

As for the adjustment of prior period expenses of Rs. 9.13 million that the licensee proposes, a perusal of the audited accounts of the licensee shows that it has also earned prior period credits amounting to Rs. 46.66 million. Ensuring a similar treatment to both items, the Commission adjusts both these in the current year ARR, as these credits are on account of expenses that have been allowed to be recovered from the consumers in the previous years. The licensee has also earned Rs. 432.34 million as non tariff income in FY 2007-08 as against Rs. 89.63 million proposed and allowed in the ARR. After exempting income from treasury operations Rs.22.08 million and Rs. 89.63 million allowed in the ARR order for FY 2007-08, the balance amount of Rs. 320.63 million is added to the non tariff income for FY 2009-10. All these incomes have been earned on expenses which have been incurred by the consumers of HVPNL at one time or the other. Also, the licensee has asked for truing up of expenses, thereby truing up of income is also required.

The computation of other income is presented in table 2.10.

Table 2.10 Non- tariff income for FY 2009-10 (Rs. millions)

Description	HVPNL Proposal	HERC Approval
Investment income	30.79	30.79
Ancillary and incidental income	-1.77	62.80
Total	29.02	93.59
Prior period credits/ (Charges)	0	358.16
Total of "Non-tariff Income"	29.02	451.75
Less (for SLDC)	0	0.66
For Transmission Business		451.09

For SLDC, the Commission allows a non-tariff income of Rs. 0.66 million which the licensee has proposed in its filing under consideration.

2.21 Aggregate Revenue Requirement

In light of the above analysis, the Commission approves Rs. 6,597.07 million as the net aggregate revenue requirement of the Transmission business and Rs. 78.07 Million as SLDC expenditures for FY 2009-10. The details are presented in table 2.11 & 2.12.

Table 2.11 Transmission ARR for FY 2009-10 (Rs. million)

Description	HVPL Proposal	HERC Approval
Return on equity	1088.66	0.00
Total expenditure	9585.49	7048.16
<i>Minus</i> Non-tariff income	-29.02	-451.09
Total Aggregate Revenue Requirement	10645.13	6,597.07

Table 2.12 SLDC ARR for FY 2009-10 (Rs. million)

Description	HVPL Proposal	HERC Approval
Return on Investments	7.85	0.00
Total expenditure	111.69	78.72
<i>Minus</i> Non-tariff income	0.66	0.66
Total Aggregate Revenue Requirement	118.88	78.07

2.22 Transmission Losses

HVPL has submitted transmission loss profile for its transmission system for FY 2007-08 and FY 2008-09 (up to November 2008) as under:-

Period	Interstate (%)	Intrastate (%)	Total Transmission (%)
FY 2007-08	4.78	2.44	4.49
FY 2008-09 (up to November, 08)	4.22	2.47	4.16

The transmission licensee has not projected any loss reduction trajectory as directed by the Commission in its previous order(s) on the plea that the transmission losses are phenomena of physics and are unavoidable. The transmission system owner has no control over these and hence in transmission tariff, losses should not be linked with the proposed development of the transmission system. The Commission has considered the loss level of 3.85% (Interstate) and 2.1% (Intrastate) in FY 2008-09 but HVPNL could achieve only 4.22% & 2.47% respectively. In order to establish the aberrations the Commission scrutinised the month wise energy flow and the transmission losses reported by HPGCL.

Month	Interregional % Change in Energy Flow MOM	Transmission Loss (%)	Interstate % Change in Energy Flow MOM	Transmission Loss (%)	Intrastate % Change in Energy Flow MOM	Transmission Loss (%)
April 08	- 5.143	0.00	-19.3049	4.07	-6.5161	2.61
May 08	7.0647	0.11	35.8268	3.48	22.2118	2.72
June 08	185	5.06	23.5871	4.11	6.46	2.90
July 08	81.2602	4.51	26.8637	4.76	16.3426	2.38
August 08	-53.3129	4.04	-4.2927	4.22	-0.4566	2.30
September 08	22.1553	1.82	-16.9296	4.27	-14.5836	2.22
October 08	-49.3303	0.02	-15.1270	3.88	-0.4616	2.28
November 08	-8.2097	0.00	-22.3460	4.74	-10.4014	2.38

It is seen from the table above that quantum of energy flow do not consistently relate to the transmission loss as per the 'phenomena of physics' referred to by HVPNL. The interregional loss of 0% in April 2008 and November 2008, wherein the quantum of energy handled is reported as 53.689 MUs & 78.79 MUs respectively defies every known phenomenon. Similarly, in the month of September 2008 when the quantum of energy handle was 169.405 MUs the transmission loss reported was 1.82% as against 4.04% in August corresponding to energy handled of 138.68 MUs. Thus the analysis casts aspersions on the inter – regional data reported by HVPNL.

Similar flaw is also noticed from the data on interstate volume and transmission loss reported by HVPNL. The total scheduled energy during the month of August was 1488.834 MUs (-4.2927% lower than July) and the corresponding interstate transmission loss was 4.22% , the quantum of energy handled further declined to 1236.779 MUs (-16.9296%) in the month of September 2008 while the interstate transmission loss increased to 4.27%. The month of November 2008 also shows similar aberration i.e. the volume of interstate energy handled in the month of October was 1049.691 MUs and the transmission loss was 3.88%, the volume declined to 815.127 MUs in November while the interstate loss increased to 4.74%.

The intra-state transmission data for the October and November too suffers from the same fallacies as pointed out above. The quantum of intrastate energy handled in the month of September was 2329.532 MUs and the intrastate loss reported by HVPNL was 2.22%, the volume of energy declined by 0.4616% in the month of October 2008 and further by 10.4014% in the month of November 2008. However, the interstate transmission loss increased to 2.28% in the month of October and to 2.38% in the month of November 2008.

The Commission, in its previous order, directed HVPNL to critically examine the above mentioned aberrations in the transmission losses data vis-à-vis energy transmitted and submit a report within one month of the issue of the order. However, HVPNL neither complied with the directions of the Commission nor reported any progress or inclination to do so. **The Commission is providing another opportunity to HVPNL to examine transmission loss data both in terms of power & energy and submit a report along with a loss reduction trajectory within a month from the date of this order.** Meanwhile, the Commission in the light of the fact that additional sub – stations and transmission lines are commissioned, up gradation of transmission system to a higher voltage level is carried out and old ACSR conductors are replaced allows inter-state transmission loss at 4.23% reported as actual by HVPNL for FY 2008-09 (up to

February 2009. The Commission has considered inter - state losses in line with the order of Appellate Tribunal in case no. 33 & 74 of 2005. However, HVPNL must undertake analysis of underlying data and the fact that the quantum of energy, as per past trend, is set to decline to lower levels in the months of March 2009 leading to lesser reliance on inter – regional and NR power and hence lesser inter – state transmission losses. Similarly, the actual intra - state transmission loss reported by HVPNL for FY 2008-09 (up to February 2009) is 2.6%. The Commission, given the fact that it has allowed Rs. 6601 Millions in FY 2008-09 and Rs. 19000 Millions in FY 2009-10 expects that the transmission system will be modernised, improved and augmented, which will reduce the intra – state transmission losses. Consequently, the Commission pegs intra – state transmission losses at the previous year’s level of 2.1% which in the light of massive capital expenditure allowed for FY 2009-10 should not be a difficult target to achieve.

2.23 Damage of Power Transformers

The State Transmission Utility has reported that as on 30/09/2007 it has 606 power transformers installed which has gone up to 666 as on 30/09/2008. During the period 1/04/2008 to 30/09/2008 15 number of transformers have gone bad. The number of power transformers gone defective between 1/04/2007 and 30/09/2007 was 14 against 7 during the same period i.e 1/04/2006 to 30/09/2006. It represents about 2.25% of transformers as on 30/09/2008 as against 2.31% of the total power transformers as on 30.9.2007 and 1.25% damage of power transformers during the corresponding period of FY 2006-07. The rates at which power transformers have gone defective have doubled as compared to 1.25% for the period mentioned above. This undesirable trend calls for an analysis and corrective actions by HVPNL. **The Commission has voiced its concern in its previous order(s) and reiterates its direction to the utility to strictly enforce & implement the preventive maintenance schedule for all sub – station equipments including the power transformers.**

2.24 Fatal & non – fatal accidents

There was one fatal & three non – fatal accidents involving human beings in FY 2007-08 (upto 9/2007) as against two fatal & 6 non – fatal accidents involving human beings in FY 2006-07. HVPNL has reported no accident till September 2008 (FY 2008-09). The situation has shown much improvement over the years. The Commission has noted the plans for improvement submitted by HVPNL including its intentions to avoid any accidents in the system and expects zero tolerance on this front.

3. TRANSMISSION TARIFF & SLDC CHARGES

3.1 Background Information on Tariff Filing

The Haryana Electricity Regulatory Commission in its previous orders determined a single part transmission tariff (Rs/kW of Max demand/month). This was because of the fact that the entire cost of transmission business (including SLDC cost) was considered of a 'fixed' nature, hence the Commission considered it reasonable to allow recovery of entire cost through a 'demand charge'. The single part tariff consisted of per kW fixed charge based on the contributions of the two distribution companies i.e. UHBVNL and DHBVNL to the coincidental system peak (per kW of maximum demand per month). The Commission has notified Regulation No.HERC/ 20 / 2008 dated 19th of December, 2008 the Haryana Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2008. Regulation 27 provides for Payment of Transmission Charges i.e "(1) Annual transmission charges shall be fully recoverable at 98% target availability. Payment of transmission charges below 98% shall be on pro-rata basis. The transmission licensee may recover its annual revenue requirement by way of a fixed charge based on transformation capacity, contracted capacity, a charge based on energy transmitted, connectivity charge, reactive energy charge or a combination of these charges. The transmission charges shall be calculated on a monthly basis. In case of more than one beneficiaries of the transmission system, including the distribution licensees and long term open access customers, the monthly transmission charges leviable on each beneficiary shall be computed as per the following formula unless amended by the Commission.

$$\text{Transmission Charges} = \frac{\text{ATC}}{12} \times \frac{\text{CA}}{\text{CS}}$$

Where, $ATC =$ Annual Transmission Charges payable by the beneficiaries, after deducting total transmission charges paid by the short term open access customers; other income, as decided by the Commission, to be passed on to the beneficiaries; reactive energy charges and transmission charges received from the CTU.

$CA =$ Transformation Capacity Allocated to each beneficiary individually including long term open access transmission customers.

$CS =$ Sum of long term Transformation Capacity of the intra – state transmission system.

(2) The transmission losses shall be allocated to the beneficiaries / users of the intra – state transmission system in proportion to the energy drawn”.

In light of the above HVPNL has proposed recovery of transmission charges based on the respective transformation capacity of UHBVNL and DHBVNL. Resultantly, the Commission has considered the same for FY 2009-10, which also in conformity with the CERC methodology.

**Table 3.1 – HERC approved transmission tariff & SLDC charges
for FY 2008-09)**

Tariff	
Transmission (Rs/kW of Max Demand / Month)#	114.13
SLDC Charges (Rs. Million / Month)	6.515

Besides the transmission tariff the Commission also determined transmission tariff of Rs. 0.19 / kWh for short term Open Access customers.

3.2 Tariff Proposed by HVPNL for FY 2009-10:

HVPNL has proposed a revision in the existing tariff & charges on the following grounds:

- The aggregate revenue requirement representing the costs to be recovered for the transmission business for the financial year 2009-10 is different from the aggregate revenue requirement for FY 2008-09.
- The individual parameters used for calculation of tariffs such as the transformation capacity, the average demand are different for the two financial years.
- In the instant tariff application, HVPNL has contended that so far as transmission business is concerned all the expenses contribute towards fixed cost only and as such the transmission tariff for FY 2009-10 would be a single part tariff consisting of fixed charge based on the transformation capacity (MVA) at the interconnection points. HVPNL would levy a fixed charge based on the ratio of each long-term customer to the total proposed transformation capacity at the interconnection points. Further, a customer who contract firm transmission capacity on short – term basis shall pay open access charges on the lines of open access

charges notified by HERC in their order dated 23/04/2008 for using State transmission facilities, from time to time. The State Transmission Utility (STU) shall retain 50% of the charges collected from the short term open access customer and the balance shall be passed on to the long term customers including Discoms in proportion to the transformation capacity. Retention of 50% charges have been proposed due to the fact that the STU shall be required to deal with Inter – State transactions as well as Intra – State transactions and as such the work involved will be more than the work involved with RLDCs despite the fact that the volume of power could be less than the volume handled by the Central Transmission Utility (CTU). Similarly, monitoring and control shall have to be exercised by SLDC on Intra –State as well as Inter – State system.

- HVPNL has also submitted that the transmission charges can be determined on MW per circuit kilometre basis, zonal postage stamp basis or some other pragmatic variant, the ultimate objective being to get the transmission system users to share the total transmission cost in proportion to their respective utilisation of the transmission system. The overall tariff framework should be such as not to inhibit planned development / augmentation of the transmission system, but should discourage non – optimal transmission investment.

In addition to the above HVPNL has proposed that besides recovery of fixed costs, they will also be entitled to incentive on achieving annual availability beyond the target availability of 98% (target availability). The proposed transmission tariff is single part comprising fixed cost component only. The tariff proposed by HVPNL is presented in table 3.2. Rebate/Late Payment Surcharge shall be in accordance with the HERC provisions dated 30/07/2008. HVPNL also proposed to charge UHBVNL & DHBVNL and all short / long term open access customers, reactive energy charge of 5.75 Paise / KVArh from 1/04/2009 on the basis of recording made by the Existing SEMs and individual ABT compliant meters of short term and long term open access customers.

Table 3.2 HVPNL's proposed Transmission Tariff for FY 2009-10

Tariff	Fixed Charge (Rs. million / month)
UHBVNL	501.92
DHBVNL	385.17
Total	887.09

The above mentioned recovery is based on the net annual revenue requirement of Rs. 10645.13 Millions (Rs. 887.09 Millions per month) proposed by HVPNL for FY 2009-10. The projected transformation capacity as on 31/03/2010 is 11953.5 MVA i.e. 6763 MVA (UHBVNL) and 5190.5 MVA (DHBVNL), thus based on the respective shares (56.58% UHBVNL & 43.42% DHBVNL) the per month recovery has been apportioned.

In respect of short-term customers having intra state / interstate power transactions, HVPNL has proposed to charge Rs. 0.34/kWh. It is also proposed that 50% of the charges collected from short – term customer(s) for use of intra – state transmission system shall be retained by the State Transmission Utility and the remaining part of these charges shall be adjusted towards reduction in the transmission charges payable by the long-term customers.

3.3 Analysis of the Tariff Proposal

The Commission, in line with its previous order, accepts the plea of HVPNL for considering all transmission related cost as fixed for the purpose of this order. The Commission is of the view that 'transmission' needs to be seen as a 'pure wire / carrier' business. Consequently, almost the entire cost structure will be of 'fixed' nature and will not vary with the volume of energy transported in any given year. The Commission reiterates the need to refine the transmission tariff design based on voltage differentiation i.e. segregating 'costs' and losses at 220 KV, 132 KV and 66 KV. However, in the absence of reliable and adequate data on voltage wise fixed assets, sales and loss levels and sharing of system peak by

consumers at different voltages etc. the Commission has no option but to continue with the existing tariff design.

3.3.1 Transmission Cost

HVPNL has proposed Rs. 10645.13 Millions as their net aggregate revenue requirement for transmission business for FY 2009-10. The Commission as per the details presented in Chapter-2 of this order determined Rs. 6,597.07 million as net aggregate revenue requirement for transmission business.

3.3.2 Tariff Design

The Commission, in its earlier order(s), allowed recovery of cost of transmission charges based on coincidental system peak. The Commission has notified terms and conditions for determination of transmission tariff regulations on 19th December 2008. As per regulation 27 the payment of Transmission Charges provides (1) Annual transmission charges shall be fully recoverable at 98% target availability. Payment of transmission charges below 98% shall be on pro-rata basis. The transmission licensee may recover its annual revenue requirement by way of a fixed charge based on transformation capacity, contracted capacity, a charge based on energy transmitted, connectivity charge, reactive energy charge or a combination of these charges. The transmission charges shall be calculated on a monthly basis. In case of more than one beneficiaries of the transmission system, including the distribution licensees and long term open access customers, the monthly transmission charges leviable on each beneficiary shall be computed as per the formula incorporated in the terms and conditions for determining transmission tariff notified by the Commission.

In line with the above regulations, the Commission accepts the proposal of the transmission licensee for recovery of transmission cost based on the projected transformation capacities of the users i.e UHBVNL & DHBVNL

3.3.2.1 Transmission tariff

The Commission, for determining transmission tariff, has considered the fact that entire cost allocated to the transmission business is of 'fixed' nature. Hence, it would be reasonable to recover the entire cost through a demand charge based on the ration of the projected transformation capacity of the distribution licensees.

Considering the above factors, the Commission has arrived at a fixed charge for the transmission of power per month as per table 3.3. The rates shall be applicable for power transmitted to the distribution business. Table 3.3 provides the details of the calculation.

Table 3.3 - Determination of transmission tariff

Particulars	
Transmission Cost (Rs. millions)	6,597.07
Transformation Capacity (MVA)	11953.13
UHBVNL's Share (MVA)	6763
DHBVNL's Share (MVA)	5191
Ratio of Average Transformation Capacity	
UHBVNL (%)	56.58
DHBVNL (%)	43.42
Transmission Charges Recoverable from UHBVNL (Rs. millions)	3732.62
Transmission Charges Recoverable from DHBVNL (Rs. millions)	2864.45
Monthly Transmission Charge UHBVNL (Rs. millions)	311.05
Monthly Transmission Charge DHBVNL (Rs. millions)	238.70
Wheeling charge for third party sale based on energy sales of 31274.19 MUs considered by HVPNL (Rs / kWh)	0.21

The transmission charges shall be recovered from the distribution licensee (s). The wheeling customers will be subject to a single rate of Rs. 0.21 as determined above. In line with its previous order(s) the Commission allows 25% of the charges collected from the short – term customers for use of intra – state

transmission system to be retained by HVPNL and the remaining shall be adjusted towards reducing the transmission charges payable by the existing long term customers viz. UHBVNL & DHBVNL in proportion to their transformation capacity.

3.4 Billing

The billing of transmission tariff shall be on a monthly basis in accordance with the respective transformation capacity of the distribution licensee(s).

The single rate for wheeling, as determined by the Commission, shall be recoverable from the short term & long term 'open access' customers availing HVPNL's transmission system. The wheeling charges recovered from such customers, subject to 25% retention by HVPNL, shall be reduced from the transmission charges to be recovered from the distribution licensees.

3.5 Recovery of SLDC Expenses

The SLDC charge determined by the Commission for FY 2009-10 is Rs. 78.07 million. A total monthly recovery of Rs. 6.506 Millions shall be made from the two distribution licensees i.e. UHBVNL & DHBVNL in 50:50 proportion and long term open access customers (if any) in the ratio of their required transformation capacity / load requirement in case no additional transformer is required to be used.

Granting functional autonomy to the SLDC is the basic aim of the 'ring fencing'. Since, Load Despatch Centres have been termed as apex bodies in the electricity industry; they need true independence not only in financial terms but also in decision making. The Ministry of Power, Government of India, constituted a Committee on "Manpower Certification and Incentives for System Operation and Ring Fencing Load Despatch Centres" to ensure functional autonomy for Load Despatch Centres. The Committee in its report dated 11th August, 2008 observed that functional autonomy would mean taking decisions without being

adversely influenced by extraneous issues originating from the Company Management or any of the market players, which can be ensured through:

- a) Independent governance structure
- b) Separate accounting
- c) Adequate number of skilled manpower having high ethical standards and driven by altruistic values
- d) Adequate logistics / infrastructure.

For implementation of the recommendations of the Committee the Ministry of Power, Government of India created a Task Force vide notification No. 6 / 2 / 2008 – Trans dated 13th October, 2008. The action plan formulated by the Task Force was forwarded to Government of Haryana and HVPNL vide Commission's letter No. 2256-58 / HERC / 2008 dated 19.12.2008 for implementation of the same in the prescribed manner.

Although the accounts of SLDC business stands separated by HVPNL and the Commission has been giving separate order on ARR and tariff applications of SLDC business of HVPNL since FY 2006-07 yet other aspect such as independent governance structure, adequate skilled manpower and adequate logistics / infrastructure are still to be provided to SLDC. Therefore, it becomes utmost important that the action plan recommended by the Task Force is implemented in letter and spirit.

The Commission directs HVPNL to submit detailed action taken report on the action plan of the Task Force for implementation of the recommendations of the Committee, within 30 days from the date of the order.

3.5.1 Short Term Open access Customers

The short-term open access customers (if any) shall pay a composite fee and charges from short term Open Access customers for each transaction as per the rates approved and notified by CERC for SLDC from time to time till the time the Commission notifies regulations on SLDC in line with the recommendations of the Task Force set up by the Ministry of Power, Government vide notification No. 6 / 2 / 2008 – Trans dated 13th October, 2008

3.5.2 SLDC application fee

The application fee shall be as per the Haryana Electricity Regulatory Commission (Terms and conditions for Open Access for Intra – state Transmission and Distribution System) Regulation, 2005 notified on 19th May 2005. 25% of the charges collected from the short – term customer for use of SLDC shall be retained by HVPNL and the balance 75% shall be adjusted towards reduction in SLDC charges to be recovered from UHBVNL, DHBVNL and other long term open access customer.

3.6 Incentive

HVPNL, for its proposed transmission business has claimed incentive on achieving annual availability beyond 98% (Target availability). The Commission, for the time being, has not considered any availability-linked incentive.

The Commission acknowledges the need for a system of rebate and penalty in order to reduce the ‘cash cycle’ and ‘defaults’ for better realisation of ‘book debt’, thereby minimising the need for expensive working capital borrowings. Resultantly, the Commission for FY 2009-10 approves the schedule of rebate(s) as per provisions in the Secretary, HERC memo no. 793-796/HERC dated 30/07/2008. The details are presented in table 3.4.

Table 3.4 - Rebates

(Days) from the date of receipt of bills of transmission charges.	%
7 days	1
8 –14 days	0.75
15 – 21 days	0.50
22 – 30 days	0.25

3.7 Late Payment Surcharge

In case payment of bill of transmission charges is delayed beyond 30 days from the date of billing a late payment surcharge of 1% per month shall be levied by HVPNL.

CONCLUSION

As per the presentation made by HPGCL at the time of public hearing and also before State Advisory Committee, the first 600 MW unit of RGTPP, Hisar is likely to be commissioned by December, 2009 followed by the commissioning of the second 600 MW unit by March, 2010. HPGCL have further stated that they are targeting the best effort schedule of commissioning of RGTPP units I & II by November, 2009 and January, 2010 respectively. Additional availability of power through PPAs with IPPs / CPSUs of the order of 655 MW would also be available for Haryana during FY 2009-10. Moreover, additional capacity addition during FY 2010-11 and FY 2011-12 is expected to be of the order of 968 MW and 2262 MW respectively by way of commissioning of Aravali STPS, Jhajjar (750 MW), 2x660 MW TPP, Jhajjar (Case II) and the various PPAs. HVPNL must gear up their men, material and other resources to complete and commission the evacuation system for the additional power well in time matching with the commissioning schedule of the generating stations.

The Commission observes that a very large transmission system is envisaged to be created by HVPNL during FY 2009-10 and the subsequent years mainly in view of new power generation expected to be received from various resources. HVPNL should also coordinate and ensure that power received in the existing and new transmission system from different sources is simultaneously utilized in the distribution network. Adequate distribution network should also be developed in close coordination with the distribution licensees. HVPNL may take prompt action to obtain proposals from distribution licensees and approve the same speedily.

The Commission has been pointing out in its previous orders the aberrations in the monthly transmission loss data vis-à-vis energy transmitted and directing HVPNL to examine the same & submit its analysis. Even though, the yearly transmission losses reported by HVPNL indicate some consistency, but monthly

reporting of these losses shows a lot of variation between 0% to 5.06% and have no co-relation with monthly energy flow. The directions given by the Commission should be complied with and the desired report along with loss reduction trajectory may be submitted within one month positively. Even though, HVPNL has been taking a plea that it has little control over inter-state transmission losses, the Commission desires that the position may be further analyzed at their end in coordination with other constituents of northern grid to find out the ways and means to arrest high transmission losses which result in extra burden on the consumers. As regards, intra-state losses, the targets given by the Commission, are not being achieved by HVPNL in spite of making large investment in expansion & augmentation of transmission system in the state. HVPNL is advised to ensure 100% installation of shunt capacitor banks at 11 / 66 KV level, upgrade the transmission system to higher voltage level, replace old and worn out ACSR conductors, upgrade the line capacities by higher capacity ACSR conductors to avoid over loading and reduce auxiliary consumption at the Sub-stations by use of energy efficient equipments & lighting system. HVPNL is further advised to work out voltage wise transmission loss in the system to identify the areas requiring improvement and take remedial measures to restrict the transmission losses to the level approved by the Commission.

The Commission has agreed to the proposal of HVPNL and has decided that henceforth transmission tariff on monthly basis shall be in accordance with the respective transformation capacity at inter-face points of the distribution licensee during the month. The billing was previously being made on the basis of contribution of the respective distribution licensees to the coincidental system peak recorded during the month. HVPNL may take note of this modification in tariff design and ensure updating of the necessary records well in time so as to implement the modified methodology for raising bills.

For FY 2008-09, HVPNL had projected capital expenditure of Rs. 9614 million for transmission and SLDC business in their ARR and the Commission after due

consideration & discussion with HVPNL allowed Rs. 6601 million. After considering the information regarding utilization of funds supplied by HVPNL, the assessed expenditure for FY 2008-09 is likely to be Rs. 6000 million approximately which is about 62% of the expenditure projected by HVPNL and less than what was approved by the Commission. For FY 2009-10, HVPNL has proposed capital expenditure of Rs. 21194 million for transmission and SLDC business and after considering deletion of certain schemes as discussed with HVPNL officers, the net proposal works out to Rs. 19270 million. Although, the projected expenditure appears very ambitious as compared to utilization in the previous years, yet the Commission has decided to allow an expenditure of Rs. 19000 million for FY 2009-10 keeping in view the creation of evacuation arrangements for power to be received from new generation sources. HVPNL is required to meet the challenge and ensure timely execution of all the required works.

In view of the extensive expansion of transmission system and open access policy of the Govt. of India, the SLDC has an important role to play. The activities of SLDC are highly specialized and technical in nature. Recognising this, the committee set up by Govt. of India, Ministry of Power on “Manpower Certification and Incentives for System Operation and Ring Fencing Load Dispatch Centres” has concluded that all efforts need to be made to create an environment where the Load Dispatch Centres have functional autonomy, independent and sustainable revenue streams and are adequately staffed with people having the right skills, equipment and incentives to deliver. The task force, constituted to oversee the implementation of the recommendations of the above mentioned committee, formulated a time bound action plan which was forwarded to Govt. of Haryana (Power Department) and HVPNL vide letter dated 19.12.2008. As per the action plan, the State Govt. was urged to create a separate representative board structure for governance of SLDC on the lines of wholly owned subsidiary by 31.03.2009. As no response has been received so far, the commission impresses upon HVPNL to pursue the matter with the State Govt. for an early

action in this regard. Further, all the personnel of SLDC shall undergo basic training course to be finalized by CEA / NPTI and compliance of the same may be submitted to the Commission by HVNPL / SLDC. Moreover, the SLDC system is also required to be expanded and revamped for data execution, communication, scheduling and dispatch of electricity and other specified functions in a time bound manner.

HVPNL also needs to focus on Human Resources Development. Every year a number of trained technical officers & subordinates retire. Keeping in view the massive expansion in the transmission system HVPNL must have a concrete plan to recruit requisite technical personnel on regular basis and get them trained at their training institute and at manufacturer's works. The Commission may be apprised of any time bound plan prepared by HVPNL to meet with the current & future demand of trained manpower.

The Commission, under Section 62 read with Section 64(3) (a) and Section 64(6) of the Act, issues this tariff order with modification of the calculation of expected revenue requirement and transmission tariff & SLDC charges proposal of the licensee i.e. HVPNL and hereby determines the same as under:

- a) The net ARR for FY 2009-10 of HVPNL, for its transmission business, has been determined as Rs 6597.07 Millions.
- b) SLDC charges of Rs. 6.506 Million per month for FY 2009-10.
- c) The recovery of transmission cost shall be @ Rs. 311.05 Millions (UHBVNL) and Rs. 238.70 million (DHBVNL) per month.
- d) Transmission tariff for short-term customers shall be Rs. 0.21/ kWh.
- e) The inter – state transmission loss has been pegged at 4.23% while intra – state transmission losses has been pegged at 2.1% for FY 2009-10.

- f) The directives issued by the Commission in its order(s) shall be monitored separately for which action has already been initiated.
- g) The licensee shall implement the tariff and charges contained in this order with effect from 1^s April 2009.**

This order is signed, dated and issued by the Haryana Electricity Regulatory Commission on 18th May, 2009.

Date: May 18, 2009.

Place: Panchkula.

Rohtash Dahiya
(Member)

T.S. Tewatia
(Member)

Bhaskar Chatterjee
(Chairman)