



**UTTAR PRADESH ELECTRICITY REGULATORY COMMISSION**

PETITION NO.: 809 of 2012

**FILED BY**

Uttar Pradesh Power Corporation Limited  
Uttar Pradesh Power Transmission Corporation Limited  
Dakshinanchal Vidyut Vitran Nigam Limited  
Madhyanchal Vidyut Vitran Nigam Limited  
Paschimanchal Vidyut Vitran Nigam Limited  
Purvanchal Vidyut Vitran Nigam Limited

**IN THE MATTER OF**

PETITION FOR TRUE-UP FOR THE FINANCIAL YEARS 2000-01 TO 2007-08

Lucknow

21<sup>st</sup> May, 2013



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**Before**

**UTTAR PRADESH ELECTRICITY REGULATORY COMMISSION**

**Petition No.: 809 of 2012**

**IN THE MATTER OF:**

Petition for True-up for the financial years 2000-01 to 2007-08

**And**

**IN THE MATTER OF:**

Uttar Pradesh Power Corporation Limited, Lucknow (UPPCL)

Uttar Pradesh Power Transmission Corporation Limited, Lucknow (UPPTCL)

Dakshinanchal Vidyut Vitran Nigam Limited, Agra (DVVNL)

Madhyanchal Vidyut Vitran Nigam Limited, Lucknow (MVVNL)

Pashchimanchal Vidyut Vitran Nigam Limited, Meerut (PVVNL)

Poorvanchal Vidyut Vitran Nigam Limited, Varanasi (PuVVNL)

**ORDER**

The Commission having deliberated upon the True-up petition and also the subsequent filings by the Petitioner, and the petition thereafter being admitted on 7<sup>th</sup> February, 2013, and having considered the views / comments / suggestions / objections / representations received during the course of the above proceedings and also in the public hearings held, in exercise of power vested under Sections 61, 62, 64 and 86 of the Electricity Act, 2003, hereby pass this Order signed, dated and issued on 21<sup>st</sup> May, 2013.

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## **1. BACKGROUND AND PROCEDURAL HISTORY**

### **1.1 BACKGROUND**

**1.1.1** The Uttar Pradesh Electricity Regulatory Commission (UPERC) was formed under U.P. Electricity Reform Act, 1999 by Government of Uttar Pradesh (GoUP) in one of the first steps of reforms & restructuring process of the power sector in the State. Thereafter, in pursuance of the reforms & restructuring process the erstwhile Uttar Pradesh State Electricity Board (UPSEB) was unbundled into the following three separate entities through the first reforms transfer scheme dated 14<sup>th</sup> January, 2000:

- Uttar Pradesh Power Corporation Limited (UPPCL): vested with the function of Transmission and Distribution within the State.
- Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL): vested with the function of Thermal Generation within the State
- Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL): vested with the function of Hydro Generation within the State.

**1.1.2** Through another Transfer Scheme dated 15<sup>th</sup> January, 2000, assets, liabilities and personnel of Kanpur Electricity Supply Authority (KESA) under UPSEB were transferred to Kanpur Electricity Supply Company Limited (KESCO), a company registered under the Companies Act, 1956.

**1.1.3** After the enactment of the Electricity Act, 2003 (EA 2003) the need was felt for further unbundling of UPPCL (responsible for both Transmission and Distribution functions) along functional lines. Therefore, the following four new distribution companies (hereinafter collectively referred to as 'Discoms' ) were created vide Uttar Pradesh Transfer of Distribution Undertaking Scheme, 2003 dated 12<sup>th</sup> August, 2003, to undertake distribution and supply of electricity in the areas under their respective zones specified in the scheme:

- Dakshinanchal Vidyut Vitran Nigam Limited (Agra Discom or DVVNL)
  - Madhyanchal Vidyut Vitran Nigam Limited (Lucknow Discom or MVVNL)
-





- Pashchimanchal Vidyut Vitran Nigam Limited (Meerut Discom or PVVNL)
- Purvanchal Vidyut Vitran Nigam Limited (Varanasi Discom or PuVVNL)

- 1.1.4** Under this scheme, the role of UPPCL was specified as “Bulk Supply Licensee” as per the license granted by this Commission and as “State Transmission Utility” under sub-section (1) of Section 27-B of the Indian Electricity Act, 1910 as notified by the State Government.
- 1.1.5** Subsequently, the Uttar Pradesh Power Transmission Corporation Limited (UPPTCL), a Transmission Company (Transco), was incorporated under the Companies Act, 1956 by an amendment in the ‘Object and Name’ clause of the Uttar Pradesh Vidyut Vyapar Nigam Limited. The Transco is entrusted with the business of transmission of electrical energy to various utilities within the State of Uttar Pradesh. This function was earlier vested with UPPCL. Further, Government of Uttar Pradesh (GoUP), in exercise of power under the Section 30 of the EA 2003, vide notification No. 122/U.N.N.P/24-07 dated 18<sup>th</sup> July, 2007 notified Uttar Pradesh Power Transmission Corporation Limited as the “State Transmission Utility” of Uttar Pradesh. Subsequently, on 23<sup>rd</sup> December 2010, the Government of Uttar Pradesh notified the Uttar Pradesh Electricity Reforms (Transfer of Transmission and Related Activities Including the Assets, Liabilities and Related Proceedings) Scheme, 2010 which provided for the transfer of assets and liabilities from UPPCL to UPPTCL with effect from 1<sup>st</sup> April, 2007.
- 1.1.6** Thereafter, on 21<sup>st</sup> January, 2010, as the successor distribution companies of UPPCL (a deemed licensee), the Discoms which were created through the notification of the UP Power Sector Reforms (Transfer of Distribution Undertakings) Scheme, 2003 and were issued fresh distribution licenses which replaced the UP Power Corporation Ltd (UPPCL) Distribution, Retail & Bulk Supply License, 2000.
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## **1.2 DISTRIBUTION & TRANSMISSION TARIFF REGULATIONS**

**1.2.1** Uttar Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Distribution Tariff) Regulations, 2006 (hereinafter referred to as the “Distribution Tariff Regulations”) were notified by the Commission on 6<sup>th</sup> October, 2006. These Regulations are applicable for the purposes of ARR filing and Tariff determination to all the distribution licensees within the State of Uttar Pradesh from FY 2007-08 onwards.

**1.2.2** Similarly, the Uttar Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006 (hereinafter referred to as the “Transmission Tariff Regulations”) were notified by the Commission on 6<sup>th</sup> October, 2006. These Regulations are applicable for the purposes of ARR filing and Tariff determination of the transmission licensees within the State of Uttar Pradesh from FY 2007-08 onwards.

**1.2.3** The Distribution Tariff Regulations and Transmission Tariff Regulations have been collectively referred to as ‘Tariff Regulations’ in this order.

**1.2.4** Prior to the framing of the Tariff Regulations, the Commission determined the tariff of the licensees based on past trends and principles established on a case to case basis which have been recorded in each Tariff Orders.

## **1.3 FILING OF TRUE UP PETITION**

**1.3.1** The Hon’ble Appellate Tribunal for Electricity (APTEL) in its judgment dated 21<sup>st</sup> October, 2011 in Appeal No. 121 of 2010 and I.A. No. 83 of 2010 had directed this Commission to initiate the true-up exercise up to FY 2006-07 immediately in respect of the distribution companies namely DVVNL, MVVNL, PVVNL, PuVVNL, KESCO and the transmission utility namely UPPTCL.

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- 1.3.2** Further the Commission in an order dated 29<sup>th</sup> March, 2012 in respect of hearing held on 27<sup>th</sup> March, 2012 in the matter of Aggregate Revenue Requirement (ARR) and Tariff for FY 2010-11, FY 2011-12 and FY 2012-13 by the State owned distribution companies namely – DVVNL, MVVNL, PVVNL, PuVVNL and KESCO and the state owned transmission utility namely UPPTCL, had directed the distribution and transmission licensees to file the true-up petitions up to FY 2007-08. The relevant extract of the Commission’s order is reproduced below:

*“The Commission also directs all the Petitioners to file individual detailed True-up Petitions up to FY 2007-08 along with copies of audited accounts accompanied with schedules and CAG report for each of the previous financial years.”*

- 1.3.3** Accordingly, UPPCL, UPPTCL, DVVNL, MVVNL, PVVNL and PuVVNL had filed a petition for True-up for the financial years 2000-01 to 2007-08 on 28<sup>th</sup> May, 2012.

#### **1.4 PRELIMINARY SCRUTINY OF THE PETITIONS**

- 1.4.1** Subsequent to receipt of the True-up petitions a preliminary scrutiny of the Petitions was carried out by the Commission. Certain deficiencies were observed in the True-up applications filed by the Petitioners. Hence, a detailed deficiency note was sent to the Petitioner vide Letter No. UPERC/D(T)/2012-1386 dated 20<sup>th</sup> December, 2012, directing it to provide the required information by 11<sup>th</sup> January, 2013. Further, a reminder was sent to the Petitioner vide Letter No. UPERC/D(Tariff)/13-1571 dated 14<sup>th</sup> January, 2013 to submit the response to the deficiency note.

- 1.4.2** Thereafter, the Petitioners in a letter dated 18<sup>th</sup> January, 2013 had requested the Commission to grant extension of time limit by two weeks for submission of replies.
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- 1.4.3** In response to the deficiency note, the licensees provided some of the critical data required by the Commission for acceptance / admission of the petition vide Letter No. 237/RAU/True up dated 30<sup>th</sup> January, 2013.

## **1.5 ADMITTANCE OF THE TRUE-UP PETITION**

- 1.5.1** The Commission through its admittance order dated 7<sup>th</sup> February, 2013, directed the Petitioners to publish, within 3 days from the date of issue of that order, the Public Notice detailing the salient information and facts of the True-up petitions in at least two daily newspapers (one English and one Hindi) for two successive days for inviting views / objections by all stakeholders and public at large. The Commission had also directed the Petitioners to upload the response to the deficiency note on their website.

## **1.6 PUBLICITY OF THE PETITION**

- 1.6.1** The Public Notice detailing the salient features of the True-up petitions were made by UPPCL on behalf of the Petitioner and they appeared in daily newspapers as detailed below inviting objections from the public at large and all stakeholders:

▪ The Times of India	:	9 <sup>th</sup> and 10 <sup>th</sup> February, 2013
▪ Hindustan Times (English)	:	9 <sup>th</sup> and 10 <sup>th</sup> February, 2013
▪ Amar Ujala (Hindi)	:	9 <sup>th</sup> and 10 <sup>th</sup> February, 2013
▪ Dainik Jagran (Hindi)	:	9 <sup>th</sup> and 10 <sup>th</sup> February, 2013
▪ In Dinon (Urdu)	:	9 <sup>th</sup> and 10 <sup>th</sup> February, 2013

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## **2. PUBLIC HEARING PROCESS**

### **2.1 OBJECTIVE**

- 2.1.1** The Commission, in order to achieve the twin objective i.e. to observe transparency in its proceedings and functions and to protect interest of consumers has always attached importance to the views / comments / suggestions / objections / representations of the public. The process gains significant importance in a “cost plus regime”, where the entire cost allowed to the licensee gets transferred to the consumer. The consumers therefore have a locus-standi to comment on the True-up Petition filed by the licensees.
- 2.1.2** The Commission invited comments / suggestions from consumers and all other stakeholders on the True-up Petitions. To provide an opportunity and to obtain feedback from the consumers and stakeholders, a public hearing was held by the Commission at Lucknow on 11<sup>th</sup> March, 2013. Consumer representatives and other individual consumers participated actively in the public hearing process.
- 2.1.3** The views / suggestions / comments / objections / representations on the True-up petitions received from the public were forwarded to the licensee for their comments / response. The Commission considers these submissions of the consumers and the response of the licensee before it embarks upon the exercise of determining the final true-up.
- 2.1.4** Besides this, the Commission, while disposing the True-up petitions filed by the Petitioners, has also taken into consideration the oral and written views / comments / suggestions / objections / representations received from various stakeholders during the public hearings or through post.

The Commission has taken note of the views and suggestions submitted by the various stakeholders who provided useful feedback on various issues and the Commission appreciates their participation in the entire process.

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## 2.2 LIST OF ATTENDEES:

2.2.1 The list of persons who attended the public hearing is given below:

S No	Name	Designation	Organization
1	Mr. A.K. Arora	Resident Officer	Noida Power Company Limited (NPCL)
2	Mr. Avadhesh Kumar Verma	Chairman	Uttar Pradesh Rajya Vidyut Upbhokta Parishad (UPRVUP)
3	Mr. B.B. Jindal	Consumer	-
4	Mr. D.C. Verma	Executive Engineer	RAU, UPPCL
5	Mr. Manish Garg	Consumer	-
6	Mr. Mohd. Ghufraan	Chief Engineer	RAU, UPPCL
7	Mr. Rama Shanker Awasthi	Consumer	-
8	Mr. S.A. Rizvi	Executive Engineer	RAU, UPPCL
9	Mr. Z.M. Farooqi	Consultant	Prudential Project Syndicate

## 2.3 VIEWS / COMMENTS / SUGGESTIONS / OBJECTIONS / REPRESENTATIONS ON TRUE-UP PETITION

2.3.1 The list of the consumers / licensees, who have submitted their views / comments / suggestions / objections / representations, is provided below:

- M/s Noida Power Company Limited, Greater Noida (NPCL)
- Mr. Avadhesh Kumar Verma, Chairman, Uttar Pradesh Rajya Vidyut Upbhokta Parishad (UPRVUP)
- Mr. B. B. Jindal
- Mr. Manish Garg

2.3.2 Mr. Rama Shankar Awasthi had requested the Commission in the public hearing to allow him a time of 7 days to file his objections, which was granted by the Commission. However, he did not file any objections within the time frame granted.



**2.3.3** The major issues raised in the objections / representations, the replies given by the Petitioner and the views of the Commission have been summarised as detailed below.

## **2.4 POOR COLLECTION EFFICIENCY**

### **A) Comments / Suggestions of the Public**

**2.4.1** The comments / suggestions submitted by Mr. Avadhesh Kumar Verma, Chairman, UPRVUP are as under:

**2.4.2** Mr. Verma has stated that the Petitioner have submitted the audited accounts only up to FY 2007-08, where as it was under obligation to submit the audited accounts up to FY 2011-12. Further it has alleged that actual collection efficiency of the distribution companies is very poor and this has led to revenue gaps which the Petitioner is purporting to claim in the True-up petitions.

### **B) The Petitioner's response:**

**2.4.3** The Petitioner submitted that the True up petition for the period FY 2000-01 to FY 2007-08 has been filed as per directions of Hon'ble APTEL and Hon'ble Commission and is based upon audited accounts for the relevant period. Further audited accounts for the period up to FY 2010-11 have already been submitted to the Commission. The allegation that purported gap is due to low collection efficiency of the distribution licensees is totally unfounded as complete revenue assessment has been assumed to be received without consideration of the collection efficiency. The Petitioner stated that if actual revenue would have been taken rather than the billed revenue then revenue gap (and cash gap) would have been much wider. The Petitioner in respect of the allegation, that after division of UPSEB, gap / losses are continuously

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increasing; stated that it is due to the fact that approved tariff is always less than cost of service. It is due to this very fact that accumulated revenue gap sore to the tune of Rs. 14,638 crores as calculated in True up petition. The Petitioner requested the Commission for early disposal of true up order and devise method for early recovery of this huge gap, so that licensees could sustain in long run otherwise licensees would crumble due to burden of heavy revenue deficit and repayment of working capital loans.

**C) The Commission's view:**

**2.4.4** The Commission has received the audited accounts of the distribution companies for the years up to FY 2010-11. However the Supplementary Audit Report of the Accountant General of Uttar Pradesh has not been furnished by the distribution companies for FY 2009-10 and 2010-11. Directives have already been issued by the Commission to the licensees to furnish the True-up Petitions for the period FY 2008-09 to 2010-11.

**2.4.5** Pursuant to the directives issued by the Commission, the distribution companies have filed the true up petitions for FY 2008-09, 2009-10 and 2010-11 based on audited accounts. The adjustment on account of under recovery / surplus as the case may be, on account of truing up would be considered while determining the ARR for FY 2014-15 or through a separate order as the Commission may deem fit.

**2.4.6** The Commission has ensured that truing up has been done in accordance with the philosophies and principles laid in the past Tariff Orders and Tariff Regulations framed by the Commission. The Commission has also conducted a revenue side truing up which has ensured that the burden of poor collection efficiency is not passed on to the consumers. Revenue side truing up has been done by considering revenue assessment as per books of accounts rather than actual bill recovery which is plagued with poor collection efficiency.

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## **2.5 RECOVERY OF ARREARS**

### **A) Comments / Suggestions of the Public**

- 2.5.1** The comments / suggestions submitted by Mr. Avadhesh Kumar Verma, Chairman, UPRVUP are as under:
- 2.5.2** Mr Verma has alleged that there are large arrears towards receivable from sale of power as the distribution companies have failed to realise the dues from the consumers. The objector has alleged that the amount of arrears exceeds the claims made by the Petitioner in the True-up Petition to such an extent, such that, if all arrears are recovered, then there would be no need for passing any benefits to the distribution companies under trueing up as they would be in surplus.

### **B) The Petitioner's response:**

- 2.5.3** The Petitioner submitted that arrear in the books of accounts include a huge amount against the consumers whose permanent disconnection are pending for final settlement. Further in the past, One Time Settlement schemes were launched, wherein old arrears were settled; but in some cases the arrears are still shown in commercial records. Further true-up exercise is being carried out, on the basis of audited accounts for the period FY 2000-01 to FY 2007-08 on the year wise basis so every concern of the consumers would be taken care of in yearly calculation which will depict the correct picture of the revenue and expenditure. The Tariff and True-up petition has been filed in accordance with the Tariff Regulations. The burden of arrears and the recovery thereof if any would have no impact of the allowable True-up and ARR of any year.
- 2.5.4** Further, the Petitioner has stated that the true-up is being carried for the period of FY 2000-01 to FY 2007-08 on the basis of audited accounts which reflect true and fair view of the financial transaction. Further this exercise will be carried on yearly basis which will take care of the concern of the objector.
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**C) The Commission's view:**

- 2.5.5** The tariff of the distribution licensees is determined on accrual basis. The past dues cannot be treated as income of the Distribution Licensees. Thus, it will have no effect on determination of tariff. The electricity charges are recognised as income once the bills are raised on accrual basis. Hence they cannot be recognised as income source when arrears are collected. The Commission fixes the tariff on accrual basis and not on the cash basis.
- 2.5.6** Treating the realization of arrears as income would amount to double counting of income. Therefore, it cannot be treated as income again on realization. This issue has been fairly established by the APTEL in its judgment in Appeal No. 15 of 2012 and Appeal No. 152 of 2011.
- 2.5.7** The Commission has ensured that truing up has been done in accordance with the philosophies and principles laid in the past Tariff Orders and Tariff Regulations framed by the Commission. The Commission has also conducted a revenue side truing up, which has ensured that the burden of poor collection efficiency and consequent larger arrears is not passed on to the consumers.
- 2.5.8** The Commission directs the Petitioner to formulate a policy for identifying and writing off fictitious arrears within a period of 6 months and submit a copy of such report before the Commission.

**2.6 TIME BARRING AND LIMITATION**

**A) Comments / Suggestions of the Public:**

- 2.6.1** The comments / suggestions submitted by NPCL are as under:
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**2.6.2** The NPCL has stated that the True-up petitions are time barred as they have been filed after almost 5-12 years after the expiry of the relevant financial year. The NPCL has submitted that the True-up petition has to be filed within 3 years from the date of the auditor's report while the same has been filed almost 5 to 12 years after the expiry of the relevant year. Based on this premise, NPCL has contended that the True-up petitions should be dismissed.

***B) Petitioner's response:***

**2.6.3** The Petitioner has submitted that the True-up petition has been filed based on the directives of the Hon'ble APTEL in its judgment dated 21<sup>st</sup> October, 2011 in Appeal No. 121 of 2010 and I.A. No. 83 of 2010. A True-up petition has to be filed based on the Regulations framed by the Commission. For the period commencing from FY 2000-01 to 2006-07, no Tariff Regulations were framed by the Commission. By the own admission of NPCL, the Tariff Regulations do not prescribe any time period or limitation period for filing the True-up petition. As such, the True-up petition which has been filed pursuant to the directives of the Hon'ble APTEL and subsequently that of Hon'ble UPERC is admissible.

***C) The Commission's views:***

**2.6.4** The True-up petition has been filed pursuant to a judicial pronouncement of the Hon'ble APTEL. Based on the directives of the APTEL, this Commission has proceeded in determination of the final true-up.

**2.7 IMPOSITION OF BURDEN ON CONSUMERS AND DELAY IN FILING TRUE-UP PETITION**

***A) Comments / Suggestions of the Public:***

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- 2.7.1** The comments / suggestions submitted by NPCL, Mr. B. B. Jindal and Mr. Manish Garg are as under:
- 2.7.2** The NPCL has stated there has been considerable delay in the filing of the True-up petitions even after completion of audited accounts. NPCL has purported that the Petitioner is not entitled to recover any accumulated regulatory assets, etc., from the consumers on the basis of true-up due to their own negligence and delay in filing the True-up petition. NPCL has stated that the consumers should not be burdened with the negligence and inefficiencies of the Petitioner companies.
- 2.7.3** Mr. B.B. Jindal and Mr. Manish Garg have alleged that the truing up exercise is being done regularly in other states such as Assam and Madhya Pradesh.

***B) Petitioner's response:***

- 2.7.4** The Petitioner has reiterated that it has filed the True-up petition pursuant to a judicial pronouncement by the Hon'ble APTEL and as such the delay has to be condoned. Further, the delay has not caused any burden on the consumers, as the true-up has been sought only in terms of the difference between the actual and approved ARR items. The carrying cost on the under-recovered amounts computed upon final true-up has been claimed as such amounts are in the nature of deferred payments.

***C) The Commission's views:***

- 2.7.5** The True-up petition has been file pursuant to a judicial pronouncement of the Hon'ble APTEL. Based on the directives of the APTEL, this Commission has proceeded in determination of the final true-up. The Commission has appropriately dealt with the issue of delayed filing while determining the carrying cost on the under-recovered amounts pursuant to final truing-up.
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## **2.8 FINANCIAL RESTRUCTURING SCHEME OF GOVT. OF INDIA**

### ***A) Comments / Suggestions of the Public:***

**2.8.1** The comments / suggestions submitted by NPCL are as under:

**2.8.2** The NPCL has stated that the State of Uttar Pradesh has opted for the 'Scheme for Financial Restructuring of Distribution Companies' formulated by the Govt. of India and accordingly would be entitled to financial benefits under the scheme. It is alleged that all accumulated losses would be recovered under the scheme. Hence, the Petitioner should not be allowed to recover the amounts through true-up.

### ***B) Petitioner's response:***

**2.8.3** The Petitioner has stated that the distribution companies have prepared a Financial Restructuring Plan (FRP) and submitted it before the Govt of India. The same is under process by the Govt. of India. The Petitioner has submitted that the FRP is towards re-schedulement and restructuring of short term loans towards working capital and power purchase liabilities exceeding 60 days. Interest on Working capital loans is allowed on normative basis and Power Purchase Cost is allowed by the Commission based on actuals subject to approved T&D loss targets. The ARR and True-up determination does not involve payment of power purchase dues and repayment of working capital loans. As such, the approval of such scheme would not affect the ARR of the licensees in any way.

### ***C) Views of the Commission:***

**2.8.4** The distribution companies have submitted their Financial Restructuring Plan before the Commission. Under the framework of the Scheme for Financial Restructuring of Distribution Companies, the 'In-Principle Approval' of the

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State Commission is a mandatory requirement. The Commission has provided its 'In-Principle Approval' vide letter dated 19<sup>th</sup> March, 2013. However, while providing the 'In-Principle Approval', the Commission has laid a condition that the ARR and Tariff would be determined by it, based on the Regulations framed by the Commission from time to time.

- 2.8.5** The Commission would appropriately deal with the issue of recovery of past accumulated losses upon approval of the FRP by the Govt. of India.

## **2.9 POWER PURCHASE COST**

### ***A) Comments / Suggestions of the Public:***

- 2.9.1** The comments / suggestions submitted by NPCL, Mr. B.B. Jindal and Mr. Manish Garg are as under:
- 2.9.2** The NPCL has stated that the burden of power purchase cost differential consequent to true-up should not be passed on, as the Petitioner has not provided the details of the power purchased through Unscheduled Interchange (UI). It has alleged that truing up petition does not provide any break-up or detail of power purchase cost from various sources and per unit cost to determine the least cost or merit order principle. It has stated that UPPCL and Discoms were given the opportunity to claim the differential power purchase cost through Fuel and Power Purchase Cost Adjustment (FPPCA). However the Petitioner chose not to claim FPPCA. Now, after almost 4 to 10 years from the expiry of the relevant financial year, the Petitioners cannot be allowed to pass on the burden of power purchase cost differential to the consumers.
- 2.9.3** Mr. B.B. Jindal and Mr. Manish Garg have expressed apprehension on the adherence of the principle of 'Merit Order Dispatch' in power procurement.
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**B) The Petitioner's response:**

**2.9.4** The Petitioner clarified that the source wise details of power cost has been provided in the audited accounts and replies to the deficiency note. Further the Commission has approved the FPPCA formula in May 2012. Subsequently in the FY 2012-13 tariff order issued on 19<sup>th</sup> October, 2012, the Commission has allowed the recovery of FPPCA only from the quarter of January to March 2013 onwards. Hence the contention of the objector that the Petitioners could have claimed power purchase cost variations through FPPCA is without merits.

**C) The Commission's View:**

**2.9.5** The distribution companies have been allowed the recovery of FPPCA from the quarter of January to March 2013 onwards. The Commission while approving the power purchase cost has considered the T&D loss target as controllable parameter whereas the quantity mix and price variance (of power purchase) has been considered as uncontrollable parameter.

**2.10 CARRYING COST**

**A) Comments / Suggestions of the Public:**

**2.10.1** The comments / suggestions submitted by NPCL are as under:

**2.10.2** The NPCL has stated that the carrying cost on the true-up amount should not be imposed on to the consumers as it is consequent to the delay in filing of True-up petition.

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**B) The Petitioner's response:**

**2.10.3** The Petitioner submitted that the True-up petitions have been filed in consequence of the Hon'ble APTEL judgment dated 21<sup>st</sup> October, 2011 in Appeal No. 121 of 2010 and various directives of the Hon'ble Commission in this regard. The Petitioner stated that there has been no wilful negligence on its part in filing the True-up petition. The Petitioner submitted that the unrecovered amounts computed as a result of the truing up exercise are in the nature of deferred payments and hence carrying cost should be provided to it.

**C) The Commission's views:**

**2.10.4** The Commission has appropriately dealt with the issue of delayed filing while determining the carrying cost on the under-recovered amounts pursuant to final truing-up.

**2.11 GOVERNMENT SUBSIDY**

**A) Comments / Suggestions of the Public:**

**2.11.1** The comments / suggestions submitted by NPCL are as under:

**2.11.2** The NPCL has stated that any difference between the subsidies envisaged in the Tariff Order vis-à-vis the actual subsidies received should not be recovered from the Consumers.

**B) Petitioner's response:**

**2.11.3** The Petitioner clarified that the subsidy recoverable from the Govt. of Uttar Pradesh is entirely the prerogative of the State Govt. and as such, it is not in

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its control. The Petitioner submitted that the subsidy may be allowed based on actual as per audited accounts.

**C) Views of the Commission:**

**2.11.4** The Commission has considered the objections made by NPCL. The Commission has not allowed any adverse deviations in the levels of the subsidy approved in the Tariff Order. Accordingly, in cases, where the subsidy as per audited accounts is lower than the levels envisaged in the Tariff Order, the Commission has considered the originally approved subsidy levels for computing the true-up.

**2.12 EMPLOYEE EXPENSES**

**A) Comments / Suggestions of the Public:**

**2.12.1** The comments / suggestions submitted by NPCL, Mr. B.B. Jindal and Mr. Manish Garg are as under:

**2.12.2** The NPCL has stated that the efficiency gains may not be allowed to the Petitioner in cases where the actual expenses are lower than approved expenses as the licensees have not elaborated the reasons or initiatives which has facilitated to bring the actual expenses to come down. In such cases, actual expenses should be allowed without considering any efficiency gains. NPCL has alleged that the Petitioner has not elaborated on the details of the number of employees and their pay structure along with the steps to optimise the costs. Further, it has alleged that there has been non-compliance of Accounting Standard – 15 (AS-15) and hence amounts claimed towards employee costs and efficiency gains may not be relied upon for true-up purpose. NPCL has suggested that the Petitioner should disclose the details of

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employees working for the companies and their designation / technical skill, etc.

- 2.12.3** Mr. B.B. Jindal and Mr. Manish Garg have stated that many operations such as meter reading, collection of revenue, maintenance of sub-stations, lines and survey have been outsourced. This has led to reduction in employee expenses. It is suggested that while considering the employee expenses, the cost of outsourcing has to be considered as part of employee expenses.

***B) The Petitioner's response:***

- 2.12.4** The Petitioner stated that it has submitted all the relevant details of employee costs as per its audited accounts. The audited accounts contain the break-up of the expenses as well. Further, the response to the deficiency note issued by the Commission has also been furnished to the Commission and the copy of it has been published on the website as well.
- 2.12.5** The efficiency gains have been claimed in respect of controllable expenses as provided in Regulation 4-11 – Profit Sharing in terms of the Distribution Tariff Regulations.
- 2.12.6** The Petitioner submits that the policies followed for accounting for terminal benefits has been adequately disclosed in the audited accounts. The expenses claimed towards employee expenses are genuine and prudent expenses and in strict accordance with the audited accounts.
- 2.12.7** While it is agreed that certain operations such as meter reading, sub-station maintenance, etc., have been outsourced; but these have been done only in the recent years. Such activities have been outsourced due to the staff crunch and considering the cost optimisation which outsourcing brings. It has been
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observed that outsourcing is a more cost effective method in respect of such services. It is however submitted that the expenses towards outsourcing are booked as part of O&M expenses.

**C) The Commission views:**

**2.12.8** The Commission has noted that comments / suggestions of NPCL, Mr. B.B. Jindal and Mr. Manish Garg in respect of employee expenses.

**2.12.9** No efficiency gains have been allowed during the years FY 2000-01 to 2006-07 as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

**2.12.10** The Commission has considered employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order for any relevant year up to FY 2006-07. In cases, where actual expenses are lower than approved expenses, actual expenses have been considered. For determining the True-up for FY 2007-08, the Commission has followed the Tariff Regulations.

**2.13 A&G EXPENSES**

**A) Comments / Suggestions of the Public:**

**2.13.1** The comments / suggestions submitted by NPCL are as under:

**2.13.2** The NPCL has stated that the Petitioner has failed to assess the reasons for drastic difference between the approved and actual A&G expenses.

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**2.13.3** The NPCL has stated that the efficiency gains may not be allowed to the Petitioner in cases where the actual expenses are lower than approved expenses as the licensees have not elaborated the reasons or initiatives which has facilitated to bring the actual expenses to come down. In such cases, actual expenses should be allowed without considering any efficiency gains.

***B) The Petitioner's response:***

**2.13.4** The Petitioner stated that it has submitted all the relevant details of A&G expenses as per its audited accounts. The audited accounts contain the break-up of the A&G expenses. Further, the responses to the deficiency note issued by the Commission have also been furnished to the Commission and the copy of it has been published on the website as well.

**2.13.5** The efficiency gains have been claimed in respect of controllable expenses as provided in Regulation 4-11 – Profit Sharing in terms of the Distribution Tariff Regulations.

**2.13.6** The expenses claimed towards A&G expenses are genuine and prudent expenses and in strict accordance with the audited accounts.

***C) The Commission's views:***

**2.13.7** The Commission has noted the comments / suggestions of NPCL in respect of A&G expenses.

**2.13.8** No efficiency gains have been allowed during the years FY 2000-01 to 2006-07 as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

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**2.13.9** The Commission has considered A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order for any relevant year up to FY 2006-07. In cases, where actual expenses are lower than approved expenses, actual expenses have been considered. For determining the true-up for FY 2007-08, the Commission has followed the Tariff Regulations.

## **2.14 REPAIR & MAINTENANCE EXPENSES**

### ***A) Comments / Suggestions of the Public:***

**2.14.1** The comments / suggestions submitted by NPCL are as under:

**2.14.2** The NPCL has stated that the Petitioner has failed to assess the reasons for drastic difference between the approved and actual Repair & Maintenance (R&M) Expenses.

**2.14.3** The NPCL has stated that the efficiency gains may not be allowed to the Petitioner in cases where the actual expenses are lower than approved expenses as the licensees have not elaborated the reasons or initiatives which has facilitated to bring the actual expenses to come down. In such cases, actual expenses should be allowed without considering any efficiency gains.

**2.14.4** The NPCL has stated that the Petitioner should provide complete details of fixed assets, and in its absence, appropriate computation of R&M expenses is not possible.

### ***B) Petitioner's response:***

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- 2.14.5** The Petitioner stated that it has submitted all the relevant details of R&M expenses as per its audited accounts. The audited accounts contain the break-up of the R&M expenses. Further, the response to the deficiency note issued by the Commission has also been furnished to the Commission and the copy of it has been published on the website as well.
- 2.14.6** The efficiency gains have been claimed in respect of controllable expenses as provided in Regulation 4-11 – Profit Sharing in terms of the Distribution Tariff Regulations.
- 2.14.7** The expenses claimed towards R&M expenses are genuine and prudent expenses and in strict accordance with the audited accounts.
- 2.14.8** The complete details of the year wise Gross Fixed Asset (GFA) balances have been submitted along with depreciation calculations. Also the audited accounts clearly depict the GFA balances. The contention of NPCL that GFA balances have not been provided is devoid of facts.

**C) The Commission's view:**

- 2.14.9** The Commission has noted that comments / suggestions of NPCL in respect of R&M expenses.
- 2.14.10** No efficiency gains have been allowed during the years FY 2000-01 to 2006-07 as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.
- 2.14.11** The Commission has considered R&M expenses as controllable expenses and accordingly disallowed R&M expenses over the extent approved in the Tariff Order for any relevant year up to FY 2006-07. In cases, where actual expenses
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are lower than approved expenses, actual expenses have been considered. For determining the true-up for FY 2007-08, the Commission has followed the Tariff Regulations.

## **2.15 INTEREST AND FINANCE CHARGES**

### ***A) Comments / Suggestions of the Public:***

- 2.15.1** The comments / suggestions submitted by NPCL are as under:
- 2.15.2** The NPCL has stated that in cases where the actual expenses are lower than the approved expenses, actual expenses should be allowed. No efficiency gains should be allowed. It has alleged that the Petitioner has not provided any details of the capital investment done during the years under true-up and the source of funding for the same. It has also been alleged that the Petitioner has failed to provide loan wise details of the interest expenses. It has stated that in the absence of such information, true-up exercise would be meaningless as it is not possible to determine whether the interest expenses have been judiciously incurred or not.
- 2.15.3** The NPCL has stated that the break-up of the interest and finance charges has not been provided by the Petitioner and hence it is not possible for it to comment on the issue of interest on consumer security deposit. It has requested the Commission to obtain such information from the Petitioner.
- 2.15.4** The Petitioner has alleged that the licensees have not prepared the Fixed Asset Registers and therefore authenticated information towards capital investment is not available.
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- 2.15.5** In the matter of interest on working capital, the NPCL has alleged that the Petitioner has not provided the workings towards the computation of actual working capital requirement and interest thereon.
- 2.15.6** The NPCL has also commented upon the method of capitalisation adopted by the Petitioners purporting that it is not in compliance with AS-16.
- 2.15.7** Further, NPCL has also commented upon the claims in respect of finance charges purporting that the details in respect of loan drawls and loan wise break-up of the finance charges has not been provided.

***B) The Petitioner's response:***

- 2.15.8** The Petitioner submitted that it has only claimed actually incurred interest and finance charges as per its audited accounts. No efficiency gains have been claimed in respect of interest and finance charges.
- 2.15.9** The Petitioner submitted that details of the gross fixed asset capitalisation, expense capitalisation, interest capitalisation and capital work in progress balances have been provided in the audited accounts and True-up petition. Hence, the contention of the NPCL that details of capital investment have not been provided by the Petitioner is devoid of facts.
- 2.15.10** The Petitioner submitted that it has submitted the complete break-up of loan wise details in respect of interest and finance charges in the True-up petition and response to the deficiency note. The response to the deficiency note has also been published on the website. Hence, the contention of the NPCL that break-up of the interest and finance charges has not been submitted is without merits and devoid of facts.
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- 2.15.11** The details of interest on consumer security deposits has been submitted and shown distinctly under finance charges both in the True-up petition and response to the deficiency note.
- 2.15.12** The GFA balance as per audited accounts has been submitted which is the true reflection of the capital investment and capitalisation undertaken in any financial year.
- 2.15.13** The Petitioner submitted that the actual interest on working capital incurred has been claimed as per audited accounts. Hence the workings towards normative working capital are not relevant.
- 2.15.14** The Petitioner submitted that the accounting policy in respect of interest capitalisation has been detailed in the response to the deficiency note.
- 2.15.15** The Petitioner submitted that the details of finance charges has been submitted and shown distinctly in the True-up petition.

***C) The Commission's views:***

- 2.15.16** The Commission has noted the comments of the NPCL while considering the interest and finance charges.
- 2.15.17** Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensees.
- 2.15.18** The Commission while truing up the interest on long term loan has considered a normative tariff approach with a gearing of 70:30. In this approach, 70% of the capital expenditure undertaken in any year has been considered to be
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financed through loan and balance 30% has been considered to be funded through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate as per audited accounts has been considered for computing the interest. The approved interest capitalisation has been considered at a rate equivalent to the rate as per audited accounts.

- 2.15.19** In the replies to the Deficiency Note, the Commission has obtained the detailed break-up of the interest and finance charges for all companies, along with the segregation of long term and short term loans. It is observed that interest on GoUP loan has been booked in accounts, but not actually paid. This is demonstrated from the Notes on Account for FY 2003-04:

*“21. No interest during the year has been provided on the State Govt. loan of Rs. 950 crores in view of loan liability being taken over by GoUP on 30.09.01. However the order of Govt. was issued vide G.O. 3297(i)/P-1/2002-24-28P/2001 dated 24-06-2002 and G.O. no. 618/P-1/2004-24-28P/2001 dated 23<sup>rd</sup> March 04.”*

- 2.15.20** The Commission while approving the opening loans has reduced the amount of GoUP loans in respect of which there is no discharge of interest liability on a regular basis.
- 2.15.21** The finance charges and interest on consumer security deposits have been allowed on actual incurred basis based on audited accounts.
- 2.15.22** The interest on working capital has been approved consistent with the principles and philosophies adopted in the Tariff Orders for which the true-up has been sought.
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**2.15.23** No efficiency gains have been allowed on interest and finance charges.

## **2.16 DEPRECIATION**

### ***A) Comments / Suggestions of the Public:***

**2.16.1** The comments / suggestions submitted by NPCL are as under:

**2.16.2** The NPCL has purported that the depreciation may not be allowed as the Fixed Asset Registers have not been prepared. Further it has objected on the computation of depreciation at weighted average rate even though item wise rate of depreciation are available.

**2.16.3** The NPCL has submitted that the depreciation on assets created out of consumer contribution and grants from State / Central Government need to be reduced from the total depreciation claimed in true-up.

### ***B) The Petitioner's response:***

**2.16.4** The Petitioner submitted that the GFA balance as per audited accounts has been submitted which is the true reflection of the capital investment and capitalisation undertaken in any financial year.

**2.16.5** Depreciation has been computed at the weighted average rate as the Commission itself in the Tariff Order had computed the depreciation using weighted average rates. Also, it is pertinent to mention that there is a distinction between regulatory accounts and financial accounts.

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**2.16.6** Further, the Petitioner stated that it has submitted the details of grants and consumer contributions received in the relevant years under true-up in the response to the deficiency note.

**C) The Commission's views:**

**2.16.7** The Commission has noted the objections made by NPCL. The Commission has drilled down the audited accounts of the Petitioner for all the relevant years and has obtained the figures of depreciation charged on assets created out of consumer contribution and capital grants. Accordingly, while truing-up, the depreciation charged on assets created out of consumer contribution and capital grants, has been reduced from the allowable depreciation.

**2.16.8** The Commission has considered the GFA balance as per audited accounts for computing depreciation. The depreciation on fixed assets in the financial statements has been provided on straight line basis as per the rates prescribed in Schedule XIV of the Companies Act. The depreciation rates for regulatory purposes are linked with the useful life of the relevant asset. The Commission while truing up has considered the same depreciation rates which were considered in the respective Tariff Orders.

**2.17 PRIOR PERIOD EXPENSES:**

**A) Comments / Suggestions of the Public:**

**2.17.1** The comments / suggestions submitted by NPCL, Mr. B.B. Jindal and Mr. Manish Garg are as under:

**2.17.2** The NPCL has submitted that the Petitioner has not provided any reason for omission in accounting of the expenses claimed under prior period expenses in preceding years. It has submitted that since the Commission had not

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approved any prior period expenses in the Tariff Orders for respective years and in the absence of any specific regulation for allowance of prior period expenses, the Commission may reject the claim of the Petitioner in respect of such expenses.

- 2.17.3** NPCL has further suggested that in case the same are considered during true-up, such expenses may be allowed component-wise along with the expenses for the year under consideration so that proper prudence check may be exercised.
- 2.17.4** Mr. B.B. Jindal and Mr. Manish Garg have alleged that the Petitioner deliberately books higher billing in one financial year. In the subsequent financial year, the excessive billing is written off as a prior period expense.

***B) The Petitioner's response:***

- 2.17.5** The Petitioner clarified that the prior period expenses / incomes are recognised in the financial statements in compliance with the Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' which does not require year wise classification of prior period items. As there was no statutory requirement of classifying the prior items with respect to the each year to which they pertain, such information was not specifically depicted in the audited accounts.
- 2.17.6** Considering this the expenses and incomes which are omitted to be accounted for in one or more financial years are accounted for as and when such omissions or errors are detected.
- 2.17.7** The objections made by Mr. B.B. Jindal and Mr. Manish Garg are without merits and devoid of facts. The accounting policy annexed with the audited accounts state that the Petitioner maintains its books of accounts on mercantile basis i.e., on accrual basis. In case of omission / errors in any
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financial year, it is accounted for appropriately in the next or subsequent period under prior period items. But such entries are passed under the same head. For example, in case there has been an excessive billing in any year; in subsequent year, the adjustment entry is passed as a reverse billing i.e., as a reduction in billing and not as an expense as purported by Mr. Jindal and Mr. Garg.

***C) The Commission's views:***

**2.17.8** Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination.

**2.17.9** The Commission had provided an opportunity to the Petitioner to provide such information in the deficiency note. However the details submitted in the response to the deficiency note are not sufficient to admit such expenses.

**2.17.10** In the absence of clarity and details of each item booked under prior period expenses with respect to the financial years to which they pertain, the Commission has not allowed any claims during trueing up.

**2.17.11** The Commission does not agree with the contentions raised by Mr. B.B. Jindal and Mr. Manish Garg as the apprehensions expressed by them have not been substantiated with facts.

**2.18 PROVISION FOR BAD AND DOUBTFUL DEBTS**

***A) Comments / Suggestions of the Public:***

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- 2.18.1** The comments / suggestions submitted by NPCL are as under:
- 2.18.2** The NPCL submitted that the Petitioner has claimed the provision on bad and doubtful debts in excess of the actual expense shown in the audited accounts. It is stated that the Petitioner has not provided any details in respect of collection efficiency, recovery against past dues, cases filed in consumer courts, disconnected consumers, etc. Further it has alleged that the current asset balances stated in the audited balance sheet are not reconciled. Further, NPCL has stated that despite repeated directions to the Petitioner, it has failed to formulate a policy for recognising and writing off bad debts. In the light of the aforementioned arguments, NPCL has suggested that no claims towards provision for bad and doubtful debts should be allowed to the Petitioner.

***B) The Petitioner's response:***

- 2.18.3** The Petitioner clarified that the entitlement towards provision for bad and doubtful debts has been computed at 2% of the closing revenue receivables as per audited accounts of the relevant financial year for distribution business and hence there is a difference as compared to the audited accounts.
- 2.18.4** The Petitioner submitted that such expenses are legitimate business expenses and are accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice. The Commission has not allowed any amounts towards Provision for Bad and Doubtful Debts even though the UPERC (Terms and Conditions of Distribution Tariff) Regulations, 2006 provide for allowing 2% provision in respect of revenue receivables
- 2.18.5** The Petitioner urged the Commission to allow such expenses while truing up as these are routine and genuine expenses.
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**C) Views of the Commission:**

**2.18.6** The Commission has noted the suggestions of the NPCL. In spite of repeated directions by the Commission, the Petitioner has failed to formulate a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission has disallowed the claims towards provision for bad and doubtful debts.

**2.19 DISCOUNT TO CONSUMERS**

**A) Comments / Suggestions of the Public:**

**2.19.1** The comments / suggestions submitted by NPCL are as under:

**2.19.2** The NPCL has stated that the Petitioner has not submitted the break-up and details of the expenditure claimed on account of discount to consumers and in the absence of such information, it is not possible to determine whether such expenses have been judiciously expensed or not.

**B) The Petitioner's response**

**2.19.3** The Petitioner submitted that the details and nature of such expenses have been submitted in the True-up petition. Such rebates are given to consumers under different heads like load factor rebate, power factor rebate, etc. Further, it has been submitted that such expenses have been claimed on actually incurred basis as per audited accounts.

**C) The Commission's view:**

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**2.19.4** The Commission is of the view, that since, such discounts / rebates are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, hence, they should be allowed, based on actually incurred basis as per audited accounts.

## **2.20 ADVERSE OBSERVATIONS OF AUDITORS**

### ***A) Comments / Suggestions of the Public:***

**2.20.1** The comments / suggestions submitted by NPCL, Mr. B.B. Jindal and Mr. Manish Garg are as under:

**2.20.2** The NPCL has provided several extracts of the observations and qualifications contained in the auditor's report annexed along with the audited accounts of the Petitioner. The NPCL has alleged that if the qualifications and adverse observations are taken into account, then the financial statements of the Petitioner may not be construed as showing true and fair view of the state of affairs of the company.

**2.20.3** Further, the NPCL has stated that considering the qualifications / observations on the financial statements, the Commission may conduct the truing up based on its best judgment rather than relying on the submissions of the Petitioner.

**2.20.4** Mr. B.B. Jindal and Mr. Manish Garg have made suggestions for improvement for the accounting function of the distribution companies.

### ***B) The Petitioner's response:***

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**2.20.5** The Petitioner submitted that the contention of the NPCL that the audited accounts do not provide a true and fair view of the state of affairs is void of facts. The Petitioner submitted that the auditors have expressed a true and fair view on the financial statements of the Petitioner. The auditor's report annexed with the audited accounts and submitted along with the True-up petition are a testimony to this fact.

***C) The Commission's view:***

**2.20.6** The Commission has noted the comments of the NPCL, Mr. B.B. Jindal and Mr. Manish Garg. The Commission has conducted the truing up after considering a strict prudence check on the submissions made by the Petitioner and considering the audited accounts of the Petitioner.

**2.21 TRUE-UP FOR FY 2005-06**

***A) Comments / Suggestions of the Public:***

**2.21.1** The comments / suggestions submitted by Mr. B.B. Jindal and Mr. Manish Garg are as under:

**2.21.2** The true-up for FY 2005-06 has been claimed by the Petitioner, even though no Tariff Order was passed for the same year.

***B) The Petitioner's response:***

**2.21.3** The Petitioner has submitted that it has not claimed any true-up for FY 2005-06. It has merely depicted the actual financial results for FY 2005-06

***C) The Commission's view:***

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- 2.21.4** No true-up has been allowed for FY 2005-06 by the Commission as there was no Tariff Order for such period approved by the Commission. The Commission vide its Order dated 19<sup>th</sup> January, 2006, had dismissed the ARR / Tariff Petition for FY 2005-06 filed by the distribution companies.



### **3. TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2000-01**

The Petitioner has sought the final Truing up of expenditure and revenue for FY 2000-01 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2000-01, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

#### **3.1 POWER PURCHASE QUANTUM AND COST FOR FY 2000-01**

The Commission, in the Tariff Order for FY 2000-01 had approved a power purchase quantum of 38,843 MU and total power purchase expenses of Rs. 5,100.53 crores. The Petitioner, in its True-up petition has submitted that the actual power purchase expenses for FY 2000-01 are Rs. 6,066.91 crores towards power procurement of 40660.85 MU. There has been an under achievement of the T&D loss target by the Petitioner in FY 2000-01. The actual T&D loss has been 38.19% as against 34.97% approved by the Commission in the relevant year.

The Petitioner has claimed the power purchase cost under truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 34.97%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2000-01 are Rs. 5,766.56 crores.

The Commission has concurred with the philosophy considered by the Petitioner wherein the efficiency target of T&D loss level has been considered as controllable parameter whereas the quantity mix and price variance has been considered as uncontrollable parameter. The allowable power purchase cost has been assessed at Rs. 5,766.56 crores for FY 2000-01 at a pooled power purchase cost of Rs. 1.49 per kWh.

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The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

**Table 3-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2000-01**

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase	MU	38843.00	40660.85	40660.85	40660.85
Energy Sales	MU	25259.00	25132.12	25132.12	25132.12
T&D Loss	%	34.97%	38.19%	34.97%	34.97%
Power Purchase Cost	Rs Crore	5100.53	6066.91	6066.91	6066.91
Power Purchase Cost per unit	Rs/kWh	1.31	1.49	1.49	1.49
Allowable Power Purchase Input	MU			38647.88	38647.88
Allowable Power Purchase Cost at pooled cost	Rs Crore			5766.56	5766.56

### 3.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2000-01, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

#### 3.2.1 Employee Expenses

The Petitioner has submitted that the actual gross employee expenses for FY 2000-01 were Rs. 1,120.62 crores as against Rs. 969.50 crores approved by the Commission in the Tariff Order. However the capitalisation has been at a level much higher than those approved in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 178.37 crores as against Rs. 9.60 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 942.24 crores as against Rs. 969.50 crores approved in the Tariff Order. Actual expenses being



lower than approved expenses; the Petitioner has also claimed efficiency gains of Rs. 8.83 crores.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order for all the years before the formulation of the Tariff Regulations. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross employee expenses of Rs. 969.50 crores and capitalisation thereof amounting to Rs. 178.37 crores.

### **3.2.2 A&G Expenses**

The Petitioner has submitted that the actual gross A&G expenses for FY 2000-01 were Rs. 87.92 crores as against Rs. 83.00 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 21.18 crores. Thus the net A&G expenses as per audited accounts are Rs. 66.74 crores as against Rs. 83.00 crores approved in the Tariff Order. The Petitioner has also claimed efficiency gains of Rs. 8.13 crores.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order for all years before the formulation of Tariff Regulations. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross A&G expenses of Rs. 83.00 crores and capitalisation thereof amounting to Rs. 21.18 crores.

### **3.2.3 Repair and Maintenance Expenses**

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2000-01 were Rs. 185.52 crores as against Rs. 198.80 crores approved by the

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Commission in the Tariff Order. Actual expenses being lower than the approved levels, the Petitioner has also claimed efficiency gains of Rs. 6.64 crores.

Considering the details submitted by the Petitioner, the Commission has accepted the actual repair and maintenance expenses for FY 2000-01 amounting to Rs. 185.52 crores as per audited accounts under the truing up exercise. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

**Table 3-2: APPROVED O&M EXPENSES FOR FY 2000-01 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	969.50	1120.62	1129.44	969.50
Repair & Maintenance Expenses	198.80	185.52	192.16	185.52
Administrative and General Expenses	83.00	87.92	96.05	83.00
<b>Gross Operation and Maintenance Expenses</b>	<b>1251.30</b>	<b>1394.06</b>	<b>1417.65</b>	<b>1238.02</b>
Less: Capitalisation				
Employee Cost Capitalized	9.60	178.37	178.37	178.37
A&G Expenses Capitalized	-	21.18	21.18	21.18
<b>Total Capitalization</b>	<b>9.60</b>	<b>199.55</b>	<b>199.55</b>	<b>199.55</b>
<b>Net Operation and Maintenance Expenses</b>	<b>1241.70</b>	<b>1194.51</b>	<b>1218.10</b>	<b>1038.48</b>

### 3.3 INTEREST AND FINANCE CHARGES

#### 3.3.1 Interest on Long Term Loans

The Petitioner has claimed net interest expenses of Rs. 243.45 crores as against Rs. 437.30 crores approved in the Tariff Order.

Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.



From the audited accounts, the Commission has derived the actual capital investments undertaken by UPPCL in FY 2000-01. The details are provided in the table below:

**Table 3-3: CAPITAL INVESTMENTS IN FY 2000-01 (Rs. Crores)**

Particulars	Derivation	2000-01
Opening WIP as on 1st April	A	2171.98
Investments	B	602.14
Employee Expenses Capitalisation	C	178.37
A&G Expenses Capitalisation	D	21.18
Interest Capitalisation on Interest on long term loans	E	89.30
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>3062.97</b>
Transferred to GFA (Total Capitalisation)	G	2236.28
<b>Closing WIP</b>	<b>H= F-G</b>	<b>826.69</b>

The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2000-01:

**Table 3-4: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2000-01 (Rs. Crores)**

Particulars	2000-01
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	22.55
Additions during the year	143.27
Less: Amortisation	-0.00
<b>Closing Balance</b>	<b>165.82</b>

Thus, the approved financing of the capital investment is depicted in the table below:

**Table 3-5: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2000-01 (Rs. Crores)**

Particulars	Derivation	2000-01
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Particulars	Derivation	2000-01
Investment	A	602.14
Less:		
Consumer Contribution	B	143.27
Investment funded by debt and equity	C=A-B	458.87
Debt Funded	70%	321.21
Equity Funded	30%	137.66

Thus, from the above tables it is seen, that UPPCL has made an investment of Rs. 602.14 crores in FY 2000-01. However the consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 143.27 crores. Thus, balance Rs. 458.87 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 321.21 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 137.66 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate of 14.80% has been considered for computing the interest. The actual opening balance of long term loan has been considered from the audited accounts. However, GoUP loan of Rs. 385.45 crore which has devolved upon UPPCL from the Transfer Scheme has not been considered, as no interest liability and principal repayment has been made on such loan. In fact subsequently, in FY 2003-04, the GoUP has been converted the loan into equity.

Considering the above, the gross interest on long term loan is Rs. 156.51 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 3-6: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2000-01 (Rs Crores)**

Particulars	2000-01
Opening Loan	1,115.70
Loan Additions (70% of Investments)	321.21
Less: Repayments (Depreciation allowable for the year)	438.27
Closing Loan Balance	998.64
Weighted Average Rate of Interest	14.80%
<b>Interest on long term loan</b>	<b>156.51</b>
Interest Capitalisation Rate	26.84%
Less: Interest Capitalized	42.00
<b>Net Interest Charged</b>	<b>114.50</b>



### 3.3.2 Finance Charges

The Petitioner has claimed Rs. 143.14 crores towards finance charges as against Rs. 72.00 crores approved in the Tariff Order for FY 2000-01. The finance charges have been claimed towards items such as interest on General Provided Fund (GPF) trust, Letter of Credit (LC) charges, interest on consumer security deposits, etc.

The interest on GPF trust, interest on consumer security deposits, etc have been allowed based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 143.14 crores for FY 2000-01.

### 3.3.3 Interest on Working Capital

The Petitioner has claimed Rs. 16.80 crores towards interest on working capital as against Rs. 175.00 crores approved in the Tariff Order for FY 2000-01. The Commission in the Tariff Order for FY 2000-01 had considered two and half month's sale of power as working capital requirement as reduced by

- a) Operation and Maintenance stores equivalent to 70 days R&M expenses
- b) One month of O&M expenses

An interest rate of 15% was allowed towards interest on working capital.

The Commission while determining the true-up have considered a similar philosophy and rate of interest and have computed the eligible interest on working capital based on true-up sale of power, R&M expenses and O&M expenses.

During trueing up, the Commission has assessed the working capital requirement of Rs. 1,259.01 crores and thus approves interest on working capital of Rs. 188.85 crores as provided in the table below:

**Table 3-7: APPROVED INTEREST ON WORKING CAPITAL (Rs. Crores)**

Particulars	Tariff Order	Approved in True-up
Working Capital Requirement equivalent to two and half month's sale of power	1303.00	1381.13
Less:	147.00	122.12
<i>a) O&amp;M stores equivalent to 70 days R&amp;M expenses</i>	<i>37.00</i>	<i>35.58</i>



Particulars	Tariff Order	Approved in True-up
<i>b) One month's O&amp;M Expenses</i>	110.00	86.54
<b>Net Working Capital</b>	<b>1156.00</b>	<b>1259.01</b>
Rate of Interest on Working Capital	15.00%	15.00%
<b>Interest on Working Capital</b>	<b>173.40<sup>^</sup></b>	<b>188.85</b>

\*(Approved R&M Expenses - Rs. 185.52 crores x 70/365)

<sup>^</sup> Rounded off to Rs. 175.00 crores in the Tariff Order

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2000-01:

**Table 3-8: APPROVED INTEREST AND FINANCE CHARGES (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	477.90	332.75	332.75	156.51
Less: Interest Capitalisation	40.60	89.30	89.30	42.00
<b>Net Interest on Long Term Loans</b>	<b>437.30</b>	<b>243.45</b>	<b>243.45</b>	<b>114.50</b>
<b>B: Finance and Other Charges</b>				
Interest on GPF Funds	-	124.85	124.85	124.85
Finance Charges	56.40	0.26	0.26	0.26
Bank Charges	-	2.02	2.02	2.02
Interest on Consumer Security Deposits	15.60	16.01	16.01	16.01
<b>Total Finance Charges</b>	<b>72.00</b>	<b>143.14</b>	<b>143.14</b>	<b>143.14</b>
<b>C: Interest on Working Capital</b>				
	<b>175.00</b>	<b>16.80</b>	<b>16.80</b>	<b>188.85</b>
<b>Total (A+B+C)</b>	<b>684.30</b>	<b>403.39</b>	<b>403.39</b>	<b>446.49</b>

### 3.4 DISCOUNT TO CONSUMERS

The Petitioner has submitted that the actual discount to consumers provided in FY 2000-01 is Rs. 83.34 crores as per audited accounts as against Rs. 120.80 crores approved in the Tariff Order. Such rebates are given to consumers under different heads like load factor rebate, power factor rebate, etc.



As such discounts / rebates are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred i.e., Rs. 83.34 crores.

### 3.5 DEPRECIATION

In the Tariff Order for FY 2000-01, the Commission had considered depreciation to the extent of Rs. 393.80 crores on a gross fixed asset base of Rs. 9,102 crores.

The actual depreciation expense charged in the audited accounts is Rs. 591.34 crores. However the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the UPPCL has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2000-01. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 478.27 crores as depicted in the table below:

**Table 3-9: DEPRECIATION CLAIMED FOR FY 2000-01 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	17.70	-	-	17.70		-
ii) Freehold Land	0.21	1.64	-	1.85		-
Buildings	322.96	25.83	18.66	330.14	5.43%	17.73
Other Civil Works	87.89	15.87	-	103.75		-
Plants & Machinery	3,225.37	793.77	290.05	3,729.09	5.43%	188.81
Lines, Cable Network etc.	4,390.75	1,397.81	199.25	5,589.31	5.43%	270.96
Vehicles	9.10	0.56	3.23	6.43	5.43%	0.42
Furniture & Fixtures	3.12	0.24	0.76	2.60	5.43%	0.16
Office Equipments	5.85	0.57	5.31	1.11	5.43%	0.19
Jeep & Motor Car	-	-	-	-	-	-
Assets taken over from Licensees pending final Valuation	7.01	-	-	7.01	-	-
<b>Total</b>	<b>8,069.98</b>	<b>2,236.28</b>	<b>517.26</b>	<b>9,788.99</b>	<b>-</b>	<b>478.27</b>



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Less: Provisional Transfer to Uttaranchal Power Corporation Ltd	260.00	-	260.00	-	-	-
<b>GRAND TOTAL</b>	<b>7,809.98</b>	<b>2,236.28</b>	<b>257.26</b>	<b>9,788.99</b>	<b>-</b>	<b>478.27</b>

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies in respect of financial years 2002-03 onwards as depicted in the table below:

**Table 3-10: DEPRECIATION ON ASSETS CREATED OUT OF CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES (Rs. Crores)**

Discoms	UPPCL	UPPTCL	DVVNL	MVVNL	PVVNL	PuVVNL	Total
FY 2002-03	36.06	-	-	-	-	-	<b>36.06</b>
FY 2003-04	18.58	-	5.45	7.72	6.93	8.49	<b>47.17</b>
FY 2004-05	21.81	-	9.81	13.33	13.03	14.62	<b>72.60</b>
FY 2005-06	24.47	-	15.36	13.90	20.82	17.12	<b>91.67</b>
FY 2006-07	18.86	-	18.41	17.05	28.44	12.70	<b>95.46</b>
FY 2007-08	*	2.73	23.25	20.69	22.38	15.44	<b>84.49</b>

\* Not Relevant as only Bulk Supply Tariff comprising of cost of power purchase cost only has been considered for UPPCL for FY 2007-08.

However such details are not provided in the audited accounts for FY 2000-01 and 2001-02. Hence the Commission is deprived of any realistic figures in respect of depreciation charged on assets created out of consumer contribution, capital subsidies and grants. Looking at the table above, the Commission has assessed that Rs. 40 crores each in FY 2000-01 and 2001-02 should be applied as a reduction towards depreciation on assets created out of consumer contributions, capital grants and subsidies.



Thus the approved depreciation for FY 2000-01 is Rs. 438.27 crores as depicted in the table below:

**Table 3-11: APPROVED DEPRECIATION FOR FY 2000-01 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	393.80	591.34	478.27	478.27
Less: Reduction towards amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	40.00
<b>Net Allowable Depreciation</b>	<b>393.80</b>	<b>591.34</b>	<b>478.27</b>	<b>438.27</b>

### 3.6 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2000-01. In the audited financial statements for FY 2000-01, there has been recognition of Rs. 34.10 crores of prior period incomes and prior period expenses of Rs. 738.45 crores, thereby the net prior period expense claimed is Rs. 704.35 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2000-01.

### 3.7 OTHER MISCELLANEOUS EXPENSES

The Petitioner has claimed certain other expenses not specifically allowable under any head of the ARR to the tune of Rs. 0.14 crores. Such minor expenses towards items such as compensation, loss due to pilferage, etc have been bundled together under the nomenclature of 'Other Miscellaneous Expenses'.



As such expenses were not approved in the Tariff Order for FY 2000-01, the Commission has not considered such expenses for admissibility in the true-up as well.

### **3.8 PROVISION FOR BAD AND DOUBTFUL DEBTS**

The Petitioner has claimed Rs. 124.89 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2000-01 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

### **3.9 REVENUE SUBSIDY FROM GOUP**

The Petitioner has submitted that the actual revenue subsidy received from GoUP was Rs. 240 crores during FY 2000-01 as against Rs. 790.00 crores approved in the Tariff Order. It is pertinent to mention that in the Tariff Order for FY 2000-01, the Commission had approved Rs. 240 crores towards revenue subsidy and additional equity support of Rs. 550 crores for financing the losses.

The Commission considers the revenue subsidy and equity support for financing losses at the levels approved in the Tariff Order. Accordingly, revenue subsidy from GoUP has been considered at Rs. 790 crores in the true-up as well.

### **3.10 REVENUE SIDE TRUING UP**

#### **3.10.1 NON TARIFF INCOMES**

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The Petitioner has submitted that the actual non-tariff income during FY 2000-01 was Rs. 40.00 crores as compared to Rs. 69.00 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

### 3.10.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2000-01 is Rs. 6,629.41 crores including Rs. 313.42 crores towards delayed payment charges. In the Tariff Order for FY 2000-01, the Commission had approved revenue at existing tariff at Rs. 6,283.24 crores and the expected revenue from tariff hike of Rs. 399.00 crores.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

### 3.11 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2000-01 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2000-01 after final truing up is summarised in the Table below:

**Table 3-12: ARR FOR FY 2000-01 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	5100.53	6066.91	5766.56	5766.56
Employee Expenses	969.50	1120.62	1129.44	969.50
Repair and Maintenance Expenses	198.80	185.52	192.16	185.52
A&G Expenses	83.00	87.92	96.05	83.00
Gross Interest on Long Term Loans	477.90	332.75	332.75	156.51
Finance Charges	72.00	143.14	143.14	143.14
Interest on Working Capital	175.00	16.80	16.80	188.85
Discount to Consumers	120.80	83.34	83.34	83.34
Depreciation	393.80	591.34	478.27	438.27
Prior Period Expenses	-	704.35	704.35	-





Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Other Misc Expenses	-	0.14	0.14	-
Provision for Bad and Doubtful Debts	-	76.58	124.89	-
<b>Gross Expenditure</b>	<b>7591.33</b>	<b>9409.40</b>	<b>9067.89</b>	<b>8014.69</b>
Less: Employee Capitalisation	9.60	178.37	178.37	178.37
Less: A&G Capitalisation	0.00	21.18	21.18	21.18
Less: Interest Capitalisation	40.60	89.30	89.30	42.00
<b>Total Capitalisation</b>	<b>50.20</b>	<b>288.85</b>	<b>288.85</b>	<b>241.55</b>
<b>Net Expenditure</b>	<b>7541.13</b>	<b>9120.56</b>	<b>8779.04</b>	<b>7773.14</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	69.00	40.00	40.00	40.00
<b>Annual Revenue Requirement</b>	<b>7472.13</b>	<b>9080.56</b>	<b>8739.04</b>	<b>7733.14</b>
Revenue from Tariff including Delayed Payment Surcharge	6682.24	6629.41	6629.41	6629.41
GoUP Subsidy	240.00	240.00	240.00	240.00
Additional Equity Support for financing the losses	550.00	-	-	550.00
<b>Net Revenue Gap</b>	<b>-0.11</b>	<b>2211.15</b>	<b>1869.63</b>	<b>313.73</b>

The treatment of revenue gap for FY 2000-01 has been discussed in succeeding Section 13.

### 3.12 DERIVATION OF THE BULK SUPPLY TARIFF FOR FY 2000-01

In the Tariff Order for FY 2000-01, the Commission had treated difference between the aggregate income and expenditure as the amount payable towards cost of bulk power purchased and determined the bulk supply tariff as Rs. 1.94 per kWh in case of Kesco. Based on the trued up ARR of Kesco in the order on Petition No. 813 of 2012, the difference between aggregate income and expenditure is Rs. 474.54 crores. Considering the actual power purchase quantum of 2368.55 MU, it translates to a bulk supply tariff of Rs. 2.00 per kWh for Kesco.

In the case of NPCL, no further adjustment of bulk supply tariff in FY 2000-01 is required, as the final truing up order in its case has already been approved by the Commission.



#### **4. TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2001-02**

The Petitioner has sought the final truing up of expenditure and revenue for FY 2001-02 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2001-02, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

##### **4.1 POWER PURCHASE QUANTUM AND COST FOR FY 2001-02**

The actual sales reported by the Petitioner are lower than the sales originally considered in the Tariff Order, by 1300 MU. This is due to lower power purchase quantum and due to state reorganisation. The state of Uttar Pradesh was reorganised and Uttaranchal State was carved out w.e.f 9<sup>th</sup> November, 2000. The Commission, in the Tariff Order for FY 2001-02 had approved a power purchase quantum of 39,756 MU and total power purchase expenses of Rs. 6,061 crores for UPPCL area. The Petitioner, in its True-up petition has submitted that the actual power purchase expenses for FY 2001-02 are Rs. 6,753.62 crores towards power procurement of 41837.71 MU. There has been an under achievement of the T&D loss target by the Petitioner in FY 2001-02. The actual T&D loss has been 36.99% as against 36.40% approved by the Commission in the relevant year.

The Petitioner has claimed the power purchase cost during truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 36.40%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2001-02 are Rs. 6,691.31 crores.

The Commission has concurred with the philosophy considered by the Petitioner wherein the efficiency target of T&D loss level has been considered as controllable parameter whereas the quantity mix and price variance has been considered as

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uncontrollable parameter. The allowable power purchase cost has been assessed at Rs. 6,691.31 crores for FY 2001-02 at a pooled power purchase cost of Rs. 1.61 per kWh.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

**Table 4-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2001-02**

Particulars	Unit	Tariff Order			Actual as per audited accounts	True-up Petition	Approved
		UPPCL	Uttarakhand	Total			
Power Purchase	MU	39756.00	3449.00	43205.00	41837.71	41837.71	41837.71
Energy Sales	MU	25285.00	2379.00	27664.00	26363.50	26363.50	26363.50
T&D Loss	%	36.40%	31.02%	35.97%	36.99%	36.40%	36.40%
Power Purchase Cost	Rs Crore	6061.00	524.00	6585.00	6753.62	6753.62	6753.62
Power Purchase Cost per unit	Rs/kWh	1.52	1.52	1.52	1.61	1.61	1.61
Allowable Power Purchase Input	MU					41451.75	41451.75
Allowable Power Purchase Cost at pooled cost	Rs Crore					6691.31	6691.31

## 4.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2001-02, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

### 4.2.1 Employee Expenses:

The Petitioner has submitted that the actual gross employee expenses for FY 2001-02 were Rs. 1,120.46 crores as against Rs. 1,110.00 crores approved by the Commission in the Tariff Order. However the capitalisation has been at a level much higher than those approved in the Tariff Order. The employee expenses capitalised as per audited



accounts are to the tune of Rs. 191.68 crores. Thus, the net employee expenses as per audited accounts are to the tune of Rs. 928.77 crores. Actual expenses being lower than approved expenses; the Petitioner has also claimed efficiency gains of Rs. 40.61 crores. Thus, the total employee expenses claimed by the Petitioner are Rs. 969.39 crores.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order for all the years before the formulation of the Tariff Regulations. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross employee expenses of Rs. 1,110.00 crores and capitalisation thereof amounting to Rs. 191.68 crores.

#### **4.2.2 A&G Expenses:**

The Petitioner has submitted that the actual gross A&G expenses for FY 2001-02 were Rs. 89.03 crores as against Rs. 86.72 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 25.97 crores. Thus the net A&G expenses as per audited accounts are Rs. 63.06 crores as against Rs. 86.72 crores approved in the tariff order. The Petitioner has also claimed efficiency gains of Rs. 11.83 crores.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross A&G expenses of Rs. 86.72 crores and capitalisation thereof amounting to Rs. 25.97 crores.

#### **4.2.3 Repair and Maintenance Expenses:**

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The Petitioner has submitted that the actual repair and maintenance expenses for FY 2001-02 were Rs. 206.47 crores as against Rs. 208.00 crores approved by the Commission in the Tariff Order. Actual expenses being lower than the approved levels, the Petitioner has also claimed efficiency gains of Rs. 0.77 crores.

Considering the details submitted by the Petitioner, the Commission has accepted the actual repair and maintenance expenses for FY 2001-02 amounting to Rs. 206.47 crores as per audited accounts under the truing up exercise. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

**Table 4-2: APPROVED O&M EXPENSES FOR FY 2001-02 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	1110.00	1120.46	1161.07	1110.00
Repair & Maintenance Expenses	208.00	206.47	207.23	206.47
Administrative and General Expenses	86.72	89.03	100.86	86.72
<b>Gross Operation and Maintenance Expenses</b>	<b>1404.72</b>	<b>1415.95</b>	<b>1469.16</b>	<b>1403.19</b>
Less: Capitalisation				
Employee Cost Capitalized	100.00	191.68	191.68	191.68
A&G Expenses Capitalized	-	25.97	25.97	25.97
<b>Total Capitalisation</b>	<b>100.00</b>	<b>217.65</b>	<b>217.65</b>	<b>217.65</b>
<b>Net Operation and Maintenance Expenses</b>	<b>1304.72</b>	<b>1198.30</b>	<b>1251.51</b>	<b>1185.53</b>

#### 4.3 INTEREST AND FINANCE CHARGES

##### 4.3.1 Interest on Long Term Loans:

The Petitioner has claimed net interest expenses of Rs. 344.37 crores as against Rs. 37.33 crores approved in the Tariff Order.



Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts, the Commission has derived the actual capital investments undertaken by UPPCL in FY 2001-02. The details are provided in the table below:

**Table 4-3: CAPITAL INVESTMENTS IN FY 2001-02 (Rs. Crores)**

Particulars	Derivation	2001-02
Opening WIP as on 1st April	A	826.69
Investments	B	663.06
Employee Expenses Capitalisation	C	191.68
A&G Expenses Capitalisation	D	25.97
Interest Capitalisation on Interest on long term loans	E	87.44
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>1794.85</b>
Transferred to GFA (Total Capitalisation)	G	1001.71
<b>Closing WIP</b>	<b>H= F-G</b>	<b>793.13</b>

The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2001-02:

**Table 4-4: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2001-02 (Rs. Crores)**

Particulars	2001-02
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	165.82
Additions during the year	302.40
Less: Amortisation	49.66
<b>Closing Balance</b>	<b>418.55</b>



Thus, the approved financing of the capital investment is depicted in the table below:

**Table 4-5: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2001-02 (Rs. Crores)**

Particulars	Derivation	2001-02
Investment	A	663.06
Less:		
Consumer Contribution	B	302.40
Investment funded by debt and equity	C=A-B	360.67
Debt Funded	70%	252.47
Equity Funded	30%	108.20

Thus, from the above tables it is seen, that UPPCL has made an investment of Rs. 663.06 crores in FY 2001-02. However the consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 302.40 crores. Thus, balance Rs. 360.67 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 252.47 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 108.20 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate of 13.54% has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 119.76 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 4-6: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2001-02 (Rs Crores)**

Particulars	2001-02
Opening Loan	998.64
Loan Additions (70% of Investments)	252.47
Less: Repayments (Depreciation allowable for the year)	480.44
Closing Loan Balance	770.67
Weighted Average Rate of Interest	13.54%
<b>Interest on long term loan</b>	<b>119.76</b>
Interest Capitalisation Rate	20.25%
Less: Interest Capitalized	24.25
<b>Net Interest Charged</b>	<b>95.51</b>

#### 4.3.2 Finance Charges:



The Petitioner has claimed Rs. 123.08 crores towards finance charges as against Rs. 165.67 crores approved in the Tariff Order for FY 2001-02. The finance charges have been claimed towards items such as interest on GPF trust, LC charges, interest on consumer security deposits, etc.

The interest on GPF trust, interest on consumer security deposits, etc have been allowed based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 123.08 crores for FY 2001-02.

#### 4.3.3 Interest on Working Capital:

The Petitioner has claimed Rs. 12.05 crores towards interest on working capital as against Rs. 105.00 crores approved in the Tariff Order for FY 2001-02.

The Commission in Para 6.57 of the Tariff Order for FY 2001-02 had provided the methodology for the computation of working capital and interest thereon. The Commission had assessed a working capital requirement of Rs. 698 crores and had allowed interest thereon at the rate of 15%.

The Commission while determining the true-up have considered a similar philosophy and rate of interest and have computed the eligible interest on working capital based on trued up ARR items.

During truing up, the Commission has assessed the working capital requirement of Rs. 2,318.13 crores and thus approves interest on working capital of Rs. 347.72 crores as provided in the table below:

**Table 4-7: APPROVED INTEREST ON WORKING CAPITAL IN FY 2001-02 (Rs. Crores)**

S No	Particulars	Tariff Order	Approved in True-up
1	Tariff Revenue (Existing Tariff)	6886.00	6794.11
2	Non –Tariff revenue	262.00	29.39
	<b>Total Revenue</b>	<b>7148.00</b>	<b>6823.50</b>
3	Total Revenue Expenditure	8196.00	9042.89
	<b>Revenue Gap</b>	<b>1048.00</b>	<b>2219.39</b>
4	Less Subsidy	-850.00	-862.18
5	Less Depreciation	-447.00	-520.44





S No	Particulars	Tariff Order	Approved in True-up
6	Add Cash shortfall due to collection efficiency being 85% *	1032.90	1019.12
7	Add Repayment of Long Term Loans	112.00	462.25
<b>8</b>	<b>Cash Shortfall before tariff change</b>	<b>895.90</b>	<b>2318.13</b>
9	Less Additional Cash generation during the year due to tariff increase	198.00	-
<b>10</b>	<b>Net Cash Shortfall</b>	<b>697.90</b>	<b>2318.13</b>
11	Rate of Interest on Working Capital	15.0%	15.0%
<b>12</b>	<b>Interest on Working Capital</b>	<b>104.69</b>	<b>347.72</b>

\* Target collection efficiency of 85% has been considered for computing the cash gap in line with the Tariff Order for FY 2001-02

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2001-02:

**Table 4-8: APPROVED INTEREST AND FINANCE CHARGES (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	230.12	431.81	431.81	119.76
Less: Interest Capitalisation	192.79	87.44	87.44	24.25
<b>Net Interest on Long Term Loans</b>	<b>37.33</b>	<b>344.37</b>	<b>344.37</b>	<b>95.51</b>
<b>B: Finance and Other Charges</b>				
Interest on GPF Funds	153.45	103.25	103.25	103.25
Finance Charges	12.22	2.49	2.49	2.49
Bank Charges	-	0.77	0.77	0.77
Interest on Consumer Security Deposits	-	16.58	16.58	16.58
<b>Total Finance Charges</b>	<b>165.67</b>	<b>123.08</b>	<b>123.08</b>	<b>123.08</b>
<b>C: Interest on Working Capital</b>				
	<b>105.00</b>	<b>12.05</b>	<b>12.05</b>	<b>347.72</b>
<b>Total (A+B+C)</b>	<b>308.00</b>	<b>479.51</b>	<b>479.51</b>	<b>566.31</b>



#### 4.4 DISCOUNT TO CONSUMERS

The Petitioner has submitted that the actual discount to consumers provided in FY 2001-02 is Rs. 79.29 crores as per audited accounts as against Rs. 75.08 crores approved in the Tariff Order. Such rebates are given to consumers under different heads like load factor rebate, power factor rebate, etc.

As such discounts / rebates are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred i.e., Rs. 79.29 crores.

#### 4.5 DEPRECIATION

In the Tariff Order for FY 2001-02, the Commission had considered depreciation to the extent of Rs. 447.00 crores on a gross fixed asset base of Rs. 8,232 crores.

The actual depreciation expense charged in the audited accounts is Rs. 698.15 crores. However the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the UPPCL has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2001-02. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 520.44 crores as depicted in the table below:

**Table 4-9: DEPRECIATION CLAIMED FOR FY 2001-02 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	17.70	-	-	17.70		-
ii) Freehold Land	1.85	0.44	-	2.29		-
Buildings	330.14	19.40	-	349.53	5.43%	18.45
Other Civil Works	103.75	1.65	-	105.41		-
Plants & Machinery	3,729.09	623.93	314.54	4,038.48	5.43%	210.89
Lines, Cable Network etc.	5,589.31	350.35	15.75	5,923.92	5.43%	312.58
Vehicles	6.43	0.12	0.07	6.48	5.43%	0.35



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Furniture & Fixtures	2.60	0.67	0.00	3.27	5.43%	0.16
Office Equipments	1.11	5.15	-	6.25	5.43%	0.20
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	7.01	-	-	7.01		-
<b>Total</b>	<b>9,788.99</b>	<b>1,001.71</b>	<b>330.36</b>	<b>10,460.35</b>		<b>542.64</b>
Less: Provisional Transfer to Uttaranchal Power Corporation Ltd	-	(817.62)	-	(817.62)	5.43%	(22.20)
<b>GRAND TOTAL</b>	<b>9,788.99</b>			<b>9,642.73</b>		<b>520.44</b>

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies in respect of financial years 2002-03 onwards. However such details are not provided in the audited accounts for FY 2000-01 and 2001-02. Hence the Commission is deprived of any realistic figures in respect of depreciation charged on assets created out of consumer contribution, capital subsidies and grants. Looking at the Table 3-10, the Commission has assessed that Rs. 40 crores in FY 2001-02 should be applied as a reduction towards depreciation on assets created out of consumer contributions, capital grants and subsidies.

Thus the approved depreciation for FY 2001-02 is Rs. 480.44 crores as depicted in the table below:

**Table 4-10: APPROVED DEPRECIATION FOR FY 2001-02 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	447.00	698.15	520.44	520.44



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Less: Reduction towards amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	40.00
<b>Net Allowable Depreciation</b>	<b>447.00</b>	<b>698.15</b>	<b>520.44</b>	<b>480.44</b>

#### 4.6 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2001-02. In the audited financial statements for FY 2001-02, there has been recognition of Rs. 79.60 crores of prior period incomes and prior period expenses of Rs. -129.08 crores, thereby the net prior period expense claimed is Rs. 208.69 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2001-02.

#### 4.7 OTHER MISCELLANEOUS EXPENSES

The Petitioner has claimed certain other expenses not specifically allowable under any head of the ARR to the tune of Rs. 6.96 crores. Such minor expenses towards items such as compensation, loss due to pilferage, material cost variance, etc have been bundled together under the nomenclature of 'Other Miscellaneous Expenses'.

As such expenses were not approved in the Tariff Order for FY 2001-02, the Commission has not considered such expenses for admissibility in the true-up as well.

#### 4.8 PROVISION FOR BAD AND DOUBTFUL DEBTS



The Petitioner has claimed Rs. 141.19 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2001-02 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

#### **4.9 REVENUE SUBSIDY FROM GOUP**

The Petitioner has submitted that the actual revenue subsidy received from GoUP was Rs. 862.18 crores during FY 2001-02 as against Rs. 850.00 crores approved in the Tariff Order.

The Commission considers the actual revenue subsidy as it exceeds the levels approved in the Tariff Order. Accordingly, revenue subsidy from GoUP has been considered at Rs. 862.18 crores in the true-up as well.

#### **4.10 REVENUE SIDE TRUING UP**

##### **4.10.1 NON TARIFF INCOMES**

The Petitioner has submitted that the actual non-tariff income during FY 2001-02 was Rs. 29.39 crores as compared to Rs. 262 crores approved by the Commission in the Tariff Order. This included Rs. 167 crores approved towards delayed payment charges which has been accounted for as revenue from sale of power by the Petitioner in the True-up petition.

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Thus effectively, the actual non-tariff income was Rs. 29.39 crores as compared to Rs. 95 crores approved in the Tariff Order. The Commission has accepted the submission of the Petitioner, under this head.

#### 4.10.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2001-02 is Rs. 6,794.11 crores including Rs. 418.71 crores towards delayed payment charges. In the Tariff Order for FY 2001-02, the Commission had approved revenue at existing tariff at Rs. 7,053 crores (Rs. 6,886 crores towards revenue from sale of power and Rs. 167 crores towards delayed payment charges) and the expected revenue from tariff hike of Rs. 198.00 crores.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

#### 4.11 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2001-02 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2001-02 after final truing up is summarised in the Table below:

**Table 4-11: ARR FOR FY 2001-02 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	6061.00	6753.62	6691.31	6691.31
Employee Expenses	1110.00	1120.46	1161.07	1110.00
Repair and Maintenance Expenses	208.00	206.47	207.23	206.47
A&G Expenses	86.72	89.03	100.86	86.72
Gross Interest on Long Term Loans	230.12	431.81	431.81	119.76
Finance Charges	165.67	123.08	123.08	123.08
Interest on Working Capital	105.00	12.05	12.05	347.72
Discount to Consumers	75.08	79.29	79.29	79.29
Depreciation	447.00	698.15	520.44	520.44



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Prior Period Expenses	-	-208.69	-208.69	-
Other Misc Expenses	-	6.96	6.96	-
Provision for Bad and Doubtful Debts	-	78.84	141.19	-
<b>Gross Expenditure</b>	<b>8488.59</b>	<b>9391.07</b>	<b>9266.61</b>	<b>9284.79</b>
Less: Employee Capitalisation	100.00	191.68	191.68	191.68
Less: A&G Capitalisation	-	25.97	25.97	25.97
Less: Interest Capitalisation	192.79	87.44	87.44	24.25
<b>Total Capitalisation</b>	<b>292.79</b>	<b>305.09</b>	<b>305.09</b>	<b>241.91</b>
<b>Net Expenditure</b>	<b>8195.80</b>	<b>9085.98</b>	<b>8961.52</b>	<b>9042.89</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	95.00	29.39	29.39	29.39
<b>Annual Revenue Requirement</b>	<b>8100.80</b>	<b>9056.59</b>	<b>8932.13</b>	<b>9013.50</b>
Revenue from Tariff including Delayed Payment Surcharge	7251.00	6794.11	6794.11	6794.11
GoUP Subsidy	850.00	862.18	862.18	862.18
<b>Net Revenue Gap</b>	<b>-0.20</b>	<b>1400.30</b>	<b>1275.84</b>	<b>1357.20</b>

The treatment of revenue gap for FY 2001-02 has been discussed in succeeding Section 13.

#### 4.12 DERIVATION OF THE BULK SUPPLY TARIFF FOR FY 2001-02

The Commission in the foregoing sections have determined the trued up power purchase rate of Rs. 1.61 per kWh for FY 2001-02. On the basis of average trued up price of Rs. 1.61 per kWh, the cost of transmission loss per unit of energy delivered to distribution licensees is estimated as Rs. 0.08 per kWh considering the normative transmission loss of 5%. Further, as the transmission function is embedded in the UPPCL in FY 2001-02, the Commission had allocated the ARR of UPPCL among the transmission and distribution business in the ratio of 21:79. Given the fact that separate accounts for transmission and distribution business are not available for FY 2001-02, the Commission has allocated the trued up expenses of UPPCL in the same ratio of 21:79 between the transmission and distribution function. Considering this, the trued up cost of



transmission has been computed at Rs. 0.12 per kWh. No return on capital has been claimed by UPPCL for FY 2001-02.

Thus, the trued up bulk supply tariff has been determined as Rs. 1.82 per kWh for FY 2001-02.





## **5. TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2002-03**

The Petitioner has sought the final truing up of expenditure and revenue for FY 2002-03 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2002-03, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

### **5.1 POWER PURCHASE QUANTUM AND COST FOR FY 2002-03**

The Commission, in the Tariff Order for FY 2002-03 had approved a power purchase quantum of 39,869 MU and total power purchase expenses of Rs. 6,539 crores. The Petitioner, in its true-up petition has submitted that the actual power purchase expenses for FY 2002-03 are Rs. 5,984.86 crores towards power procurement of 36,458.97 MU. There has been an over achievement of the T&D loss target by the Petitioner in FY 2002-03. The actual T&D loss has been 32.20% as against 36.50% approved by the Commission in the relevant year.

The Petitioner has claimed the power purchase cost during truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 36.50%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.
- As the actual T&D loss achieved is lower than the target T&D loss approved in the Tariff Order, the Petitioner has claimed efficiency gains to the tune of Rs. 202.52 crores.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2002-03 are Rs. 6,187.39 crores.

The Commission has considered the actual power purchase expenses incurred by the Petitioner in FY 2002-03, based on the audited accounts. No efficiency gains have been

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allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Distribution Tariff Regulations.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

**Table 5-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2002-03**

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase	MU	39869.00	36458.97	36458.97	36458.97
Energy Sales	MU	25316.00	24717.51	24717.51	24717.51
T&D Loss	%	36.50%	32.20%	36.50%	32.20%
Power Purchase Cost	Rs Crore	6539.00	5984.86	5984.86	5984.86
Power Purchase Cost per unit	Rs/kWh	1.64	1.64	1.64	1.64
Allowable Power Purchase Input	MU			38926.46	36458.97
Allowable Power Purchase Cost at pooled cost	Rs/kWh			6187.39	5984.86

## 5.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses, and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2002-03, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

### 5.2.1 Employee Expenses

The Petitioner has submitted that the actual gross employee expenses for FY 2002-03 were Rs. 1,011.38 crores as against Rs. 1,011.83 crores approved by the Commission in the Tariff Order. However the capitalisation has been at a level much higher than those approved in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 198.29 crores as against Rs. 76.46 crores approved in the



Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 813.09 crores as against Rs. 935.37 crores approved in the Tariff Order. The Petitioner has also claimed efficiency gains of Rs. 61.14 crores. Thus, the total net employee expenses claimed by the Petitioner are Rs. 874.23 crores.

Considering the details submitted by the Petitioner, the Commission has accepted the actual employee expenses for FY 2002-03 as per audited accounts under the truing up exercise as they are lower than approved expenses. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross employee expenses of Rs. 1,011.38 crores and capitalisation thereof amounting to Rs. 198.29 crores.

#### **5.2.2 A&G Expenses**

The Petitioner has submitted that the actual gross A&G expenses for FY 2002-03 were Rs. 89.94 crores as against Rs. 105.01 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 23.95 crores as against Rs. 6.50 crores approved in the Tariff Order. Thus the net A&G expenses as per audited accounts are Rs. 65.99 crores as against Rs. 98.51 crores approved in the tariff order. The Petitioner has also claimed efficiency gains of Rs. 16.26 crores.

Considering the details submitted by the Petitioner, the Commission has accepted the actual A&G expenses for FY 2002-03 as per audited accounts under the truing up exercise as they are lower than truing up exercise. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross A&G expenses of Rs. 89.94 crores and capitalisation thereof amounting to Rs. 23.95 crores.

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### 5.2.3 Repair and Maintenance Expenses

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2002-03 were Rs. 204.18 crores as against Rs. 239.59 crores approved by the Commission in the Tariff Order. Actual expenses being lower than the approved levels, the Petitioner has also claimed efficiency gains of Rs. 17.70 crores.

Considering the details submitted by the Petitioner, the Commission has accepted the actual repair and maintenance expenses for FY 2002-03 amounting to Rs. 204.18 crores as per audited accounts under the truing up exercise. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

**Table 5-2: APPROVED O&M EXPENSES FOR FY 2002-03 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	1011.83	1011.38	1072.52	1011.38
Repair & Maintenance Expenses	239.59	204.18	221.89	204.18
Administrative and General Expenses	105.01	89.94	106.20	89.94
<b>Gross Operation and Maintenance Expenses</b>	<b>1356.43</b>	<b>1305.51</b>	<b>1400.61</b>	<b>1305.51</b>
Less: Capitalisation				
Employee Cost Capitalized	76.46	198.29	198.29	198.29
A&G Expenses Capitalized	6.50	23.95	23.95	23.95
<b>Total Capitalization</b>	<b>82.96</b>	<b>222.24</b>	<b>222.24</b>	<b>222.24</b>
<b>Net Operation and Maintenance Expenses</b>	<b>1273.47</b>	<b>1083.27</b>	<b>1178.37</b>	<b>1083.27</b>

### 5.3 INTEREST AND FINANCE CHARGES

#### 5.3.1 Interest on Long Term Loans

The Petitioner has claimed net interest expenses of Rs. 271.29 crores as against Rs. 122.21 crores approved in the Tariff Order.



Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts, the Commission has derived the actual capital investments undertaken by UPPCL in FY 2002-03. The details are provided in the table below:

**Table 5-3: CAPITAL INVESTMENTS IN FY 2002-03 (Rs. Crores)**

Particulars	Derivation	2002-03
Opening WIP as on 1st April	A	793.13
Investments	B	794.33
Employee Expenses Capitalisation	C	198.29
A&G Expenses Capitalisation	D	23.95
Interest Capitalisation on Interest on long term loans	E	96.21
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>1905.91</b>
Transferred to GFA (Total Capitalisation)	G	975.60
<b>Closing WIP</b>	<b>H= F-G</b>	<b>930.32</b>

The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2002-03:

**Table 5-4: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2002-03 (Rs. Crores)**

Particulars	2002-03
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	418.55
Additions during the year	337.54
Less: Amortisation	90.39
<b>Closing Balance</b>	<b>665.70</b>



Thus, the approved financing of the capital investment is depicted in the table below:

**Table 5-5: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2002-03 (Rs. Crores)**

Particulars	Derivation	2002-03
Investment	A	794.33
Less:		
Consumer Contribution	B	337.54
Investment funded by debt and equity	C=A-B	456.79
Debt Funded	70%	319.75
Equity Funded	30%	137.04

Thus, from the above tables it is seen, that UPPCL has made an investment of Rs. 794.33 crores in FY 2002-03. However the consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 337.54 crores. Thus, balance Rs. 456.79 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 319.75 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 137.04 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate of 9.03% has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 60.35 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 5-6: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2002-03 (Rs Crores)**

Particulars	2002-03
Opening Loan	770.67
Loan Additions (70% of Investments)	319.75
Less: Repayments (Depreciation allowable for the year)	524.43
Closing Loan Balance	566.00
Weighted Average Rate of Interest	9.03%
<b>Interest on long term loan</b>	<b>60.35</b>
Interest Capitalisation Rate	26.18%
Less: Interest Capitalized	15.80
<b>Net Interest Charged</b>	<b>44.55</b>

### 5.3.2 Finance Charges



The Petitioner has claimed Rs. 118.88 crores towards finance charges as against Rs. 124.15 crores approved in the Tariff Order for FY 2002-03. The finance charges have been claimed towards items such as interest on GPF trust, LC charges, interest on consumer security deposits, etc.

The interest on GPF trust, interest on consumer security deposits, etc have been allowed based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 118.88 crores for FY 2002-03.

### 5.3.3 Interest on Working Capital

The Petitioner has claimed Rs. 20.08 crores towards interest on working capital as against Rs. 161.14 crores approved in the Tariff Order for FY 2002-03.

The Commission in Para 7.70 of the Tariff Order for FY 2002-03 had provided the methodology for the computation of working capital and interest thereon. The Commission had assessed a working capital requirement of Rs. 1,074 crores and had allowed interest thereon at the rate of 15%.

The Commission while determining the true-up have considered a similar philosophy and rate of interest and have computed the eligible interest on working capital based on trued up ARR items.

During truing up, the Commission has assessed the working capital requirement of Rs. 702.16 crores and thus approves interest on working capital of Rs. 105.32 crores as provided in the table below:

**Table 5-7: APPROVED INTEREST ON WORKING CAPITAL (Rs. Crores)**

SI	Particulars	Tariff Order	Approved in True-up
1	Revenue from Sale of Power – Existing Tariff	7111.00	6575.73
2	Non-tariff Income	37.00	34.48
	<b>Total Revenue</b>	<b>7148.00</b>	<b>6610.21</b>
3	Revenue Expenditure	8889.00	7969.04
	<b>Revenue Gap</b>	<b>1741.00</b>	<b>1358.83</b>
4	<b>Less</b>	<b>1672.00</b>	<b>1374.43</b>
	GoUP Subsidy	850.00	850.00
	Depreciation	600.00	524.43



Sl	Particulars	Tariff Order	Approved in True-up
	Additional Revenue from Tariff Revision	222.00	
<b>5</b>	<b>Add</b>	<b>1005.00</b>	<b>925.37</b>
	Shortfall in revenue collection @ 88% collection efficiency*	880.00	789.09
	Repayment of Long Term Loans	125.00	136.28
<b>6</b>	<b>Net Adjusted Cash Gap</b>	<b>1074.00</b>	<b>909.78</b>
7	Rate of Interest on Working Capital	15%	15%
<b>8</b>	<b>Additional Interest cost</b>	<b>161.10</b>	<b>136.47</b>

\* Target collection efficiency of 88% has been considered for computing the cash gap in line with the Tariff Order for FY 2002-03

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2002-03:

**Table 5-8: INTEREST AND FINANCE CHARGES (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	210.99	367.51	367.51	60.35
Less: Interest Capitalisation	88.78	96.21	96.21	15.80
<b>Net Interest on Long Term Loans</b>	<b>122.21</b>	<b>271.29</b>	<b>271.29</b>	<b>44.55</b>
<b>B: Finance and Other Charges</b>				
Interest on GPF Funds	95.05	85.07	85.07	85.07
Cost of raising finance	0.15	0.28	0.28	0.28
Cost of LC etc.	10.83	13.00	13.00	16.89
Interest on consumer security deposits	18.12	16.64	16.64	16.64
Other Interest	-	3.89	3.89	
<b>Total Finance Charges</b>	<b>124.15</b>	<b>118.88</b>	<b>118.88</b>	<b>118.88</b>
<b>C: Interest on Working Capital</b>	<b>161.14</b>	<b>20.08</b>	<b>20.08</b>	<b>136.47</b>
<b>Total (A+B+C)</b>	<b>407.50</b>	<b>410.25</b>	<b>410.25</b>	<b>299.90</b>





#### 5.4 DISCOUNT TO CONSUMERS

The Petitioner has submitted that the actual discount to consumers provided in FY 2002-03 is Rs. 76.57 crores as per audited accounts as against Rs. 69.43 crores approved in the Tariff Order. Such rebates are given to consumers under different heads like load factor rebate, power factor rebate, etc.

As such discounts / rebates are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred i.e., Rs. 76.57 crores.

#### 5.5 DEPRECIATION

In the Tariff Order for FY 2002-03, the Commission had considered depreciation to the extent of Rs. 599.72 crores on a gross fixed asset base of Rs. 11,458.62 crores.

The actual depreciation expense charged in the audited accounts is Rs. 662.49 crores. However the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the UPPCL has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2002-03. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 560.48 crores as depicted in the table below:

**Table 5-9: DEPRECIATION CLAIMED FOR FY 2002-03 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	17.70	0.00	0.00	17.70		0.00
ii) Freehold Land	2.29	0.01	0.16	2.14		0.00
Buildings	349.53	16.49	0.00	366.02	2.72%	9.73
Other Civil Works	105.41	0.74	0.00	106.15		0.00
Plants & Machinery	4038.48	538.12	274.09	4302.51	7.07%	294.85
Lines, Cable Network etc.	5923.92	417.52	25.51	6315.93	4.96%	303.55
Vehicles	6.48	0.97	0.06	7.39	30.06%	2.09
Furniture & Fixtures	3.27	0.27	0.00	3.54	11.49%	0.39



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Office Equipments	6.25	1.48	0.04	7.69	11.49%	0.80
Jeep & Motor Car	0.00	0.00	0.00	0.00		0.00
Assets taken over from Licensees pending final Valuation	7.01	0.00	0.00	7.01		0.00
<b>Total</b>	<b>10460.35</b>	<b>975.60</b>	<b>299.86</b>	<b>11136.08</b>		<b>611.41</b>
Less: Provisional Transfer to Uttaranchal Power Corporation Ltd	-817.62	0.00	240.56	-1058.18	5.43%	-50.93
<b>GRAND TOTAL</b>	<b>9642.73</b>			<b>10077.90</b>		<b>560.48</b>

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures (Refer Table 3-10) in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 36.06 crores has been reduced from the allowable depreciation.

Thus the approved depreciation for FY 2002-03 is Rs. 524.43 crores as depicted in the table below:

**Table 5-10: APPROVED DEPRECIATION FOR FY 2002-03 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	599.72	662.49	560.48	560.48
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	36.06
<b>Net Allowable Depreciation</b>	<b>599.72</b>	<b>662.49</b>	<b>560.48</b>	<b>524.43</b>



## **5.6 PRIOR PERIOD EXPENSES**

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2002-03. In the audited financial statements for FY 2002-03, there has been recognition of Rs. -372.52 crores of prior period incomes and prior period expenses of Rs. 107.11 crores, thereby the net prior period expense claimed is Rs. 479.62 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2002-03.

## **5.7 OTHER MISCELLANEOUS EXPENSES**

The Petitioner has claimed certain other expenses not specifically allowable under any head of the ARR to the tune of Rs. 0.26 crores. Such minor expenses towards items such as compensation, loss due to pilferage, material cost variance, etc have been bundled together under the nomenclature of 'Other Miscellaneous Expenses'.

As such expenses were not approved in the Tariff Order for FY 2002-03, the Commission has not considered such expenses for admissibility in the true-up as well.

## **5.8 PROVISION FOR BAD AND DOUBTFUL DEBTS**

The Petitioner has claimed Rs. 132.14 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2002-03 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful

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debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

#### **5.9 REVENUE SUBSIDY FROM GOUP**

The Petitioner has submitted that the actual revenue subsidy received from GoUP was Rs. 849.33 crores during FY 2002-03 as against Rs. 850 crores approved in the Tariff Order.

The Commission does not allow any deviations in the levels of the subsidy approved in the Tariff Order. Accordingly, revenue subsidy from GoUP has been considered at Rs. 850 crores in the true-up as well.

#### **5.10 REVENUE SIDE TRUING UP**

##### **5.10.1 NON TARIFF INCOMES**

The Petitioner has submitted that the actual non-tariff income during FY 2002-03 was Rs. 34.48 crores as compared to Rs. 36.76 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

##### **5.10.2 REVENUE FROM SALE OF POWER**

The Petitioner has submitted that the actual revenue from sale of power during FY 2002-03 is Rs. 6,575.73 crores including Rs. 488.20 crores towards delayed payment charges as against Rs. 7,111.35 crores approved in the Tariff Order.

In the Tariff Order for FY 2002-03, the Commission had approved revenue at existing tariff at Rs. 7,111.35 crores, expected revenue from tariff hike of Rs. 532.58 crores and additional income due to efficiency gains of Rs. 358.44 crores.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

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### 5.11 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2002-03 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2002-03 after final truing up is summarised in the Table below:

**Table 5-11: ARR FOR FY 2002-03 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	6539.00	5984.86	6187.39	5984.86
Employee Expenses	1011.83	1011.38	1072.52	1011.38
Repair and Maintenance Expenses	239.59	204.18	221.89	204.18
A&G Expenses	105.01	89.94	106.20	89.94
Gross Interest on Long Term Loans	210.99	367.51	367.51	60.35
Finance Charges	124.15	118.88	118.88	118.88
Interest on Working Capital	161.14	20.08	20.08	136.47
Discount to Consumers	69.43	76.57	76.57	76.57
Depreciation	599.72	662.49	560.48	524.43
Prior Period Expenses	-	479.63	479.63	-
Other Misc Expenses	-	0.26	0.26	-
Provision for Bad and Doubtful Debts	-	81.44	132.14	-
<b>Gross Expenditure</b>	<b>9060.86</b>	<b>9097.23</b>	<b>9343.56</b>	<b>8207.08</b>
Less: Employee Capitalisation	76.46	198.29	198.29	198.29
Less: A&G Capitalisation	6.50	23.95	23.95	23.95
Less: Interest Capitalisation	88.78	96.21	96.21	15.80
<b>Total Capitalisation</b>	<b>171.74</b>	<b>318.45</b>	<b>318.45</b>	<b>238.04</b>
<b>Net Expenditure</b>	<b>8889.12</b>	<b>8778.78</b>	<b>9025.10</b>	<b>7969.04</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	36.76	34.48	34.48	34.48
<b>Annual Revenue Requirement</b>	<b>8852.36</b>	<b>8744.30</b>	<b>8990.63</b>	<b>7934.56</b>
Revenue from Tariff including Delayed Payment Surcharge	7643.93	6575.73	6575.73	6575.73
GoUP Subsidy	850.00	849.33	849.33	850.00
Revenue due to Efficiency Gain	358.44	-	-	-
<b>Net Revenue Gap</b>	<b>-0.01</b>	<b>1319.24</b>	<b>1565.56</b>	<b>508.83</b>

The treatment of revenue gap for FY 2002-03 has been discussed in succeeding Section 13.



### **5.12 DERIVATION OF THE BULK SUPPLY TARIFF FOR FY 2002-03**

The Commission in the foregoing sections have determined the trued up power purchase rate of Rs. 1.64 per kWh for FY 2002-03. On the basis of average trued up price of Rs. 1.64 per kWh, the cost of transmission loss per unit of energy delivered to distribution licensees is estimated as Rs. 0.09 per kWh considering the normative transmission loss of 5%. Further, as the transmission function is embedded in the UPPCL in FY 2002-03, the Commission had allocated the ARR of UPPCL among the transmission and distribution business in the ratio of 21.2:78.8. Given the fact that separate accounts for transmission and distribution business are not available for FY 2002-03, the Commission has allocated the trued up expenses of UPPCL in the same ratio of 21.2:78.8 between the transmission and distribution function. Considering this, the trued up cost of transmission has been computed at Rs. 0.12 per kWh. No return on capital has been claimed by UPPCL for FY 2002-03.

Thus, the trued up bulk supply tariff has been determined as Rs. 1.85 per kWh for FY 2002-03.

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## **6. TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2003-04**

The Petitioner has sought the final truing up of expenditure and revenue for FY 2003-04 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2003-04, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner. The Discoms were carved out of the UPPCL and commenced business operations w.e.f 12th August, 2003. As the Tariff Order for FY 2003-04 was for consolidated Discoms and no bulk supply tariff was determined separately, the entitlement in true-up for each element of the ARR has been analysed by aggregating the audited accounts of all the distribution companies and UPPCL.

### **6.1 POWER PURCHASE QUANTUM AND COST FOR FY 2003-04**

The Commission, in the Tariff Order for FY 2003-04 had approved a power purchase quantum of 37,975 MU and total power purchase expenses of Rs. 6,256.88 crores. The Petitioner, in its true-up petition has submitted that the actual power purchase expenses for FY 2003-04 are Rs. 6,060.57 crores towards power procurement of 41396.63 MU. There has been an under achievement of the T&D loss target by the Petitioner in FY 2003-04. The actual T&D loss has been 34.01% as against 30.40% approved by the Commission in the relevant year.

The Petitioner has claimed the power purchase cost during truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 30.40%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2003-04 are Rs. 5,745.71 crores.

The Commission has concurred with the philosophy considered by the Petitioner wherein the efficiency target of T&D loss level has been considered as controllable

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parameter whereas the quantity mix and price variance has been considered as uncontrollable parameter. The allowable power purchase cost has been assessed at Rs. 5,822.31 crores for FY 2003-04 at a pooled power purchase cost of Rs. 1.46 per kWh.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

**Table 6-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2003-04**

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase	MU	37975.00	41396.63	41396.63	41396.63
Energy Sales	MU	26431.00	27315.62	27315.62	27679.80*
T&D Loss	%	30.40%	34.01%	30.40%	30.40%
Power Purchase Cost	Rs Crore	6257.00	6060.57	6060.57	6060.57
Power Purchase Cost per unit	Rs/kWh	1.65	1.46	1.46	1.46
Allowable Power Purchase Input	MU			39245.98	39769.23
Allowable Power Purchase Cost at pooled cost	Rs Crore			5745.71	5822.31

\* Sum of (UPPCL retail sales of 8617.49 MU for the period 1.4.2003 to 11.8.2003 + Consolidated Discoms retail sales of 16,120.28 MU + Bulk & Extra State Sales of 2942.02 MU)

## 6.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses and R&M expenditure. The Discoms were carved out of the UPPCL and commenced business operations w.e.f 12<sup>th</sup> August, 2003. As the Tariff Order for FY 2003-04 was for consolidated Discoms, the entitlement in true-up has also been analysed by aggregating the audited accounts of all the distribution companies and UPPCL.

The Petitioner's submissions on each of the heads of O&M expenditure for FY 2003-04, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

### 6.2.1 Employee Expenses





The Petitioner has submitted that the actual gross employee expenses for FY 2003-04 were Rs. 1,030.48 crores as against Rs. 955.42 crores approved by the Commission in the Tariff Order. However the capitalisation has been at a level much higher than those approved in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 157.28 crores as against Rs. 80.06 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 873.20 crores as against Rs. 875.36 crores approved in the Tariff Order.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed expenses over the extent approved in the Tariff Order for all the years before the formulation of the Tariff Regulations. The capitalisation has been considered at actual as per audited accounts.

Thus, the Commission has approved gross employee expenses of Rs. 955.42 crores and capitalisation thereof amounting to Rs. 157.28 crores.

#### **6.2.2 A&G Expenses**

The Petitioner has submitted that the actual gross A&G expenses for FY 2003-04 were Rs. 103.64 crores as against Rs. 116.12 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 14.00 crores. Thus the net A&G expenses as per audited accounts are Rs. 89.65 crores as against Rs. 116.12 crores approved in the tariff order.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed expenses over the extent approved in the Tariff Order for all the years before the formulation of the Tariff Regulations. The capitalisation has been considered at actual as per audited accounts.

Thus, the Commission has approved gross A&G expenses of Rs. 103.64 crores and capitalisation thereof amounting to Rs. 14.00 crores.

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### 6.2.3 Repair and Maintenance Expenses

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2003-04 were Rs. 221.84 crores as against Rs. 216.08 crores approved by the Commission in the Tariff Order.

The Commission has considered R&M expenses as controllable expenses and accordingly disallowed expenses over the extent approved in the Tariff Order for all the years before the formulation of the Tariff Regulations.

Thus, the Commission has approved R&M expenses of 216.08 crores.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

**Table 6-2: APPROVED O&M EXPENSES FOR FY 2003-04 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	955.42	1030.48	1030.48	955.42
Repair & Maintenance Expenses	216.08	221.84	221.84	216.08
Administrative and General Expenses	116.12	103.64	103.64	103.64
<b>Gross Operation and Maintenance Expenses</b>	<b>1287.62</b>	<b>1355.96</b>	<b>1355.96</b>	<b>1275.14</b>
Less: Capitalisation				
Employee Cost Capitalized	80.06	157.28	157.28	157.28
A&G Expenses Capitalized	-	14.00	14.00	14.00
<b>Total Capitalization</b>	<b>80.06</b>	<b>171.28</b>	<b>171.28</b>	<b>171.28</b>
<b>Net Operation and Maintenance Expenses</b>	<b>1207.56</b>	<b>1184.69</b>	<b>1184.69</b>	<b>1103.87</b>

The company wise break-up of the O&M expenses as submitted by the licensee are depicted in the table below:

**Table 6-3: COMPANY WISE O&M EXPENSES FOR FY 2003-04 (Rs. Crores)**

Discoms	UPPCL	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Employee Expenses	516.38	93.13	145.92	120.93	154.12	1030.48
Repair & Maintenance Expenses	95.42	25.00	26.90	27.90	46.62	221.84
Administrative and General Expenses	49.69	10.54	18.20	12.36	12.86	103.64



Discoms	UPPCL	DVVNL	MVVNL	PVVNL	PuVVNL	Total
<b>Gross Operation and Maintenance Expenses</b>	<b>661.48</b>	<b>128.67</b>	<b>191.02</b>	<b>161.19</b>	<b>213.61</b>	<b>1355.96</b>
Less: Capitalisation						
Employee Cost Capitalized	101.49	14.68	9.61	17.98	13.52	157.28
A&G Expenses Capitalized	9.37	1.54	0.66	1.42	1.02	14.00
<b>Total Capitalization</b>	<b>110.86</b>	<b>16.21</b>	<b>10.27</b>	<b>19.40</b>	<b>14.53</b>	<b>171.28</b>
<b>Net Operation and Maintenance Expenses</b>	<b>550.62</b>	<b>112.46</b>	<b>180.75</b>	<b>141.78</b>	<b>199.07</b>	<b>1184.69</b>

Note: The details of Discoms are from the date of their creation i.e., 12<sup>th</sup> August, 2003

### 6.3 INTEREST AND FINANCE CHARGES

#### 6.3.1 Interest on Long Term Loans:

The Petitioner has claimed net interest expenses of Rs. 176.00 crores as against Rs. 260.59 crores approved in the Tariff Order.

Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts, the Commission has derived the actual capital investments undertaken by UPPCL and Discoms in FY 2003-04. The details are provided in the table below:

**Table 6-4: CAPITAL INVESTMENTS IN FY 2003-04 (Rs. Crores)**

Particulars	Derivation	UPPCL	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening WIP as on 1st April	A	930.32	52.98	98.73	83.19	87.71	<b>1252.93</b>
Investments	B	469.26	109.50	88.17	135.87	98.28	<b>901.09</b>
Employee Expenses Capitalisation	C	101.49	14.68	9.61	17.98	13.52	<b>157.28</b>
A&G Expenses Capitalisation	D	9.37	1.54	0.66	1.42	1.02	<b>14.00</b>
Interest Capitalisation on Interest on long term loans	E	47.60	1.69	3.78	2.19	3.43	<b>58.69</b>
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>1558.04</b>	<b>180.38</b>	<b>200.95</b>	<b>240.65</b>	<b>203.96</b>	<b>2383.98</b>
Transferred to GFA (Total Capitalisation)	G	575.57	117.53	91.32	147.70	111.27	<b>1043.39</b>
<b>Closing WIP</b>	<b>H= F-G</b>	<b>982.47</b>	<b>62.86</b>	<b>109.63</b>	<b>92.95</b>	<b>92.68</b>	<b>1340.59</b>



The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2003-04:

**Table 6-5: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2003-04 (Rs. Crores)**

Particulars	UPPCL	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	665.70	109.15	154.68	138.46	170.46	1238.45
Additions during the year	153.46	21.46	23.03	34.70	24.55	257.20
Less: Amortisation	537.04	5.45	7.72	6.93	8.49	565.64
<b>Closing Balance</b>	<b>282.11</b>	<b>125.16</b>	<b>169.99</b>	<b>166.23</b>	<b>186.52</b>	<b>930.01</b>

Thus, the approved financing of the capital investment is depicted in the table below:

**Table 6-6: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2003-04 (Rs. Crores)**

Particulars	Derivation	UPPCL	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Investment	A	469.26	109.50	88.17	135.87	98.28	<b>901.09</b>
Less:							
Consumer Contribution	B	153.46	21.46	23.03	34.70	24.55	<b>257.20</b>
Investment funded by debt and equity	C=A-B	315.80	88.04	65.14	101.17	73.73	<b>643.89</b>
Debt Funded	70%	221.06	61.63	45.60	70.82	51.61	<b>450.72</b>
Equity Funded	30%	94.74	26.41	19.54	30.35	22.12	<b>193.17</b>

Thus, from the above tables it is seen, that total distribution and transmission investments made in FY 2003-04 were to the tune of Rs. 901.09 crores. The consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 257.20 crores. Thus, balance Rs. 643.89 crores have been funded through debt and



equity. Considering a debt equity ratio of 70:30, Rs. 450.72 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 193.17 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate as per audited accounts has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 129.75 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 6-7: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2003-04 (Rs Crores)**

Particulars	UPPCL	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Loan	566.00	290.85	358.46	334.82	390.81	<b>1940.94</b>
Loan Additions (70% of Investments)	221.06	61.63	45.60	70.82	51.61	<b>450.72</b>
Less: Repayments (Depreciation allowable for the year)	265.86	71.95	73.67	115.21	86.97	<b>613.66</b>
Closing Loan Balance	521.20	280.53	330.39	290.42	355.45	<b>1777.99</b>
Weighted Average Rate of Interest	7.85%	6.69%	6.56%	6.33%	6.85%	
<b>Interest on long term loan</b>	<b>42.66</b>	<b>19.12</b>	<b>22.60</b>	<b>19.80</b>	<b>25.57</b>	<b>129.75</b>
Interest Capitalisation Rate	22.38%	7.99%	14.23%	9.35%	12.14%	14.83%
Less: Interest Capitalized	9.55	1.53	3.22	1.85	3.10	<b>19.25</b>
<b>Net Interest Charged</b>	<b>33.11</b>	<b>17.60</b>	<b>19.39</b>	<b>17.95</b>	<b>22.46</b>	<b>110.51</b>

Thus, the net interest on long term loan has been approved at Rs. 110.51 crores.

### 6.3.2 Finance Charges:

The Petitioner has claimed Rs. 114.09 crores towards finance charges as against Rs. 23.07 crores approved in the Tariff Order for FY 2003-04. The finance charges have been claimed towards items such as LC charges, bank charges, interest on consumer security deposits, promissory note, etc.

The amounts claimed under 'Promissory Note' have been disallowed as the same are towards interest payment on Promissory Notes which were issued to UPRVUNL in respect of conversion of power purchase dues into Promissory Note.



The interest on consumer security deposits, bank charges, etc have been allowed based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 35.95 crores for FY 2003-04.

### 6.3.3 Interest on Working Capital:

The Petitioner has claimed Rs. 42.08 crores towards interest on working capital. The Commission in Para 6.321 of the Tariff Order for FY 2003-04 had approved working capital equivalent to

- a) two months of R&M expenses as stores
- b) one month of cash expenses as cash balance

The rate of interest on working capital was considered at 12.50%.

The Commission while determining the true-up have considered a similar philosophy and have computed the eligible interest on working capital based on trued up ARR items. The Commission approves interest on working capital to the tune of Rs. 79.51 crores for FY 2003-04 as depicted in the table below:

**Table 6-8: APPROVED INTEREST ON WORKING CAPITAL FOR FY 2003-04 (Rs. Crores)**

Particulars	Approved in True-up
2 months R&M expense	36.01
1 months cash expense	600.08
<b>Working Capital</b>	<b>636.10</b>
Rate of Interest	12.50%
<b>Interest on Working Capital</b>	<b>79.51</b>

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2003-04:

**Table 6-9: APPROVED INTEREST AND FINANCE CHARGES FOR FY 2003-04 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Interest on Long Term Loan	415.11	234.69	234.69	129.75
Less: Interest Capitalisation	154.52	58.69	58.69	19.25
<b>Net Interest on Long Term Loans</b>	<b>260.59</b>	<b>176.00</b>	<b>176.00</b>	<b>110.51</b>
<b>B: Finance and Other Charges</b>				
Finance Charges	1.87	4.17	4.17	4.17
Bank Charges	13.64	16.92	16.92	16.91
Interest on Consumer Security Deposits	7.56	14.85	14.85	14.86
Others/Promissory Note	-	78.15	78.15	0.01
<b>Total Finance Charges</b>	<b>23.07</b>	<b>114.09</b>	<b>114.09</b>	<b>35.95</b>
<b>C: Interest on Working Capital</b>				
	-	42.08	42.08	79.51
<b>Total (A+B+C)</b>	<b>283.66</b>	<b>332.17</b>	<b>332.17</b>	<b>225.97</b>

The following table summarises the UPPCL and discom-wise interest and finance charges incurred by the Petitioner companies as per audited accounts for FY 2003-04:

**Table 6-10: UPPCL - INTEREST AND FINANCE CHARGES FOR FY 2003-04 (Rs. Crores)**

Particulars	Actual as per audited accounts
<b>A: Interest on Long Term Loans</b>	
Gross Interest on Long Term Loan	135.34
Less: Interest Capitalisation	47.60
<b>Net Interest on Long Term Loans</b>	<b>87.74</b>
<b>B: Finance and Other Charges</b>	
Finance Charges	3.48
Bank Charges	16.52
Interest on Consumer Security Deposits	6.40
Others/Promissory Note	77.31
<b>Total Finance Charges</b>	<b>103.71</b>
<b>C: Interest on Working Capital</b>	
	<b>42.08</b>



Particulars	Actual as per audited accounts
<b>Total (A+B+C)</b>	<b>233.53</b>

Table 6-11: DVVNL - INTEREST AND FINANCE CHARGES FOR FY 2003-04 (Rs. Crores)

Particulars	Actual as per audited accounts
<b>A: Interest on Long Term Loans</b>	
Gross Interest on Long Term Loan	21.12
Less: Interest Capitalisation	1.69
<b>Net Interest on Long Term Loans</b>	<b>19.43</b>
<b>B: Finance and Other Charges</b>	
Finance Charges	0.31
Bank Charges	0.04
Interest on Consumer Security Deposits	3.17
<b>Total Finance Charges</b>	<b>3.52</b>
<b>C: Interest on Working Capital</b>	-
<b>Total (A+B+C)</b>	<b>22.95</b>

Table 6-12: MVVNL - INTEREST AND FINANCE CHARGES FOR FY 2003-04 (Rs. Crores)

Particulars	Actual as per audited accounts
<b>A: Interest on Long Term Loans</b>	
Gross Interest on Long Term Loan	26.54
Less: Interest Capitalisation	3.78
<b>Net Interest on Long Term Loans</b>	<b>22.77</b>
<b>B: Finance and Other Charges</b>	
Bank Charges	0.05
Interest on Consumer Security Deposits	0.77
<b>Total Finance Charges</b>	<b>0.81</b>





Particulars	Actual as per audited accounts
<b>C: Interest on Working Capital</b>	-
<b>Total (A+B+C)</b>	<b>23.58</b>

**Table 6-13: PVVNL - INTEREST AND FINANCE CHARGES FOR FY 2003-04 (Rs. Crores)**

Particulars	Actual as per audited accounts
<b>A: Interest on Long Term Loans</b>	
Gross Interest on Long Term Loan	23.41
Less: Interest Capitalisation	2.19
<b>Net Interest on Long Term Loans</b>	<b>21.22</b>
<b>B: Finance and Other Charges</b>	
Finance Charges	0.38
Bank Charges	0.13
Interest on Consumer Security Deposits	4.00
Others/Promissory Note	0.82
<b>Total Finance Charges</b>	<b>5.33</b>
<b>C: Interest on Working Capital</b>	-
<b>Total (A+B+C)</b>	<b>26.55</b>

**Table 6-14: PuVVNL - INTEREST AND FINANCE CHARGES FOR FY 2003-04 (Rs. Crores)**

Particulars	Actual as per audited accounts
<b>A: Interest on Long Term Loans</b>	
Gross Interest on Long Term Loan	28.28
Less: Interest Capitalisation	3.43
<b>Net Interest on Long Term Loans</b>	<b>24.84</b>



Particulars	Actual as per audited accounts
<b>B: Finance and Other Charges</b>	
Bank Charges	0.17
Interest on Consumer Security Deposits	0.52
Others/Promissory Note	0.01
<b>Total Finance Charges</b>	<b>0.71</b>
<b>C: Interest on Working Capital</b>	<b>-</b>
<b>Total (A+B+C)</b>	<b>25.55</b>

#### 6.4 DISCOUNT TO CONSUMERS

The Petitioner has submitted that the actual discount to consumers provided in FY 2003-04 is Rs. 48.84 crores as per audited accounts. No amounts were approved in the Tariff Order for FY 2003-04 towards this expense item. Such rebates are given to consumers under different heads like load factor rebate, power factor rebate, etc.

As such discounts / rebates are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred i.e., Rs. 48.84 crores.

**Table 6-15: APPROVED DISCOUNT TO CONSUMERS FOR FY 2003-04 (Rs Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
UPPCL (up to 11.8.2003)	-	27.98	27.98	27.98
DVVNL (12.8.2003 onwards)	-	4.92	4.92	4.92
MVVNL (12.8.2003 onwards)	-	5.74	5.74	5.74
PVVNL (12.8.2003 onwards)	-	3.89	3.89	3.89
PuVVNL (12.8.2003 onwards)	-	6.32	6.32	6.32
<b>Total for FY 2003-04</b>	<b>-</b>	<b>48.84</b>	<b>48.84</b>	<b>48.84</b>

#### 6.5 DEPRECIATION



In the Tariff Order for FY 2001-02, the Commission had considered depreciation to the extent of Rs. 717.75 crores on a gross fixed asset base of Rs. 10,160.96 crores.

The actual depreciation expense charged in the audited accounts is Rs. 725.75 crores. However the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the UPPCL and Distribution Companies have computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2003-04. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 660.84 crores for consolidated Discoms as depicted in the table below:

**Table 6-16: DEPRECIATION CLAIMED FOR FY 2003-04 (Rs. Crores)**

Particulars	UPPCL	Meerut	Agra	Lucknow	Varanasi
Allowable Depreciation	284.44	122.14	77.39	81.39	95.47

The depreciation computations for each Discom and UPPCL are depicted below:

**Table 6-17: DEPRECIATION CLAIMED FOR UPPCL FOR FY 2003-04 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	17.70	-	-	17.70		-
ii) Freehold Land	2.14	1.33	-	3.47		-
Buildings	366.02	17.12	-	383.14	5.27%	19.74
Other Civil Works	106.15	0.15	-	106.29	5.27%	5.60
Plants & Machinery	4,302.51	356.80	155.26	4,504.05	5.27%	232.05
Lines, Cable Network etc.	6,315.93	199.29	18.41	6,496.80	5.27%	337.62
Vehicles	7.39	0.39	0.02	7.76	5.27%	0.40
Furniture & Fixtures	3.54	0.04	0.00	3.58	5.27%	0.19
Office Equipments	7.69	0.47	0.00	8.16	5.27%	0.42
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	7.01	-	-	7.01		-
<b>Total</b>	<b>11,136.08</b>	<b>575.57</b>	<b>173.69</b>	<b>11,537.96</b>		<b>596.01</b>



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Transferred to Discoms as per Transfer Scheme	(1,058.18)	-	7,371.42	(8,429.60)	5.27%	(311.57)
<b>GRAND TOTAL</b>	<b>10,077.90</b>			<b>3,108.36</b>		<b>284.44</b>

**Table 6-18: DEPRECIATION CLAIMED FOR DVVNL FOR FY 2003-04 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	0.02	-	0.02		-
ii) Freehold Land	-	-	-	-		-
Buildings	-	0.39	-	0.39	7.84%	0.02
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	-	64.61	52.79	11.82	7.84%	0.46
Lines, Cable Network etc.	-	52.47	4.76	47.71	7.84%	1.87
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	-	0.02	-	0.02	7.84%	0.00
Office Equipments	-	0.01	0.01	0.00	7.84%	0.00
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>-</b>	<b>117.53</b>	<b>57.56</b>	<b>59.97</b>		<b>2.35</b>
Fixed Asset as per Transfer Scheme	1,505.95	-	-	1,505.95	7.84%	75.04
<b>GRAND TOTAL</b>	<b>1,505.95</b>	<b>117.53</b>	<b>57.56</b>	<b>1,565.92</b>	<b>7.84%</b>	<b>77.39</b>

**Table 6-19: DEPRECIATION CLAIMED FOR MVVNL FOR FY 2003-04 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
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Order on True-up for FY 2000-01 to 2007-08

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	-	-	-		-
ii) Freehold Land	-	-	-	-		-
Buildings	-	1.04	-	1.04	7.84%	0.04
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	-	55.82	47.18	8.64	7.84%	0.34
Lines, Cable Network etc.	-	34.00	3.23	30.77	7.84%	1.21
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	-	0.05	-	0.05	7.84%	0.00
Office Equipments	-	0.40	-	0.40	7.84%	0.02
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	-	<b>91.32</b>	<b>50.42</b>	<b>40.90</b>		<b>1.60</b>
Fixed Asset as per Transfer Scheme	1,601.03	-	-	1,601.03	7.84%	79.78
<b>GRAND TOTAL</b>	<b>1,601.03</b>	<b>91.32</b>	<b>50.42</b>	<b>1,641.93</b>	<b>7.84%</b>	<b>81.39</b>

Table 6-20: DEPRECIATION CLAIMED FOR PVVNL FOR FY 2003-04 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	-	-	-		-
ii) Freehold Land	-	-	-	-		-
Buildings	-	1.48	-	1.48	7.84%	0.06
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	-	90.43	61.78	28.65	7.84%	1.12
Lines, Cable Network etc.	-	55.68	5.61	50.07	7.84%	1.96
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	-	0.04	-	0.04	7.84%	0.00
Office Equipments	-	0.07	-	0.07	7.84%	0.00



Order on True-up for FY 2000-01 to 2007-08

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	-	<b>147.70</b>	<b>67.39</b>	<b>80.31</b>		<b>3.15</b>
Fixed Asset as per Transfer Scheme	2,387.92	-	-	2,387.92	7.84%	119.00
<b>GRAND TOTAL</b>	<b>2,387.92</b>	<b>147.70</b>	<b>67.39</b>	<b>2,468.23</b>	<b>7.84%</b>	<b>122.14</b>

Table 6-21: DEPRECIATION CLAIMED FOR PuVVNL FOR FY 2003-04 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	-	-	-		-
ii) Freehold Land	-	-	-	-		-
Buildings	-	0.08	-	0.08	7.84%	0.00
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	-	71.19	59.43	11.76	7.84%	0.46
Lines, Cable Network etc.	-	39.99	1.91	38.09	7.84%	1.49
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	-	0.00	-	0.00	7.84%	0.00
Office Equipments	-	0.01	-	0.01	7.84%	0.00
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	-	<b>111.27</b>	<b>61.34</b>	<b>49.94</b>		<b>1.96</b>
Fixed Asset as per Transfer Scheme	1,876.52	-	-	1,876.52	7.84%	93.51
<b>GRAND TOTAL</b>	<b>1,876.52</b>	<b>111.27</b>	<b>61.34</b>	<b>1,926.46</b>	<b>7.84%</b>	<b>95.47</b>



The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies in respect of financial years 2003-04 onwards. This equivalent depreciation amounting to Rs. 47.17 crores as detailed in Table 3-10, has been reduced from the allowable depreciation.

Thus the approved depreciation for FY 2003-04 is Rs. 613.66 crores as depicted in the table below:

**Table 6-22: APPROVED DEPRECIATION FOR FY 2003-04 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>UPPCL</b>				
Gross Allowable Depreciation		386.43	284.44	284.44
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		-	-	18.58
<b>Net Allowable Depreciation</b>	<b>-</b>	<b>386.43</b>	<b>284.44</b>	<b>265.86</b>
<b>DVVNL</b>				
Gross Allowable Depreciation		69.71	77.39	77.39
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		-	-	5.45
<b>Net Allowable Depreciation</b>	<b>-</b>	<b>69.71</b>	<b>77.39</b>	<b>71.95</b>
<b>MVVNL</b>				
Gross Allowable Depreciation		72.19	81.39	81.39
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		-	-	7.72
<b>Net Allowable Depreciation</b>	<b>-</b>	<b>72.19</b>	<b>81.39</b>	<b>73.67</b>
<b>PVVNL</b>				
Gross Allowable Depreciation		112.25	122.14	122.14



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		-	-	6.93
<b>Net Allowable Depreciation</b>	<b>-</b>	<b>112.25</b>	<b>122.14</b>	<b>115.21</b>
<b>PuVVNL</b>				
Gross Allowable Depreciation		85.16	95.47	95.47
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		-	-	8.49
<b>Net Allowable Depreciation</b>	<b>-</b>	<b>85.16</b>	<b>95.47</b>	<b>86.97</b>
<b>CONSOLIDATED DISCOMS &amp; UPPCL</b>				
Gross Allowable Depreciation	717.75 <sup>1</sup>	725.75	660.84	660.84
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		-	-	47.17
<b>Net Allowable Depreciation</b>	<b>717.75</b>	<b>725.75</b>	<b>660.84</b>	<b>613.66</b>

## 6.6 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2003-04. In the audited financial statements for FY 2003-04, there has been recognition of Rs. 0.67 crores of prior period incomes and prior period expenses of Rs. 92.24 crores, thereby the net prior period expense claimed is Rs. 91.57 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to

<sup>1</sup> Depreciation Approved for Consolidated Discoms





which they pertain, the Commission has not allowed any claims towards such items for FY 2003-04.

#### **6.7 OTHER MISCELLANEOUS EXPENSES**

The Petitioner has claimed certain other expenses incurred towards Preliminary Expenses to the tune of Rs. 1.20 crores.

As such expenses were not approved in the Tariff Order for FY 2003-04, the Commission has not considered such expenses for admissibility in the true-up as well.

#### **6.8 PROVISION FOR BAD AND DOUBTFUL DEBTS**

The Petitioner has claimed Rs. 154.41 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2003-04 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

#### **6.9 REVENUE SUBSIDY FROM GOUP**

The Petitioner has submitted that the actual revenue subsidy received from GoUP was Rs. 1,029.25 crores during FY 2003-04 as against Rs. 935.00 crores approved in the Tariff Order.

The Commission considers the actual revenue subsidy as it exceeds the levels approved in the Tariff Order. Accordingly, revenue subsidy from GoUP has been considered at Rs. 1,029.25 crores in the true-up as well.

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## 6.10 REVENUE SIDE TRUING UP

### 6.10.1 NON TARIFF INCOMES

The Petitioner has submitted that the actual non-tariff income during FY 2003-04 was Rs. 12.58 crores as compared to Rs. 43.52 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

### 6.10.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2003-04 is Rs. 6,493.33 crores including recoveries on account of delayed payment surcharge. In the Tariff Order for FY 2003-04, the Commission had approved revenue at existing tariff at Rs. 7,400.68 crores and the expected revenue from tariff hike of Rs. 116.00 crores.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

## 6.11 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2003-04 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2003-04 after final truing up is summarised in the Table below:

**Table 6-23: ARR FOR FY 2003-04 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	6256.88	6060.57	5745.71	5822.31
Employee Expenses	955.42	1030.48	1031.56	955.42
Repair and Maintenance Expenses	216.08	221.84	221.84	216.08
A&G Expenses	116.12	103.64	116.88	103.64



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Interest on Long Term Loans	415.11	234.69	234.69	129.75
Finance Charges	23.07	114.09	114.09	35.95
Interest on Working Capital	0.00	42.08	42.08	79.51
Discount to Consumers	0.00	48.84	48.84	48.84
Depreciation	717.75	725.75	660.84	613.66
Prior Period Expenses	35.72	91.57	91.57	-
Other Misc Expenses	-	1.20	1.20	-
Provision for Bad and Doubtful Debts	-	846.09	154.41	-
<b>Gross Expenditure</b>	<b>8736.15</b>	<b>9520.84</b>	<b>8463.70</b>	<b>8005.18</b>
Less: Employee Capitalisation	80.06	157.28	157.28	157.28
Less: A&G Capitalisation	-	14.00	14.00	14.00
Less: Interest Capitalisation	154.52	58.69	58.69	19.25
<b>Total Capitalisation</b>	<b>234.58</b>	<b>229.96</b>	<b>229.96</b>	<b>190.53</b>
<b>Net Expenditure</b>	<b>8501.57</b>	<b>9290.88</b>	<b>8233.74</b>	<b>7814.65</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	43.52	12.58	12.58	12.58
<b>Annual Revenue Requirement</b>	<b>8458.05</b>	<b>9278.29</b>	<b>8221.15</b>	<b>7802.07</b>
Revenue from Tariff including Delayed Payment Surcharge	7516.68	6493.33	6493.33	6493.33
GoUP Subsidy	935.00	1029.25	1029.25	1029.25
<b>Net Revenue Gap</b>	<b>6.37</b>	<b>1755.71</b>	<b>698.57</b>	<b>279.49</b>

The treatment of revenue gap for FY 2003-04 has been discussed in succeeding Section 13.

## 6.12 DERIVATION OF THE BULK SUPPLY TARIFF FOR FY 2003-04

The Commission in the foregoing sections have determined the trued up power purchase rate of Rs. 1.46 per kWh for FY 2003-04. On the basis of average trued up price of Rs. 1.46 per kWh, the cost of transmission loss per unit of energy delivered to the distribution licensees is estimated as Rs. 0.08 per kWh considering the normative transmission loss of 5%. Further, as the transmission function is embedded in the UPPCL in FY 2003-04, the Commission had allocated the ARR of UPPCL among the transmission



and distribution business in the ratio of 24.2:75.8. Given the fact that separate accounts for transmission and distribution business are not available for FY 2003-04, the Commission has allocated the trued up expenses of UPPCL in the same ratio of 24.2:75.8 between the transmission and distribution function. Considering this, the trued up cost of transmission has been computed at Rs. 0.12 per kWh. No return on capital has been claimed by UPPCL for FY 2003-04.

Thus, the trued up bulk supply tariff has been determined as Rs. 1.66 per kWh for FY 2003-04.

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## **7. TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2004-05**

The Petitioner has sought the final truing up of expenditure and revenue for FY 2004-05 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2004-05, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

### **7.1 BULK SUPPLY TARIFF FOR DISTRIBUTION COMPANIES FOR FY 2004-05**

The Discoms were carved out of the UPPCL and commenced business operations w.e.f 12<sup>th</sup> August, 2003. One of the major cost components of the distribution companies is cost of power, which is supplied by UPPCL. The cost of supply of UPPCL includes a) costs of power purchase / bulk supply and b) transmission costs (including cost of transmission losses) for providing transmission service as a company that owns the 'wires'. The Tariff Order for FY 2004-05 had computed the bulk supply tariff i.e., the rate at which the cost of power and transmission charge would be billed to the Discoms.

In the following sections, the various elements of the ARR of UPPCL are being trued up and the revenue gap has been assessed. The revenue gap would be recovered from the distribution companies through truing up of the bulk supply tariff.

### **7.2 POWER PURCHASE QUANTUM AND COST FOR FY 2004-05**

The actual sales reported by the Petitioner are lower than the sales originally considered in the Tariff Order, by 1609 MU, in spite of the fact that the actual power purchase quantum was higher than Tariff Order levels. The Commission, in the Tariff Order for FY 2004-05 had approved a power purchase quantum of 38,815 MU and total power purchase expenses of Rs. 6,482.58 crores. The Petitioner, in its True-up petition has submitted that the actual power purchase expenses for FY 2004-05 are Rs. 8,220.79 crores towards power procurement of 42,210.20 MU. There has been an under-achievement of the T&D loss target by the Petitioner in FY 2004-05. The actual T&D loss has been dismal at 37.05% as against 27.40% approved by the Commission in the relevant year.

The Petitioner has claimed the power purchase cost during truing up based on the philosophy as mentioned below:

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- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 27.40%
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for trueing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2004-05 are Rs. 7,127.84 crores.

The Commission has concurred with the philosophy considered by the Petitioner wherein the efficiency target of T&D loss level has been considered as controllable parameter whereas the quantity mix and price variance has been considered as uncontrollable parameter.

The Commission in Para 7.109 of the FY 2004-05 Tariff Order had approved a ceiling rate of Rs. 2.75 per kWh for short term and emergency purchases. The Commission in the response to the Deficiency Note has obtained the break-up of the rates and energy procured through short term sources and unscheduled interchange (UI). The table below depicts that the Petitioner has purchased energy through UI at an average rate of Rs. 4.07 per kWh which is way above the ceiling rate of Rs. 2.75 per kWh. The Commission disallows such costly purchases over and above the ceiling rate and accordingly disallows Rs. 160.06 crores towards power purchase cost incurred by the Petitioner in FY 2004-05.

**Table 7-1: DISALLOWANCE IN POWER PURCHASE EXPENSES FOR FY 2004-05**

Source	Units Procured (MU)	Amount Incurred (Rs Crore)	Rate (Rs/kWh)	Ceiling Rate (Rs/kWh)	Disallowance (Rs/kWh)	Disallowance (Rs Crore)
A	b	c	d=c/b*10	E	f=d-e	g=f*b/10
PTC	303.57	68.92	2.27	2.75	-	-
UI	1214.66	494.09	4.07	2.75	-1.32	-160.06
<b>Total</b>	<b>1518.23</b>	<b>563.01</b>	<b>3.71</b>	<b>2.75</b>	<b>-1.32</b>	<b>-160.06</b>

Further, the Petitioner in its True-up petition has considered the energy sales of four distribution companies alone i.e., DVVNL, MVVNL, PVVNL and PuVVNL. However the Commission has considered the bulk sales to KESCO and NPCL as well to analyse the



energy requirement at UPPCL level. This has been done to maintain consistency with the philosophy adopted in the Tariff Order for FY 2004-05

In this section, the Commission has assessed the allowable power purchase cost at the UPPCL level wherein the allowable power purchase cost at discom end has been trued up.

The table below summarises the sales, transmission losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

**Table 7-2: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2004-05**

Particulars	Unit	Tariff Order	Actual	Approved
Power Purchase	MU	38816.00	42210.20	42210.20
Transmission Loss	MU	1942.00	2098.33	2098.33
Transmission Loss	%	5.00%	4.97%	4.97%
Energy available at Discom End	MU	36874.00	40111.87	40111.87
Power Purchase Cost	Rs Crore	6460.23	8220.79	8060.73 <sup>2</sup>
Power Purchase Cost per unit	Rs/kWh	1.66	1.95	1.91
Allowable Power Purchase Cost at Discom end	Rs Crore			8060.73
Power Purchase Cost per unit at discom end	Rs/kWh	1.75	2.05	2.01

The allowable power purchase cost has been assessed at Rs. 8,060.73 crores for FY 2004-05 at UPPCL level.

### 7.3 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses, and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2004-05 in respect of UPPCL, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

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<sup>2</sup> After considering a disallowance of Rs. 160.06 crores



### **7.3.1 Employee Expenses**

The Petitioner has submitted that the actual gross employee expenses for FY 2004-05 were Rs. 228.63 crores as against Rs. 226.05 crores approved by the Commission in the Tariff Order. However the capitalisation has been at a slightly higher level than those approved in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 68.65 crores as against Rs. 54.50 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 159.98 crores as against Rs. 171.55 crores approved in the Tariff Order. The Petitioner has also claimed efficiency gains of Rs. 5.79 crores.

Thus, the UPPCL has claimed gross employee expenses of Rs. 234.41 crores (including efficiency gains of Rs. 5.79 crores) and capitalisation thereof amounting to Rs. 68.65 crores.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross employee expenses of Rs. 226.05 crores and capitalisation thereof amounting to Rs. 68.65 crores.

### **7.3.2 A&G Expenses**

The Petitioner has submitted that the actual gross A&G expenses for FY 2004-05 were Rs. 16.84 crores as against Rs. 5.97 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 4.16 crores. Thus the net A&G expenses as per audited accounts are Rs. 12.67 crores as against Rs. 5.97 crores approved in the tariff order.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order for all

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years before the formulation of the Tariff Regulations. The capitalisation has been considered at actual as per audited accounts.

Thus, the Commission has approved gross A&G expenses of Rs. 5.97 crores and capitalisation thereof amounting to Rs. 4.16 crores.

### 7.3.3 Repair and Maintenance Expenses

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2004-05 were Rs. 37.36 crores as against Rs. 53.96 crores approved by the Commission in the Tariff Order. Actual expenses being lower than the approved levels, the Petitioner has also claimed efficiency gains of Rs. 8.30 crores.

Considering the details submitted by the Petitioner, the Commission has accepted the actual repair and maintenance expenses amounting to Rs. 37.36 crores as per audited accounts under the truing up exercise. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

**Table 7-3: APPROVED O&M EXPENSES FOR FY 2004-05 FOR UPPCL (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	226.05	228.63	234.41	226.05
Repair & Maintenance Expenses	53.96	37.36	45.66	37.36
Administrative and General Expenses	5.97	16.84	16.84	5.97
<b>Gross Operation and Maintenance Expenses</b>	<b>285.98</b>	<b>282.83</b>	<b>296.91</b>	<b>269.38</b>
Less: Capitalisation				
Employee Cost Capitalized	54.50	68.65	68.65	68.65
A&G Expenses Capitalized	-	4.16	4.16	4.16
<b>Total Capitalization</b>	<b>54.50</b>	<b>72.81</b>	<b>72.81</b>	<b>72.81</b>
<b>Net Operation and Maintenance Expenses</b>	<b>231.48</b>	<b>210.02</b>	<b>224.10</b>	<b>196.57</b>



## 7.4 INTEREST AND FINANCE CHARGES

### 7.4.1 Interest on Long Term Loans

The UPPCL has claimed net interest expenses of Rs. 74.52 crores as against Rs. 135.99 crores approved in the Tariff Order.

Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts, the Commission has derived the actual capital investments undertaken by UPPCL in FY 2004-05. The details are provided in the table below:

**Table 7-4: CAPITAL INVESTMENTS IN FY 2004-05 (Rs. Crores)**

Particulars	Derivation	2004-05
Opening WIP as on 1st April	A	982.47
Investments	B	302.52
Employee Expenses Capitalisation	C	68.65
A&G Expenses Capitalisation	D	4.16
Interest Capitalisation on Interest on long term loans	E	7.68
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>1365.48</b>
Transferred to GFA (Total Capitalisation)	G	195.85
<b>Closing WIP</b>	<b>H= F-G</b>	<b>1169.63</b>

The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2004-05:



**Table 7-5: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2004-05 (Rs. Crores)**

Particulars	2004-05
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	282.11
Additions during the year	102.24
Less: Amortisation	21.81
<b>Closing Balance</b>	<b>362.55</b>

Thus, the approved financing of the capital investment is depicted in the table below:

**Table 7-6: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2004-05 (Rs. Crores)**

Particulars	Derivation	2004-05
Investment	A	302.52
Less:		
Consumer Contribution	B	102.24
Investment funded by debt and equity	C=A-B	200.28
Debt Funded	70%	140.19
Equity Funded	30%	60.08

Thus, from the above tables it is seen, that UPPCL has made an investment of Rs. 302.52 crores in FY 2004-05. However the consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 102.24 crores. Thus, balance Rs. 200.28 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 140.19 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 60.08 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate of 5.32% has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 27.55 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 7-7: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2004-05 (Rs Crores)**

Particulars	2004-05
Opening Loan	521.20
Loan Additions (70% of Investments)	140.19
Less: Repayments (Depreciation allowable for the year)	146.74
Closing Loan Balance	514.65



Particulars	2004-05
Weighted Average Rate of Interest	5.32%
<b>Interest on long term loan</b>	<b>27.55</b>
Interest Capitalisation Rate	4.22%
Less: Interest Capitalized	1.16
<b>Net Interest Charged</b>	<b>26.39</b>

#### 7.4.2 Finance Charges

The UPPCL has claimed Rs. 24.07 crores towards finance charges during FY 2004-05. Items claimed under this head are towards items such as bank charges, finance charges, etc.

The Commission approved the expenses incurred towards bank charges and finance charges amounting to Rs. 24.07 crores as per audited accounts.

#### 7.4.3 Interest on Working Capital

The UPPCL has claimed Rs. 76.00 crores towards interest on working capital for FY 2004-05.

The Commission had not allowed any amounts towards interest on working capital in the Tariff Order for FY 2004-05. Accordingly, the Commission does not allow any amounts towards interest on working capital in trueing up.

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2004-05:

**Table 7-8: INTEREST AND FINANCE CHARGES FOR UPPCL (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	176.85	82.20	82.20	27.55
Less: Interest Capitalisation	40.86	7.68	7.68	1.16
<b>Net Interest on Long Term Loans</b>	<b>135.99</b>	<b>74.52</b>	<b>74.52</b>	<b>26.39</b>
<b>B: Finance and Other Charges</b>				
Finance Charges	-	0.77	0.77	0.77



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Bank Charges	-	23.31	23.31	23.31
<b>Total Finance Charges</b>	<b>-</b>	<b>24.07</b>	<b>24.07</b>	<b>24.07</b>
<b>C: Interest on Working Capital</b>	<b>-</b>	<b>76.00</b>	<b>76.00</b>	<b>0.00</b>
<b>Total (A+B+C)</b>	<b>135.99</b>	<b>174.58</b>	<b>174.58</b>	<b>50.46</b>

## 7.5 DEPRECIATION

In the Tariff Order for FY 2004-05, the Commission had considered depreciation to the extent of Rs. 189.58 crores on a gross fixed asset base of Rs. 3,597 crores for UPPCL.

The actual depreciation expense charged in the audited accounts is Rs. 212.24 crores. However the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the UPPCL has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2004-05. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 168.55 crores as depicted in the table below:

**Table 7-9: DEPRECIATION CLAIMED FOR UPPCL FOR FY 2004-05 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	17.70	-	-	17.70		
ii) Freehold Land	3.47	0.19	-	3.66		
Buildings	383.14	17.16	-	400.29		
Other Civil Works	106.29	0.87	-	107.16		
Plants & Machinery	4,504.05	113.13	14.98	4,602.20		
Lines, Cable Network etc.	6,496.80	64.19	0.56	6,560.43		
Vehicles	7.76	0.02	0.03	7.75		
Furniture & Fixtures	3.58	0.06	0.00	3.63		
Office Equipments	8.16	0.23	0.43	7.96		



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Jeep & Motor Car	-	-	-	-		
Assets taken over from Licensees pending final Valuation	7.01	-	-	7.01		
<b>Total</b>	<b>11,537.96</b>	<b>195.85</b>	<b>16.01</b>	<b>11,717.81</b>		
Less: Provisional Transfer to Discoms	(8,429.60)	-	-	(8,429.60)		
<b>GRAND TOTAL</b>	<b>3,108.36</b>	<b>195.85</b>	<b>16.01</b>	<b>3,288.21</b>	<b>5.27%</b>	<b>168.55</b>

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the UPPCL has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 21.81 crores as detailed in Table 3-10 has been reduced from the allowable depreciation for FY 2004-05.

Thus the approved depreciation for FY 2004-05 is Rs. 146.74 crores in respect of UPPCL as depicted in the table below:

**Table 7-10: APPROVED DEPRECIATION FOR UPPCL FOR FY 2004-05 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	189.58	212.24	168.55	168.55
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	21.81
<b>Net Allowable Depreciation</b>	<b>189.58</b>	<b>212.24</b>	<b>168.55</b>	<b>146.74</b>



## **7.6 PRIOR PERIOD EXPENSES**

The UPPCL has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2004-05. In the audited financial statements for FY 2004-05, there has been recognition of Rs. 0.39 crores of prior period incomes and prior period expenses of Rs. -67.04 crores, thereby the net prior period expense claimed is Rs. -67.43 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2004-05.

## **7.7 SUBSIDY**

The UPPCL has submitted that it has received a subsidy of Rs. 4.70 crores during FY 2004-05.

The Commission has accepted the submission of the UPPCL, under this head.

## **7.8 REVENUE SIDE TRUING UP**

### **7.8.1 NON TARIFF INCOMES**

The UPPCL has submitted that the actual non-tariff income during FY 2004-05 were Rs. 15.75 crores as compared to Rs. 21.00 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the UPPCL, under this head.

## **7.9 AGGREGATE REVENUE REQUIREMENT FOR UPPCL FOR FY 2004-05 AFTER TRUING UP**

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The Aggregate Revenue Requirement for UPPCL for FY 2004-05 after final truing up is summarised in the Table below:

**Table 7-11: ARR FOR UPPCL FOR FY 2004-05 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	6460.23	8220.79	7127.84	8060.73
Employee Expenses	226.05	228.63	234.41	226.05
Repair and Maintenance Expenses	53.96	37.36	45.66	37.36
A&G Expenses	5.97	16.84	16.84	5.97
Gross Interest on Long Term Loans	176.85	82.20	82.20	27.55
Finance Charges	-	24.07	24.07	24.07
Interest on Working Capital	-	76.00	76.00	-
Depreciation	189.58	212.24	168.55	146.74
Prior Period Expenses	-	-67.43	-67.43	-
Provision for Bad and Doubtful Debts	-	123.68	-	-
<b>Gross Expenditure</b>	<b>7112.64</b>	<b>8954.38</b>	<b>7708.14</b>	<b>8528.48</b>
Less: Employee Capitalisation	54.50	68.65	68.65	68.65
Less: A&G Capitalisation	-	4.16	4.16	4.16
Less: Interest Capitalisation	40.86	7.68	7.68	1.16
<b>Total Capitalisation</b>	<b>95.36</b>	<b>80.50</b>	<b>80.50</b>	<b>73.97</b>
<b>Net Expenditure</b>	<b>7017.28</b>	<b>8873.88</b>	<b>7627.65</b>	<b>8454.51</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	21.00	15.75	15.75	15.75
<b>Annual Revenue Requirement</b>	<b>6996.28</b>	<b>8858.14</b>	<b>7611.90</b>	<b>8438.76</b>
GoUP Subsidy	-	4.70	4.70	4.70
<b>Net Revenue Requirement</b>	<b>6996.28</b>	<b>8853.44</b>	<b>7607.20</b>	<b>8434.06</b>
Energy Handled	36874.00	40111.87	37516.70	40111.87
<b>Bulk Supply Tariff</b>	<b>1.897</b>	<b>2.207</b>	<b>2.028</b>	<b>2.103</b>

## 7.10 DERIVATION OF THE BULK SUPPLY TARIFF FOR DISTRIBUTION COMPANIES

### 7.10.1 The Petitioner's Submission:





The Petitioner has computed the allowable ARR of the UPPCL and thereafter has allocated the ARR among four Discoms namely DVVNL, MVVNL, PVVNL and PuVVNL in the ratio of the actual power purchase input at each Discom during FY 2004-05.

The UPPCL in its True-up petition has estimated the allowable bulk supply tariff for the distribution companies at Rs. 2.028 per kWh as per the table below:

**Table 7-12: DERIVATION OF THE BULK SUPPLY TARIFF FOR FY 2004-05**

Particulars	Unit	Tariff Order	Actual
ARR of UPPCL in respect of bulk supply and transmission business	Rs Crores	6996.28	7607.20
Energy Handled	MU	36874.00	37516.70
<b>Bulk Supply Tariff</b>	<b>Rs/kWh</b>	<b>1.897</b>	<b>2.028</b>

The allocation of cost of UPPCL among four Discoms has been done by the Petitioner as per the table below:

**Table 7-13: ALLOCATION OF COST OF UPPCL FOR FY 2004-05**

Particulars	Unit	Meerut	Agra	Lucknow	Varanasi	Total UPPCL
Actual Power Purchase	MU	12542	9022	6850	9103	37517
Trued-up BST Rate	Rs/kWh	2.028	2.028	2.028	2.028	2.028
<b>Allocation of Cost of UPPCL (Bulk Supply &amp; Transmission Cost)</b>	<b>Rs Crore</b>	<b>2,543.08</b>	<b>1,829.35</b>	<b>1,388.87</b>	<b>1,845.89</b>	<b>7,607.20</b>

### 7.10.2 The Commission's Analysis:

UPPCL has incurred the charges towards:

- costs of power purchase / bulk supply and
- transmission costs (including cost of transmission losses) for providing transmission service as a company that owns the 'wires'.

UPPCL supplies the entire energy purchased by it to its subsidiary distribution companies namely DVVNL, MVVNL, PVVNL, PuVVNL and also to KESCO and NPCL.



As per the truing up, the Commission has assessed the ARR of UPPCL at Rs. 8434.06 crores as compared to Rs. 6,996.28 crores approved in the Tariff Order for FY 2004-05. The bulk supply tariff has been assessed at Rs. 2.103 per kWh as compared to Rs. 1.897 per kWh approved in the Tariff Order for FY 2004-05.

**Table 7-14: TRUED UP BULK SUPPLY TARIFF FOR FY 2004-05**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>Net ARR (Rs Crore)</b>	<b>6996.28</b>	<b>8853.44</b>	<b>7607.20</b>	<b>8434.06</b>
Energy Handled (MU)	36874.00	40111.87	37516.70	40111.87
<b>Bulk Supply Tariff (Rs/kWh)</b>	<b>1.897</b>	<b>2.207</b>	<b>2.028</b>	<b>2.103</b>



### 7.11 TRUING UP OF THE ARR OF THE DISTRIBUTION COMPANIES FOR FY 2004-05

In the following sections, the ARR and Revenue Gap / (Surplus) of the distribution companies is assessed after truing up for FY 2004-05.

### 7.12 POWER PURCHASE EXPENSES

The trued up bulk supply tariff has been determined in the foregoing section. The Commission in the FY 2004-05 Tariff Order had prescribed the distribution loss targets for each Discom. The Commission has computed the allowable power purchase by grossing up the actual energy sales by the approved distribution loss target for each Discom. In case of DVVNL, the actual distribution loss of 32.58% was considered as it was lower than the approved target of 33.91%. The allowable power purchase input has been multiplied by the trued up bulk supply tariff to derive the allowable power purchase cost of each Discom for truing up.

Accordingly, the table below provides the allowable power purchase cost for each Discom for FY 2004-05:

**Table 7-15: ALLOWABLE DISCOM WISE POWER PURCHASE COST FOR FY 2004-05 (Rs Crore)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL
Actual Power Purchase (MU)	9021.88	6849.56	12543.23	9103.45
Sales (MU)	6082.12	5017.18	8934.93	6536.49
Distribution Loss Target (%)	32.58%	19.45%	27.29%	19.05%
Allowable Power Purchase (MU)	9021.88	6228.53	12288.07	8074.84
Trued up Bulk Supply Tariff	2.103	2.103	2.103	2.103
<b>Allowable Power Purchase (Rs Crore)</b>	<b>1896.97</b>	<b>1309.63</b>	<b>2583.73</b>	<b>1697.84</b>

### 7.13 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2004-05, and the Commission's analysis on the truing up of the O&M expenditure heads are detailed below:



### **7.13.1 Employee Expenses**

The Petitioner has submitted that the actual gross employee expenses for FY 2004-05 were Rs. 808.09 crores as against Rs. 795.20 crores approved by the Commission in the Tariff Order for consolidated Discoms. The employee expenses capitalised as per audited accounts are to the tune of Rs. 102.96 crores as against Rs. 110.20 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 705.13 crores as against Rs. 685.00 crores approved in the Tariff Order. The Petitioner has also claimed efficiency gains of Rs. 2.80 crores and Rs. 1.30 crores in DVVNL and MVVNL respectively.

The Commission has assessed the allowance of employee expenses at each Discom level. The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. In cases, where the actual expenses are below approved expenses, actual expenses have been considered. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross employee expenses of Rs. 779.93 crores and capitalisation thereof amounting to Rs. 102.96 crores for FY 2004-05.

### **7.13.2 A&G Expenses**

The Petitioner has submitted that the actual gross A&G expenses for FY 2004-05 were Rs. 89.30 crores as against Rs. 64.53 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 8.25 crores approved in the Tariff Order. Thus the net A&G expenses as per audited accounts are Rs. 81.05 crores as against Rs. 64.53 crores approved in the Tariff Order.

The Commission has assessed the allowance of A&G expenses at each Discom level. The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. In cases, where the actual

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expenses are below approved expenses, actual expenses have been considered. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross A&G expenses of Rs. 64.53 crores and capitalisation thereof amounting to Rs. 8.25 crores for consolidated Discoms.

### 7.13.3 Repair and Maintenance Expenses:

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2004-05 were Rs. 200.53 crores for consolidated Discoms as against Rs. 199.99 crores approved by the Commission in the Tariff Order. Actual expenses being lower than the approved levels, the Petitioner has also claimed efficiency gains of Rs. 6.29 crores and Rs. 2.07 crores in PVVNL and MVVNL respectively.

The Commission has assessed the allowance of R&M expenses at each Discom level. The Commission has considered R&M expenses as controllable expenses and accordingly disallowed R&M expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. In cases, where the actual expenses are below approved expenses, actual expenses have been considered. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus the Commission has approved R&M expenses of Rs. 183.27 crores for FY 2004-05 for consolidated Discoms.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission for all the distribution companies are shown in the table below:

**Table 7-16: APPROVED O&M EXPENSES FOR FY 2004-05 FOR DISCOMS (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
AGRA DISCOM				



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	153.04	142.77	145.57	142.77
Repair & Maintenance Expenses	40.88	41.57	41.57	40.88
Administrative and General Expenses	11.95	16.03	16.03	11.95
<b>Gross Operation and Maintenance Expenses</b>	<b>205.87</b>	<b>200.36</b>	<b>203.16</b>	<b>195.60</b>
Less: Capitalisation				
Employee Cost Capitalized	27.55	22.88	22.88	22.88
A&G Expenses Capitalized	-	2.35	2.35	2.35
<b>Total Capitalization</b>	<b>27.55</b>	<b>25.23</b>	<b>25.23</b>	<b>25.23</b>
<b>Net Operation and Maintenance Expenses</b>	<b>178.32</b>	<b>175.13</b>	<b>177.93</b>	<b>170.37</b>
<b>LUCKNOW DISCOM</b>				
Employee Expenses	205.05	205.35	206.65	205.05
Repair & Maintenance Expenses	44.40	40.26	42.33	40.26
Administrative and General Expenses	16.73	28.90	28.90	16.73
<b>Gross Operation and Maintenance Expenses</b>	<b>266.18</b>	<b>274.51</b>	<b>277.88</b>	<b>262.04</b>
Less: Capitalisation				
Employee Cost Capitalized	27.55	30.45	30.45	30.45
A&G Expenses Capitalized	-	0.56	0.56	0.56
<b>Total Capitalization</b>	<b>27.55</b>	<b>31.01</b>	<b>31.01</b>	<b>31.01</b>
<b>Net Operation and Maintenance Expenses</b>	<b>238.63</b>	<b>243.51</b>	<b>246.87</b>	<b>231.04</b>
<b>MEERUT DISCOM</b>				
Employee Expenses	194.05	221.91	221.91	194.05
Repair & Maintenance Expenses	63.69	51.10	57.40	51.10
Administrative and General Expenses	17.33	22.14	22.14	17.33
<b>Gross Operation and Maintenance Expenses</b>	<b>275.07</b>	<b>295.15</b>	<b>301.45</b>	<b>262.48</b>
Less: Capitalisation				
Employee Cost Capitalized	27.55	28.07	28.07	28.07
A&G Expenses Capitalized	-	2.72	2.72	2.72
<b>Total Capitalization</b>	<b>27.55</b>	<b>30.79</b>	<b>30.79</b>	<b>30.79</b>
<b>Net Operation and Maintenance Expenses</b>	<b>247.52</b>	<b>264.36</b>	<b>270.65</b>	<b>231.69</b>
<b>VARANASI DISCOM</b>				
Employee Expenses	243.06	238.06	238.06	238.06



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Repair & Maintenance Expenses	51.02	67.59	67.59	51.02
Administrative and General Expenses	18.52	22.24	22.24	18.52
<b>Gross Operation and Maintenance Expenses</b>	<b>312.60</b>	<b>327.89</b>	<b>327.89</b>	<b>307.60</b>
Less: Capitalisation				
Employee Cost Capitalized	27.55	21.57	21.57	21.57
A&G Expenses Capitalized	-	2.62	2.62	2.62
<b>Total Capitalization</b>	<b>27.55</b>	<b>24.18</b>	<b>24.18</b>	<b>24.18</b>
<b>Net Operation and Maintenance Expenses</b>	<b>285.05</b>	<b>303.71</b>	<b>303.71</b>	<b>283.42</b>
<b>CONSOLIDATED DISCOMS</b>				
Employee Expenses	795.20	808.09	812.19	779.93
Repair & Maintenance Expenses	199.99	200.53	208.89	183.27
Administrative and General Expenses	64.53	89.30	89.30	64.53
<b>Gross Operation and Maintenance Expenses</b>	<b>1059.72</b>	<b>1097.92</b>	<b>1110.38</b>	<b>1027.72</b>
Less: Capitalisation				
Employee Cost Capitalized	110.20	102.96	102.96	102.96
A&G Expenses Capitalized	-	8.25	8.25	8.25
<b>Total Capitalization</b>	<b>110.20</b>	<b>111.21</b>	<b>111.21</b>	<b>111.21</b>
<b>Net Operation and Maintenance Expenses</b>	<b>949.52</b>	<b>986.71</b>	<b>999.17</b>	<b>916.51</b>

## 7.14 INTEREST AND FINANCE CHARGES

### 7.14.1 Interest on Long Term Loans:

The Petitioner has claimed net interest expenses of Rs. 84.07 crores as against Rs. 211.19 crores approved in the Tariff Order for consolidated Discoms.

Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts, the Commission has derived the actual capital investments undertaken by Discoms in FY 2004-05. The details are provided in the table below:



**Table 7-17: CAPITAL INVESTMENTS IN FY 2004-05 (Rs. Crores)**

Particulars	Derivation	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening WIP as on 1st April	A	62.86	109.63	92.95	92.68	<b>358.12</b>
Investments	B	169.63	225.93	217.16	159.50	<b>772.22</b>
Employee Expenses Capitalisation	C	22.88	30.45	28.07	21.57	<b>102.96</b>
A&G Expenses Capitalisation	D	2.35	0.56	2.72	2.62	<b>8.25</b>
Interest Capitalisation on Interest on long term loans	E	3.12	3.89	2.25	1.32	<b>10.59</b>
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>260.84</b>	<b>370.46</b>	<b>343.16</b>	<b>277.69</b>	<b>1252.14</b>
Transferred to GFA (Total Capitalisation)	G	191.87	206.89	240.62	171.07	<b>810.44</b>
<b>Closing WIP</b>	<b>H= F-G</b>	<b>68.97</b>	<b>163.57</b>	<b>102.54</b>	<b>106.62</b>	<b>441.70</b>

The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2004-05:

**Table 7-18: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2004-05 (Rs. Crores)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	125.16	169.99	166.23	186.52	<b>647.90</b>
Additions during the year	127.31	39.94	83.38	46.54	<b>297.17</b>
Less: Amortisation	9.81	13.33	13.03	14.62	<b>50.80</b>
<b>Closing Balance</b>	<b>242.66</b>	<b>196.60</b>	<b>236.58</b>	<b>218.43</b>	<b>894.27</b>

Thus, the approved financing of the capital investment is depicted in the table below:





**Table 7-19: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2004-05 (Rs. Crores)**

Particulars	Derivation	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Investment	A	169.63	225.93	217.16	159.50	<b>772.22</b>
Less:						
Consumer Contribution	B	127.31	39.94	83.38	46.54	<b>297.17</b>
Investment funded by debt and equity	C=A-B	42.32	185.99	133.77	112.96	<b>475.05</b>
Debt Funded	70%	29.62	130.19	93.64	79.07	<b>332.53</b>
Equity Funded	30%	12.70	55.80	40.13	33.89	<b>142.51</b>

Thus, from the above tables it is seen, that total investments made in distribution segment in FY 2004-05 were to the tune of Rs. 772.22 crores. The consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 297.17 crores. Thus, balance Rs. 475.05 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 332.53 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 142.51 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate as per audited accounts has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 58.92 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 7-20: Approved Interest on Long Term Loan for FY 2004-05 (Rs Crores)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Loan	280.53	330.39	290.42	355.45	<b>1,256.80</b>
Loan Additions (70% of Investments)	29.62	130.19	93.64	79.07	<b>332.53</b>
Less: Repayments (Depreciation allowable for the year)	117.12	121.07	185.38	139.23	<b>562.81</b>
Closing Loan Balance	193.03	339.51	198.68	295.29	<b>1,026.52</b>
Weighted Average Rate of Interest	7.61%	5.48%	4.31%	3.69%	
<b>Interest on long term loan</b>	<b>18.02</b>	<b>18.37</b>	<b>10.55</b>	<b>11.99</b>	<b>58.92</b>
Interest Capitalisation Rate	7.96%	12.22%	9.50%	5.46%	<b>9.05%</b>
Less: Interest Capitalized	1.43	2.25	1.00	0.65	<b>5.33</b>
<b>Net Interest Charged</b>	<b>16.58</b>	<b>16.12</b>	<b>9.54</b>	<b>11.34</b>	<b>53.59</b>



Thus, the net interest on long term loan has been approved at Rs. 53.59 crores.

#### 7.14.2 Finance Charges:

The Petitioner has claimed Rs. 30.86 crores towards finance charges during FY 2004-05 in respect of consolidated Discoms. Items claimed under this head are towards items such as bank charges, finance charges, interest on consumer security deposits, etc.

The Commission approves the actual interest on consumer security deposits, bank charges and finance charges as per audited accounts amounting to Rs. 30.86 crores.

#### 7.14.3 Interest on Working Capital:

The UPPCL has claimed Rs. 24.42 crores towards interest on working capital for FY 2004-05.

The Commission had not allowed any amounts towards interest on working capital in the Tariff Order for FY 2004-05. Accordingly, the Commission does not allow any amounts towards interest on working capital in truing up.

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for all the distribution companies for FY 2004-05:

**Table 7-21: APPROVED INTEREST AND FINANCE CHARGES FOR DVVNL FOR FY 2004-05**

(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	41.70	14.83	14.83	18.02
Less: Interest Capitalisation	9.63	3.12	3.12	1.43
<b>Net Interest on Long Term Loans</b>	<b>32.07</b>	<b>11.71</b>	<b>11.71</b>	<b>16.58</b>
<b>B: Finance and Other Charges</b>				
Bank Charges	-	0.22	0.22	0.22
Interest on Consumer Security Deposits	-	7.03	7.03	7.03
<b>Total Finance Charges</b>	<b>-</b>	<b>7.25</b>	<b>7.25</b>	<b>7.25</b>



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>C: Interest on Working Capital</b>	-	24.42	24.42	-
<b>Total (A+B+C)</b>	<b>32.07</b>	<b>43.37</b>	<b>43.37</b>	<b>23.83</b>

**Table 7-22: APPROVED INTEREST AND FINANCE CHARGES FOR MVVNL FOR FY 2004-05**  
(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	110.71	31.83	31.83	18.37
Less: Interest Capitalisation	25.58	3.89	3.89	2.25
<b>Net Interest on Long Term Loans</b>	<b>85.13</b>	<b>27.93</b>	<b>27.93</b>	<b>16.12</b>
<b>B: Finance and Other Charges</b>				
Bank Charges	-	0.21	0.21	0.21
Interest on Consumer Security Deposits	-	2.35	2.35	2.35
<b>Total Finance Charges</b>	<b>-</b>	<b>2.56</b>	<b>2.56</b>	<b>2.56</b>
<b>C: Interest on Working Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A+B+C)</b>	<b>85.13</b>	<b>30.49</b>	<b>30.49</b>	<b>18.68</b>

**Table 7-23: APPROVED INTEREST AND FINANCE CHARGES FOR PVVNL FOR FY 2004-05**  
(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	47.45	23.74	23.74	10.55
Less: Interest Capitalisation	10.96	2.25	2.25	1.00
<b>Net Interest on Long Term Loans</b>	<b>36.49</b>	<b>21.48</b>	<b>21.48</b>	<b>9.54</b>
<b>B: Finance and Other Charges</b>				



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Finance Charges	-	1.10	1.10	1.10
Bank Charges	-	0.15	0.15	0.15
Interest on Consumer Security Deposits	-	7.24	7.24	7.24
<b>Total Finance Charges</b>	-	<b>8.48</b>	<b>8.48</b>	<b>8.48</b>
<b>C: Interest on Working Capital</b>	-	-	-	-
<b>Total (A+B+C)</b>	<b>36.49</b>	<b>29.97</b>	<b>29.97</b>	<b>18.03</b>

**Table 7-24: APPROVED INTEREST AND FINANCE CHARGES FOR PuVVNL FOR FY 2004-05 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	74.77	24.26	24.26	11.99
Less: Interest Capitalisation	17.27	1.32	1.32	0.65
<b>Net Interest on Long Term Loans</b>	<b>57.50</b>	<b>22.94</b>	<b>22.94</b>	<b>11.34</b>
<b>B: Finance and Other Charges</b>				
Finance Charges	-	-	-	-
Bank Charges	-	0.13	0.13	0.13
Interest on Consumer Security Deposits	-	12.45	12.45	12.45
<b>Total Finance Charges</b>	-	<b>12.57</b>	<b>12.57</b>	<b>12.57</b>
<b>C: Interest on Working Capital</b>	-	-	-	-
<b>Total (A+B+C)</b>	<b>57.50</b>	<b>35.52</b>	<b>35.52</b>	<b>23.91</b>

**Table 7-25: APPROVED INTEREST AND FINANCE CHARGES FOR CONSOLIDATED DISCOMS FOR FY 2004-05 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
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Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	274.63	94.66	94.66	58.92
Less: Interest Capitalisation	63.44	10.59	10.59	5.33
<b>Net Interest on Long Term Loans</b>	<b>211.19</b>	<b>84.07</b>	<b>84.07</b>	<b>53.59</b>
<b>B: Finance and Other Charges</b>				
Finance Charges	-	1.10	1.10	1.10
Bank Charges	-	0.70	0.70	0.70
Interest on Consumer Security Deposits	-	29.06	29.06	29.06
<b>Total Finance Charges</b>	<b>-</b>	<b>30.86</b>	<b>30.86</b>	<b>30.86</b>
<b>C: Interest on Working Capital</b>				
	-	24.42	24.42	-
<b>Total (A+B+C)</b>	<b>211.19</b>	<b>139.34</b>	<b>139.34</b>	<b>84.45</b>

## 7.15 DEPRECIATION

In the Tariff Order for FY 2004-05, the Commission had considered depreciation amounting to Rs. 627.16 crores on a gross fixed asset base of Rs. 7,999 crores.

The actual depreciation expense charged in the audited accounts is Rs. 476.67 crores. However the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2004-05. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 613.61 crores as depicted in the table below:

**Table 7-26: DEPRECIATION CLAIMED FOR DVVNL FOR FY 2004-05 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	0.02	0.01	-	0.04		-



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Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
ii) Freehold Land	-	-	-	-		-
Buildings	0.39	2.16	-	2.55	7.84%	0.12
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	11.82	100.05	74.38	37.49	7.84%	1.93
Lines, Cable Network etc.	47.71	89.61	10.99	126.33	7.84%	6.82
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	0.02	0.03	-	0.05	7.84%	0.00
Office Equipments	0.00	0.01	-	0.01	7.84%	0.00
Jeep & Motor Car	-	-	0.08	-0.08		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>59.97</b>	<b>191.87</b>	<b>85.45</b>	<b>166.39</b>		<b>8.87</b>
Fixed Asset as per Transfer Scheme	1,505.95	-	-	1,505.95	7.84%	118.07
<b>GRAND TOTAL</b>	<b>1,565.92</b>	<b>191.87</b>	<b>85.45</b>	<b>1,672.34</b>	<b>7.84%</b>	<b>126.94</b>

Table 7-27: DEPRECIATION CLAIMED FOR MVVNL FOR FY 2004-05 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	0.03	-	0.03		-
ii) Freehold Land	-	-	-	-		-
Buildings	1.04	1.40	-	2.43	7.84%	0.14
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	8.64	117.47	56.31	69.80	7.84%	3.07
Lines, Cable Network etc.	30.77	87.14	5.82	112.09	7.84%	5.60
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	0.05	0.00	-	0.06	7.84%	0.00
Office Equipments	0.40	0.85	-	1.25	7.84%	0.07
Jeep & Motor Car	-	-	-	-		-



Order on True-up for FY 2000-01 to 2007-08

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>40.90</b>	<b>206.89</b>	<b>62.13</b>	<b>185.66</b>		<b>8.88</b>
Fixed Asset as per Transfer Scheme	1,601.03	-	-	1,601.03	7.84%	125.52
<b>GRAND TOTAL</b>	<b>1,641.93</b>	<b>206.89</b>	<b>62.13</b>	<b>1,786.69</b>	<b>7.84%</b>	<b>134.40</b>

**Table 7-28: DEPRECIATION CLAIMED FOR PVVNL FOR FY 2004-05 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	0.01	-	0.01		-
ii) Freehold Land	-	-	-	-		-
Buildings	1.48	2.99	0.01	4.46	7.84%	0.23
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	28.65	149.46	100.02	78.09	7.84%	4.18
Lines, Cable Network etc.	50.07	87.95	15.41	122.60	7.84%	6.77
Vehicles	-	0.00	0.00	0.00	7.84%	0.00
Furniture & Fixtures	0.04	0.05	-	0.10	7.84%	0.01
Office Equipments	0.07	0.15	-	0.22	7.84%	0.01
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>80.31</b>	<b>240.62</b>	<b>115.44</b>	<b>205.48</b>		<b>11.20</b>
Fixed Asset as per Transfer Scheme	2,387.92	-	-	2,387.92	7.84%	187.21
<b>GRAND TOTAL</b>	<b>2,468.23</b>	<b>240.62</b>	<b>115.44</b>	<b>2,593.40</b>	<b>7.84%</b>	<b>198.42</b>



**Table 7-29: DEPRECIATION CLAIMED FOR PuVVNL FOR FY 2004-05 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	-	-	-		-
ii) Freehold Land	-	-	-	-		-
Buildings	0.08	1.88	-	1.96	7.84%	0.08
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	11.76	110.43	95.35	26.83	7.84%	1.51
Lines, Cable Network etc.	38.09	58.68	3.78	92.99	7.84%	5.14
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	0.00	0.06	-	0.06	7.84%	0.00
Office Equipments	0.01	0.02	-	0.03	7.84%	0.00
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>49.94</b>	<b>171.07</b>	<b>99.13</b>	<b>121.88</b>		<b>6.74</b>
Fixed Asset as per Transfer Scheme	1,876.52	-	-	1,876.52	7.84%	147.12
<b>GRAND TOTAL</b>	<b>1,926.46</b>	<b>171.07</b>	<b>99.13</b>	<b>1,998.40</b>	<b>7.84%</b>	<b>153.85</b>

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 50.80 crores as detailed in Table 3-10, for consolidated Discoms has been reduced from the allowable depreciation.





Thus the approved depreciation for FY 2004-05 is Rs. 562.82 crores for consolidated Discoms. The Discom wise allowable depreciation and depreciation for consolidated Discoms has been depicted in the table below:

**Table 7-30: APPROVED DEPRECIATION FOR DVVNL FOR FY 2004-05 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	128.21	112.94	126.94	126.94
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	9.81
<b>Net Allowable Depreciation</b>	<b>128.21</b>	<b>112.94</b>	<b>126.94</b>	<b>117.13</b>

**Table 7-31: APPROVED DEPRECIATION FOR MVVNL FOR FY 2004-05 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	139.25	115.37	134.40	134.40
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	13.33
<b>Net Allowable Depreciation</b>	<b>139.25</b>	<b>115.37</b>	<b>134.40</b>	<b>121.07</b>

**Table 7-32: APPROVED DEPRECIATION FOR PVVNL FOR FY 2004-05 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	199.72	181.75	198.42	198.42
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	13.03
<b>Net Allowable Depreciation</b>	<b>199.72</b>	<b>181.75</b>	<b>198.42</b>	<b>185.38</b>



**Table 7-33: APPROVED DEPRECIATION FOR PuVVNL FOR FY 2004-05 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	159.98	66.61	153.85	153.85
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	14.62
<b>Net Allowable Depreciation</b>	<b>159.98</b>	<b>66.61</b>	<b>153.85</b>	<b>139.23</b>

**Table 7-34: APPROVED DEPRECIATION FOR CONSOLIDATED DISCOMS FOR FY 2004-05 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	627.16	476.67	613.61	613.61
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	50.80
<b>Net Allowable Depreciation</b>	<b>627.16</b>	<b>476.67</b>	<b>613.61</b>	<b>562.82</b>

#### **7.16 DISCOUNT TO CONSUMERS**

The Petitioner has submitted that the actual discount to consumers provided in FY 2004-04 is Rs. 10.30 crores as per audited accounts. Such rebates are given to consumers under different heads like load factor rebate, power factor rebate, etc.

As such discounts / rebates are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred i.e., Rs. 10.30 crores for consolidated Discoms.



**Table 7-35: APPROVED DISCOUNT TO CONSUMERS FOR FY 2004-05 (Rs Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
DVVNL	-	2.52	2.52	2.52
MVVNL	-	2.20	2.20	2.20
PVVNL	-	-	-	-
PuVVNL	-	5.59	5.59	5.59
<b>Consolidated Discoms</b>	-	<b>10.30</b>	<b>10.30</b>	<b>10.30</b>

### 7.17 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2004-05. In the audited financial statements for FY 2004-05, there has been net prior period expense recognition of Rs. 21.13 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2004-05.

### 7.18 OTHER MISCELLANEOUS EXPENSES

The Petitioner has claimed certain other expenses not specifically allowable under any head of the ARR to the tune of Rs. 1.20 crores. Such minor expenses towards items such as compensation, loss due to pilferage, material cost variance, etc have been bundled together under the nomenclature of 'Other Miscellaneous Expenses'.

As such expenses were not approved in the Tariff Order for FY 2004-05, the Commission has not considered such expenses for admissibility in the true-up as well.

### 7.19 PROVISION FOR BAD AND DOUBTFUL DEBTS



The Petitioner has claimed Rs. 175.11 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2004-05 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

## **7.20 REVENUE SUBSIDY FROM GOUP**

The Petitioner has submitted that the actual revenue subsidy received from GoUP was Rs. 996.75 crores during FY 2004-05 as against Rs. 1,522.00 crores approved in the Tariff Order.

The Commission does not allow any deviations in the levels of the subsidy approved in the Tariff Order. Accordingly, revenue subsidy from GoUP has been considered at Rs. 1,522.00 crores in the true-up as well.

## **7.21 REVENUE SIDE TRUING UP**

### **7.21.1 NON TARIFF INCOMES**

The Petitioner has submitted that the actual non-tariff income during FY 2004-05 was Rs. 15.46 crores as compared to Rs. 238.00 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

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### 7.21.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2004-05 is Rs. 6,751.73 crores including Rs. 310.29 crores towards delayed payment charges as against Rs. 6,529.52 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

### 7.22 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2004-05 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2004-05 after final truing up for the distribution companies and for Consolidated Discoms is summarised in the Tables below:

**Table 7-36: DVVNL - ARR FOR FY 2004-05 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	1527.42	1876.55	1829.35	1896.97
Employee Expenses	153.04	142.77	145.57	142.77
Repair and Maintenance Expenses	40.88	41.57	41.57	40.88
A&G Expenses	11.95	16.03	16.03	11.95
Gross Interest on Long Term Loans	41.70	14.83	14.83	18.02
Finance Charges	-	7.25	7.25	7.25
Interest on Working Capital	-	24.42	24.42	-
Discount to Consumers	-	2.52	2.52	2.52
Depreciation	128.21	112.94	126.94	117.13
Prior Period Expenses	-	2.03	2.03	-
Provision for Bad and Doubtful Debts	-	14.02	45.94	-
<b>Gross Expenditure</b>	<b>1903.20</b>	<b>2254.91</b>	<b>2256.43</b>	<b>2237.48</b>
Less: Employee Capitalisation	27.55	22.88	22.88	22.88
Less: A&G Capitalisation	0.00	2.35	2.35	2.35
Less: Interest Capitalisation	9.63	3.12	3.12	1.43
<b>Total Capitalisation</b>	<b>37.18</b>	<b>28.35</b>	<b>28.35</b>	<b>26.66</b>



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Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>Net Expenditure</b>	<b>1866.02</b>	<b>2226.55</b>	<b>2228.08</b>	<b>2210.81</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	49.00	9.28	9.28	9.28
<b>Annual Revenue Requirement</b>	<b>1817.02</b>	<b>2217.27</b>	<b>2218.80</b>	<b>2201.53</b>
Revenue from Tariff including Delayed Payment Surcharge	1444.22	1468.80	1468.80	1468.80
GoUP Subsidy	373.00	157.03	157.03	373.00
<b>Net Revenue Gap</b>	<b>-0.20</b>	<b>591.44</b>	<b>592.96</b>	<b>359.73</b>

**Table 7-37: MVVNL - ARR FOR FY 2004-05 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	1231.13	1424.71	1388.87	1309.63
Employee Expenses	205.05	205.35	206.65	205.05
Repair and Maintenance Expenses	44.40	40.26	42.33	40.26
A&G Expenses	16.73	28.90	28.90	16.73
Gross Interest on Long Term Loans	110.71	31.83	31.83	18.37
Finance Charges	-	2.56	2.56	2.56
Interest on Working Capital	-	-	-	-
Discount to Consumers	-	2.20	2.20	2.20
Depreciation	139.25	115.37	134.40	121.07
Prior Period Expenses	-	15.38	15.38	-
Other Misc Expenses	-	0.40	0.40	-
Provision for Bad and Doubtful Debts	-	11.08	27.28	-
<b>Gross Expenditure</b>	<b>1747.27</b>	<b>1878.03</b>	<b>1880.79</b>	<b>1715.87</b>
Less: Employee Capitalisation	27.55	30.45	30.45	30.45
Less: A&G Capitalisation	-	0.56	0.56	0.56
Less: Interest Capitalisation	25.58	3.89	3.89	2.25
<b>Total Capitalisation</b>	<b>53.13</b>	<b>34.90</b>	<b>34.90</b>	<b>33.25</b>
<b>Net Expenditure</b>	<b>1694.14</b>	<b>1843.13</b>	<b>1845.90</b>	<b>1682.62</b>



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	50.00	3.04	3.04	3.04
<b>Annual Revenue Requirement</b>	<b>1644.14</b>	<b>1840.09</b>	<b>1842.86</b>	<b>1679.58</b>
Revenue from Tariff including Delayed Payment Surcharge	1184.31	1244.00	1244.00	1244.00
GoUP Subsidy	460.00	210.36	210.36	460.00
<b>Net Revenue Gap</b>	<b>-0.17</b>	<b>385.74</b>	<b>388.50</b>	<b>-24.42</b>

**Table 7-38: PVVNL – ARR FOR FY 2004-05 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	2174.97	2608.57	2543.08	2583.73
Employee Expenses	194.05	221.91	221.91	194.05
Repair and Maintenance Expenses	63.69	51.10	57.40	51.10
A&G Expenses	17.33	22.14	22.14	17.33
Gross Interest on Long Term Loans	47.45	23.74	23.74	10.55
Finance Charges	-	8.48	8.48	8.48
Interest on Working Capital	-	-	-	-
Discount to Consumers	-	-	-	-
Depreciation	199.72	181.75	198.42	185.38
Prior Period Expenses	-	2.87	2.87	-
Other Misc Expenses	-	0.40	0.40	-
Provision for Bad and Doubtful Debts	-	0.11	38.42	-
<b>Gross Expenditure</b>	<b>2697.21</b>	<b>3121.07</b>	<b>3116.85</b>	<b>3050.63</b>
Less: Employee Capitalisation	27.55	28.07	28.07	28.07
Less: A&G Capitalisation	-	2.72	2.72	2.72
Less: Interest Capitalisation	10.96	2.25	2.25	1.00
<b>Total Capitalisation</b>	<b>38.51</b>	<b>33.05</b>	<b>33.05</b>	<b>31.80</b>
<b>Net Expenditure</b>	<b>2658.70</b>	<b>3088.02</b>	<b>3083.80</b>	<b>3018.83</b>



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	76.00	1.97	1.97	1.97
<b>Annual Revenue Requirement</b>	<b>2582.70</b>	<b>3086.06</b>	<b>3081.83</b>	<b>3016.86</b>
Revenue from Tariff including Delay Payment Surcharges	2167.93	2385.90	2385.90	2385.90
GoUP Subsidy	415.00	350.54	350.54	415.00
<b>Net Revenue Gap</b>	<b>-0.23</b>	<b>349.61</b>	<b>345.39</b>	<b>215.96</b>

**Table 7-39: PuVVNL – ARR FOR FY 2004-05 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	1567.58	1893.52	1845.89	1697.84
Employee Expenses	243.06	238.06	238.06	238.06
Repair and Maintenance Expenses	51.02	67.59	67.59	51.02
A&G Expenses	18.52	22.24	22.24	18.52
Gross Interest on Long Term Loans	74.77	24.26	24.26	11.99
Finance Charges	-	12.57	12.57	12.57
Interest on Working Capital	-	-	-	-
Discount to Consumers	-	5.59	5.59	5.59
Depreciation	159.98	66.61	153.85	139.23
Prior Period Expenses	-	0.86	0.86	-
Other Misc Expenses	-	0.40	0.40	-
Provision for Bad and Doubtful Debts	-	28.05	63.48	-
<b>Gross Expenditure</b>	<b>2114.93</b>	<b>2359.76</b>	<b>2434.80</b>	<b>2174.83</b>
Less: Employee Capitalisation	27.55	21.57	21.57	21.57
Less: A&G Capitalisation	-	2.62	2.62	2.62
Less: Interest Capitalisation	17.27	1.32	1.32	0.65
<b>Total Capitalisation</b>	<b>44.82</b>	<b>25.50</b>	<b>25.50</b>	<b>24.83</b>
<b>Net Expenditure</b>	<b>2070.11</b>	<b>2334.25</b>	<b>2409.29</b>	<b>2150.00</b>
Add: Return on Equity	-	-	-	-





Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Less: Non-tariff Incomes	63.00	1.18	1.18	1.18
<b>Annual Revenue Requirement</b>	<b>2007.11</b>	<b>2333.07</b>	<b>2408.12</b>	<b>2148.82</b>
Revenue from Tariff including Delay Payment Surcharge	1733.06	1653.03	1653.03	1653.03
GoUP Subsidy	274.00	278.82	278.82	274.00
<b>Net Revenue Gap</b>	<b>0.05</b>	<b>401.23</b>	<b>476.27</b>	<b>221.79</b>

**Table 7-40: CONSOLIDATED DISCOMS – ARR FOR FY 2004-05 AFTER FINAL TRUING UP**  
(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	6501.10	7803.35	7607.20	7488.18
Employee Expenses	795.20	808.09	812.19	779.93
Repair and Maintenance Expenses	199.99	200.53	208.89	183.27
A&G Expenses	64.53	89.30	89.30	64.53
Gross Interest on Long Term Loans	274.63	94.66	94.66	58.92
Finance Charges	-	30.86	30.86	30.86
Interest on Working Capital	-	24.42	24.42	-
Discount to Consumers	-	10.30	10.30	10.30
Depreciation	627.16	476.67	613.61	562.82
Prior Period Expenses	-	21.13	21.13	-
Other Misc Expenses	-	1.20	1.20	-
Provision for Bad and Doubtful Debts	-	53.25	175.11	-
<b>Gross Expenditure</b>	<b>8462.61</b>	<b>9613.76</b>	<b>9688.87</b>	<b>9178.80</b>
Less: Employee Capitalisation	110.20	102.96	102.96	102.96
Less: A&G Capitalisation	-	8.25	8.25	8.25
Less: Interest Capitalisation	63.44	10.59	10.59	5.33
<b>Total Capitalisation</b>	<b>173.64</b>	<b>121.80</b>	<b>121.80</b>	<b>116.55</b>
<b>Net Expenditure</b>	<b>8288.97</b>	<b>9491.96</b>	<b>9567.06</b>	<b>9062.26</b>
Add: Return on Equity	-	-	-	-



*Order on True-up for FY 2000-01 to 2007-08*

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Less: Non-tariff Incomes	238.00	15.46	15.46	15.46
<b>Annual Revenue Requirement</b>	<b>8050.97</b>	<b>9476.50</b>	<b>9551.60</b>	<b>9046.80</b>
Revenue from Tariff including Delay Payment Surcharge	6529.52	6751.73	6751.73	6751.73
GoUP Subsidy	1522.00	996.75	996.75	1522.00
<b>Net Revenue Gap</b>	<b>-0.55</b>	<b>1728.02</b>	<b>1803.12</b>	<b>773.07</b>

The treatment of revenue gap for FY 2004-05 has been discussed in succeeding Section 13.



## **8. TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2006-07**

The Petitioner has sought the final truing up of expenditure and revenue for FY 2006-07 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2006-07, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner. As no Tariff Order for FY 2005-06 was issued, no true-up computations have been submitted by the Petitioner; only the actual results for the financial year have been presented. The Commission does not allow any adjustment towards FY 2005-06, however, computations in respect of GFA, CWIP, capital investment and loan balances, etc have been approved in this section as they are integral to derive the successive year's opening balances.

### **8.1 BULK SUPPLY TARIFF FOR DISTRIBUTION COMPANIES FOR FY 2006-07**

One of the major cost components of the distribution companies is cost of power, which is supplied by UPPCL. The cost of supply of UPPCL includes a) costs of power purchase / bulk supply and b) transmission costs (including cost of transmission losses) for providing transmission service as a company that owns the 'wires'. The Tariff Order for FY 2006-07 had computed the bulk supply tariff i.e., the rate at which the cost of power and transmission charge would be billed to the Discoms.

In the following sections, the various elements of the ARR of UPPCL are being trued up and the revenue gap has been assessed. The revenue gap would be recovered from the distribution companies through truing up of the bulk supply tariff.

### **8.2 POWER PURCHASE QUANTUM AND COST FOR FY 2006-07**

The actual sales reported by the Petitioner are lower than the sales originally considered in the Tariff Order, by 4645 MU, in spite of the fact that the actual power purchase quantum was higher than Tariff Order levels. The Commission, in the Tariff Order for FY 2006-07 had approved a power purchase quantum of 50,603 MU and total power purchase expenses of Rs. 10,779.61 crores. The Petitioner, in its True-up petition has submitted that the actual power purchase expenses for FY 2006-07 are Rs. 10,743.65 crores towards power procurement of 50,678.74 MU. There has been an under-achievement of the T&D loss target by the Petitioner in FY 2006-07. The actual T&D loss

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has been dismal at 36.68% as against 27.40% approved by the Commission in the relevant year.

The Petitioner has claimed the power purchase cost during truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 27.40%
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2006-07 are Rs. 9,371.16 crores.

The Commission has concurred with the philosophy considered by the Petitioner wherein the efficiency target of T&D loss level has been considered as controllable parameter whereas the quantity mix and price variance has been considered as uncontrollable parameter.

The Commission in Para 5.43 of the FY 2006-07 Tariff Order had approved a ceiling rate of Rs. 5.50 per kWh for short term and emergency purchases. The Commission in the response to the Deficiency Note has obtained the break-up of the rates and energy procured through short term sources and unscheduled interchange (UI). The table below depicts that the Petitioner has purchased energy through Tata Power Trading Corporation Limited at an average rate of Rs. 5.96 per kWh which is higher than the ceiling rate of Rs. 5.50 per kWh. The Commission disallows such costly purchases over and above the ceiling rate and accordingly disallows Rs. 12.48 crores towards power purchase cost incurred by the Petitioner in FY 2006-07.

**Table 8-1: DISALLOWANCE IN POWER PURCHASE EXPENSES FOR FY 2006-07**

Source	Units Procured (MU)	Amount Incurred (Rs Crore)	Rate (Rs/kWh)	Ceiling Rate (Rs/kWh)	Disallowance (Rs/kWh)	Disallowance (Rs Crore)
A	b	c	$d=c/b*10$	E	$f=d-e$	$g=f*b/10$
Adani Export	3.68	1.95	5.30	5.50	-	-
Tata Power	271.57	161.84	5.96	5.50	-0.46	-12.48



Source	Units Procured (MU)	Amount Incurred (Rs Crore)	Rate (Rs/kWh)	Ceiling Rate (Rs/kWh)	Disallowance (Rs/kWh)	Disallowance (Rs Crore)
A	b	c	d=c/b*10	E	f=d-e	g=f*b/10
Trading Corporation Ltd						
Global Energy Ltd	83.38	34.56	4.15	5.50	-	-
Lanco EU Ltd	8.00	3.35	4.18	5.50	-	-
UI	2004.50	819.63	4.09	5.50	-	-
<b>Total</b>	<b>2371.13</b>	<b>1021.33</b>	<b>4.31</b>	<b>5.50</b>	<b>-0.46</b>	<b>-12.48</b>

Further, the Petitioner in its True-up petition has considered the energy sales of four distribution companies alone i.e., DVVNL, MVVNL, PVVNL and PuVVNL. However the Commission has considered the bulk sales to KESCO and NPCL as well, to analyse the energy requirement at UPPCL level. This has been done to maintain consistency with the philosophy adopted in the Tariff Order for FY 2006-07.

In this section, the Commission has assessed the allowable power purchase cost at the UPPCL level wherein the allowable power purchase cost at discom end has been tried up.

The table below summarises the sales, transmission losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

**Table 8-2: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2006-07**

Particulars	Unit	Tariff Order	Actual as per audited accounts	Approved
Power Purchase	MU	50603.00	50678.74	50290.02
Transmission Loss	MU	2530.00	2903.07	2514.35
Transmission Loss	%	5.00%	5.73%	5.00%
Energy available at Discom End	MU	48073.00	47775.67	47775.67
Power Purchase Cost	Rs Crore	10779.61	10743.65	10731.17 <sup>3</sup>

<sup>3</sup> Considering disallowance of Rs. 12.48 crores



Particulars	Unit	Tariff Order	Actual as per	Approved
Power Purchase Cost per unit	Rs/kWh	2.13	2.12	2.12
Allowable Power Purchase Cost at Discom end	Rs Crore			10648.86
Power Purchase Cost per unit at Discom end	Rs/kWh	2.24	2.25	2.23

The allowable power purchase cost has been approved at Rs. 10,648.86 crores for FY 2006-07 at UPPCL level.

### 8.3 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2006-07 in respect of UPPCL, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

#### 8.3.1 Employee Expenses

The Petitioner has submitted that the actual gross employee expenses for FY 2006-07 were Rs. 242.97 crores as against Rs. 256.70 crores approved by the Commission in the Tariff Order. However the capitalisation has been at a higher level than those approved in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 165.51 crores as against Rs. 75.06 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 77.46 crores as against Rs. 181.64 crores approved in the Tariff Order. The Petitioner has also claimed efficiency gains of Rs. 52.09 crores.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross employee expenses of Rs. 242.97 crores and capitalisation thereof amounting to Rs. 165.51 crores in respect of UPPCL.



### 8.3.2 A&G Expenses

The Petitioner has submitted that the actual gross A&G expenses for FY 2006-07 were Rs. 16.34 crores as against Rs. 28.07 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 11.15 crores as against Rs. 5.27 crores approved in the Tariff Order. Thus the net A&G expenses as per audited accounts are Rs. 5.19 crores as against Rs. 22.80 crores approved in the Tariff Order.

Considering the details submitted by the Petitioner, the Commission has accepted the actual gross A&G expenses for FY 2006-07 amounting to Rs. 16.34 crores as per audited accounts under the truing up exercise. The capitalisation has been considered at actual as per audited accounts amounting to Rs. 11.15 crores. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

### 8.3.3 Repair and Maintenance Expenses:

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2006-07 were Rs. 58.37 crores as against Rs. 59.31 crores approved by the Commission in the Tariff Order. Actual expenses being lower than the approved levels, the Petitioner has also claimed efficiency gains of Rs. 0.94 crores.

Considering the details submitted by the Petitioner, the Commission has accepted the actual repair and maintenance expenses for FY 2006-07 amounting to Rs. 58.37 crores as per audited accounts under the truing up exercise. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

**Table 8-3: APPROVED O&M EXPENSES FOR FY 2006-07 FOR UPPCL (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
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Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	256.70	242.97	295.06	242.97
Repair & Maintenance Expenses	59.31	58.37	58.84	58.37
Administrative and General Expenses	28.07	16.34	25.15	16.34
<b>Gross Operation and Maintenance Expenses</b>	<b>344.08</b>	<b>317.68</b>	<b>379.05</b>	<b>317.68</b>
Less: Capitalisation				
Employee Cost Capitalized	75.06	165.51	165.51	165.51
A&G Expenses Capitalized	5.27	11.15	11.15	11.15
<b>Total Capitalization</b>	<b>80.33</b>	<b>176.66</b>	<b>176.66</b>	<b>176.66</b>
<b>Net Operation and Maintenance Expenses</b>	<b>263.75</b>	<b>141.02</b>	<b>202.38</b>	<b>141.02</b>

#### 8.4 INTEREST AND FINANCE CHARGES

##### 8.4.1 Interest on Long Term Loans:

The UPPCL has claimed net interest expenses of Rs. 148.22 crores as against Rs. 158.19 crores approved in the Tariff Order.

Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts, the Commission has derived the actual capital investments undertaken by UPPCL in FY 2006-07. The details are provided in the table below:

**Table 8-4: CAPITAL INVESTMENTS IN FY 2006-07 (Rs. Crores)**

Particulars	Derivation	2005-06	2006-07
Opening WIP as on 1st April	A	1169.63	1016.86
Investments	B	367.42	699.72
Employee Expenses Capitalisation	C	73.01	165.51
A&G Expenses Capitalisation	D	5.22	11.15
Interest Capitalisation on Interest on long term loans	E	23.85	13.10
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>1639.14</b>	<b>1906.34</b>
Transferred to GFA (Total Capitalisation)	G	622.28	883.36





Particulars	Derivation	2005-06	2006-07
Closing WIP	H= F-G	1016.86	1022.99

The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2006-07:

**Table 8-5: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2006-07 (Rs. Crores)**

Particulars	2005-06	2006-07
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	362.55	494.69
Additions during the year	156.62	18.06
Less: Amortisation	24.47	172.60
<b>Closing Balance</b>	<b>494.69</b>	<b>340.15</b>

Thus, the approved financing of the capital investment is depicted in the table below:

**Table 8-6: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2006-07 (Rs. Crores)**

Particulars	Derivation	2005-06	2006-07
Investment	A	367.42	699.72
Less:			
Consumer Contribution	B	156.62	18.06
Investment funded by debt and equity	C=A-B	210.81	681.66
Debt Funded	70%	147.56	477.16
Equity Funded	30%	63.24	204.50

Thus, from the above tables it is seen, that UPPCL has made an investment of Rs. 699.72 crores in FY 2006-07. However the consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 18.06 crores. Thus, balance Rs. 681.66 crores have been funded through debt and equity. Considering a debt equity ratio of



70:30, Rs. 477.16 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 204.50 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate of 6.82% has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 43.12 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 8-7: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2006-07 (Rs Crores)**

Particulars	2005-06	2006-07
Opening Loan	514.65	497.81
Loan Additions (70% of Investments)	147.56	477.16
Less: Repayments (Depreciation allowable for the year)	164.40	207.44
Closing Loan Balance	497.81	767.54
Weighted Average Rate of Interest	5.64%	6.82%
<b>Interest on long term loan</b>	<b>28.57</b>	<b>43.12</b>
Interest Capitalisation Rate	8.76%	2.88%
Less: Interest Capitalized	2.50	1.24
<b>Net Interest Charged</b>	<b>26.07</b>	<b>41.88</b>

#### **8.4.2 Finance Charges:**

The UPPCL has claimed Rs. 35.25 crores as against Rs. 8.99 crores towards finance charges during FY 2006-07. Items claimed under this head are towards items such as bank charges, finance charges, etc.

The Commission approves the bank charges and finance charges amounting to Rs. 35.25 crores as per audited accounts.

#### **8.4.3 Interest on Working Capital:**

The UPPCL has claimed Rs. 257.98 crores towards interest on working capital for FY 2006-07.

The Commission had not allowed any amounts towards interest on working capital in the Tariff Order for FY 2006-07. Accordingly, the Commission does not allow any amounts towards interest on working capital in trueing up.



The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2006-07:

**Table 8-8: APPROVED INTEREST AND FINANCE CHARGES FOR UPPCL (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	158.19	161.32	161.32	43.12
Less: Interest Capitalisation	-	13.10	13.10	1.24
<b>Net Interest on Long Term Loans</b>	<b>158.19</b>	<b>148.22</b>	<b>148.22</b>	<b>41.88</b>
<b>B: Finance and Other Charges</b>				
Finance Charges	7.38	2.80	2.80	2.80
Bank Charges	1.61	32.45	32.45	32.45
<b>Total Finance Charges</b>	<b>8.99</b>	<b>35.25</b>	<b>35.25</b>	<b>35.25</b>
<b>C: Interest on Working Capital</b>	-	<b>257.98</b>	<b>257.98</b>	-
<b>Total (A+B+C)</b>	<b>167.18</b>	<b>441.45</b>	<b>441.45</b>	<b>77.13</b>

## 8.5 DEPRECIATION

In the Tariff Order for FY 2006-07, the Commission had considered depreciation to the extent of Rs. 208.36 crores on a gross fixed asset base of Rs. 3,953.71 crores for UPPCL.

The actual depreciation expense charged in the audited accounts is Rs. 206.50 crores. However the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the UPPCL has computed the depreciation expense on the actual GFA base and at the weighted average rate of 5.27% approved by the Commission in the Tariff Order for FY 2006-07. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 226.30 crores as depicted in the table below:



**Table 8-9: DEPRECIATION CLAIMED FOR UPPCL FOR FY 2006-07 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	17.70	-	-	17.70		
ii) Freehold Land	4.90	10.16	-	15.06		
Buildings	412.64	16.05	0.02	428.68		
Other Civil Works	107.59	0.11	-	107.70		
Plants & Machinery	4,805.84	501.69	53.79	5,253.74		
Lines, Cable Network etc.	6,933.43	328.59	0.30	7,261.72		
Vehicles	7.95	1.37	0.13	9.19		
Furniture & Fixtures	3.73	0.44	0.00	4.17		
Office Equipments	8.36	0.82	0.01	9.18		
Jeep & Motor Car	-	-	-	-		
Assets taken over from Licensees pending final Valuation	7.01	24.12	-	31.13		
<b>Total</b>	<b>12,309.17</b>	<b>883.36</b>	<b>54.25</b>	<b>13,138.28</b>		<b>-</b>
Less: Provisional Transfer to Discoms	(8,429.60)	-	-	(8,429.60)		
<b>GRAND TOTAL</b>	<b>3,879.57</b>	<b>883.36</b>	<b>54.25</b>	<b>4,708.68</b>	<b>5.27%</b>	<b>226.30</b>

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the UPPCL has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 18.86 crores as detailed in Table 3-10, has been reduced from the allowable depreciation.

Thus the approved depreciation for FY 2006-07 is Rs. 207.44 crores in respect of UPPCL as depicted in the table below:



**Table 8-10: APPROVED DEPRECIATION FOR UPPCL FOR FY 2006-07 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	208.36	206.50	226.30	226.30
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	18.86
<b>Net Allowable Depreciation</b>	<b>208.36</b>	<b>206.50</b>	<b>226.30</b>	<b>207.44</b>

## 8.6 PRIOR PERIOD EXPENSES

The UPPCL has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2006-07. In the audited financial statements for FY 2006-07, there has been recognition of Rs. 0.92 crores of prior period incomes and prior period expenses of Rs. 68.49 crores, thereby the net prior period expense claimed is Rs. 67.57 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2006-07.

## 8.7 REVENUE SIDE TRUING UP

### 8.7.1 NON TARIFF INCOMES

The UPPCL has submitted that the actual non-tariff income during FY 2006-07 were Rs. 16.13 crores as compared to Rs. 16.30 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the UPPCL, under this head.



## 8.8 AGGREGATE REVENUE REQUIREMENT FOR UPPCL FOR FY 2006-07 AFTER TRUING UP

The Aggregate Revenue Requirement for UPPCL for FY 2006-07 after final truing up is summarised in the Table below:

**Table 8-11: ARR FOR UPPCL FOR FY 2006-07 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	10779.61	10743.65	9371.16	10648.86
Employee Expenses	256.70	242.97	295.06	242.97
Repair and Maintenance Expenses	59.31	58.37	58.84	58.37
A&G Expenses	28.07	16.34	25.15	16.34
Gross Interest on Long Term Loans	411.18	161.32	161.32	43.12
Finance Charges	8.99	35.25	35.25	35.25
Interest on Working Capital	-	257.98	257.98	-
Discount to Consumers	-	-	-	-
Depreciation	208.36	206.50	226.30	207.44
Prior Period Expenses	-	67.57	67.57	-
Other Misc Expenses	-	0.35	0.35	-
Provision for Bad & Doubtful Debts	-	492.48	-	-
<b>Gross Expenditure</b>	<b>11752.22</b>	<b>12282.78</b>	<b>10498.97</b>	<b>11252.36</b>
Less: Employee Capitalisation	75.06	165.51	165.51	165.51
Less: A&G Capitalisation	5.27	11.15	11.15	11.15
Less: Interest Capitalisation	94.57	13.10	13.10	1.24
<b>Total Capitalisation</b>	<b>174.90</b>	<b>189.76</b>	<b>189.76</b>	<b>177.91</b>
<b>Net Expenditure</b>	<b>11577.32</b>	<b>12093.02</b>	<b>10309.21</b>	<b>11074.45</b>
Return on Equity	20.64			
Less: Non-tariff Incomes	16.30	16.13	16.13	16.13
<b>Annual Revenue Requirement</b>	<b>11581.66</b>	<b>12076.89</b>	<b>10293.08</b>	<b>11058.32</b>
GoUP Subsidy	-	-	-	-
<b>Net Revenue Requirement</b>	<b>11581.66</b>	<b>12076.89</b>	<b>10293.08</b>	<b>11058.32</b>
Energy Handled	48073	47775.67	44884.29	47775.67
<b>Bulk Supply Tariff</b>	<b>2.41</b>	<b>2.528</b>	<b>2.293</b>	<b>2.315</b>

(Net Revenue Requirement of Rs. 11,058.32 crore – Power Purchase Expenses of Rs. 10648.86 crores = Rs. 409.45 crores) is the ARR attributable to transmission function.



## 8.9 DERIVATION OF THE BULK SUPPLY TARIFF FOR DISTRIBUTION COMPANIES

### 8.9.1 The Petitioner's Submission:

The Petitioner has computed the allowable ARR of the UPPCL and thereafter has allocated the ARR among four Discoms namely DVVNL, MVVNL, PVVNL and PuVVNL in the ratio of the actual power purchase input at each Discom during FY 2006-07.

The UPPCL in its True-up petition has estimated the allowable bulk supply tariff for the distribution companies at Rs. 2.29 per kWh as per the table below:

**Table 8-12: DERIVATION OF THE BULK SUPPLY TARIFF FOR FY 2006-07**

Particulars	Unit	Tariff Order	Actual
ARR of UPPCL in respect of bulk supply and transmission business	Rs Crores	11581.66	10293.08
Energy Handled	MU	48073.00	44884.29
<b>Bulk Supply Tariff</b>	<b>Rs/kWh</b>	<b>2.41</b>	<b>2.29</b>

The allocation of cost of UPPCL among four Discoms has been done as per the table below:

**Table 8-13: ALLOCATION OF COST OF UPPCL FOR FY 2006-07**

Particulars	Unit	Meerut	Agra	Lucknow	Varanasi	Total
Actual Power Purchase	MU	15086	10668	8307	10822	44884
Trued-up BST Rate	Rs/kWh	2.293	2.293	2.293	2.293	2.293
<b>Allocation of Cost of UPPCL (Bulk Supply &amp; Transmission Cost)</b>	<b>Rs Crore</b>	<b>3,459.60</b>	<b>2,446.54</b>	<b>1,905.09</b>	<b>2,481.86</b>	<b>10,293.08</b>

### 8.9.2 The Commission's Analysis:

UPPCL has incurred the charges towards a) costs of power purchase / bulk supply and b) transmission costs (including cost of transmission losses) for providing transmission service as a company that owns the 'wires'. UPPCL supplies the entire energy purchased by it to its subsidiary distribution companies namely DVVNL, MVVNL, PVVNL, PuVVNL and also to KESCO and NPCL.

As per the truing up, the Commission has assessed the ARR of UPPCL at Rs. 11,058.32 crores as compared to Rs. 11,581.66 crores approved in the Tariff Order for FY 2006-07.



The bulk supply tariff has been assessed at Rs. 2.315 per kWh as compared to Rs. 2.41 per kWh approved in the Tariff Order for FY 2006-07.

**Table 8-14: APPROVED BULK SUPPLY TARIFF FOR FY 2006-07**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>Net ARR (Rs Crore)</b>	<b>11581.66</b>	<b>12076.89</b>	<b>10293.08</b>	<b>11058.32</b>
Energy Handled (MU)	48073	47775.67	44884.29	47775.67
<b>Bulk Supply Tariff (Rs/kWh)</b>	<b>2.41</b>	<b>2.528</b>	<b>2.293</b>	<b>2.315</b>

The Commission had provisionally trued up the transmission charges for FY 2006-07 by an Order dated 2<sup>nd</sup> November, 2011 based on the statement of expenses produced by the Petitioner. However the transmission function was segregated from FY 2007-08 onwards as the transmission company started operations on 1<sup>st</sup> April, 2007.

As per the audited accounts, the transmission function is embedded in the UPPCL and segregated accounts of transmission function are not available for FY 2006-07. Considering this fact, the Commission has undertaken the final truing up based on the audited accounts of UPPCL and has computed the bulk supply tariff for FY 2006-07 vis-à-vis the bulk supply tariff approved in the Tariff Order for FY 2006-07 dated 10<sup>th</sup> May, 2007.

The following table depicts that the trued up bulk supply tariff for FY 2006-07 has been determined as Rs. 2.315 per kWh as against Rs. 2.41 approved in the Tariff Order dated 10<sup>th</sup> May, 2007.

**Table 8-15: BULK SUPPLY TARIFFS FOR FY 2006-07**

Particulars	Approved in Tariff Order dated 10 <sup>th</sup> May 2007	Modified by Provisional True up Order dated 2 <sup>nd</sup> Nov 2011	Approved
Power Purchase Expenses (Rs Crore)	10779.61	10779.61	10648.86
Transmission ARR (Rs Crore)	802.05	529.42	409.45
<b>Total</b>	<b>11581.66</b>	<b>11309.03</b>	<b>11058.32</b>
Sales to Discoms (MU)	48073.00	47775.67	47775.67
Bulk Power Purchase Cost (Rs/kWh)	2.24	2.24	2.23
Transmission charge (Rs/kWh)	0.17	0.11	0.09
<b>Total Bulk Supply Tariff (Rs/kWh)</b>	<b>2.41</b>	<b>2.35</b>	<b>2.31</b>





## 8.10 TRUING UP OF THE ARR OF THE DISTRIBUTION COMPANIES FOR FY 2006-07

In the following sections, the ARR and Revenue Gap / (Surplus) of the distribution companies is assessed after truing up for FY 2006-07.

## 8.11 POWER PURCHASE EXPENSES

The trued up bulk supply tariff has been determined in the foregoing section. The Commission in the FY 2006-07 Tariff Order had prescribed the distribution loss targets for each Discom. The Commission has computed the allowable power purchase by grossing up the actual energy sales by the approved distribution loss target for each Discom. In case of DVVNL, the actual distribution loss of 30.24% was considered as it was lower than the approved target of 33.63%. The allowable power purchase input has been multiplied by the trued up bulk supply tariff to derive the allowable power purchase cost of each Discom for truing up.

Accordingly, the table below provides the allowable power purchase cost for each Discom for FY 2006-07:

**Table 8-16: ALLOWABLE DISCOM WISE POWER PURCHASE COST FOR FY 2006-07**

Particulars	(Rs Crore)			
	DVVNL	MVVNL	PVVNL	PuVVNL
Actual Power Purchase (MU)	10668.43	8307.38	15086.01	10822.46
Sales (MU)	7442.77	6037.91	11053.97	7557.20
Distribution Loss Target (%)	30.24%	18.36%	26.23%	22.79%
Allowable Power Purchase (MU)	10668.43	7395.54	14984.30	9787.99
Trued up Bulk Supply Tariff	2.315	2.315	2.315	2.315
<b>Allowable Power Purchase (Rs Crore)</b>	<b>2469.35</b>	<b>1711.80</b>	<b>3468.32</b>	<b>2265.56</b>

## 8.12 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2006-07, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

### 8.12.1 Employee Expenses



The Petitioner has submitted that the actual gross employee expenses for FY 2006-07 were Rs. 792.61 crores as against Rs. 818.51 crores approved by the Commission in the Tariff Order for consolidated Discoms. The employee expenses capitalised as per audited accounts are to the tune of Rs. 190.07 crores as against Rs. 122.77 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 602.54 crores as against Rs. 695.74 crores approved in the Tariff Order. The Petitioner has also claimed efficiency gains of Rs. 16.73 crores, Rs. 4.71 crores, Rs. 23.92 crores and Rs. 1.24 crores in DVVNL, MVVNL, PVVNL and PuVVNL respectively.

The Commission has assessed the allowance of employee expenses at each Discom level. The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order for all years before the formulation of the Distribution Tariff Regulations. In cases, where the actual expenses are below approved expenses, actual expenses have been considered. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross employee expenses of Rs. 789.88 crores and capitalisation thereof amounting to Rs. 190.07 crore in respect of consolidated Discoms.

#### **8.12.2 A&G Expenses:**

The Petitioner has submitted that the actual gross A&G expenses for FY 2006-07 were Rs. 121.56 crores as against Rs. 91.66 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 23.08 crores as against Rs. 13.75 crores approved in the Tariff Order. Thus the net A&G expenses as per audited accounts are Rs. 98.47 crores as against Rs. 77.91 crores approved in the tariff order.

The Commission has assessed the allowance of A&G expenses at each Discom level. The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. In cases, where the actual expenses are below approved expenses, actual expenses have been considered. The capitalisation has been considered at actual as per audited accounts. No efficiency gains

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have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross A&G expenses of Rs. 91.41 crores and capitalisation thereof amounting to Rs. 23.08 crores.

### 8.12.3 Repair and Maintenance Expenses:

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2006-07 were Rs. 277.34 crores for consolidated Discoms as against Rs. 222.87 crores approved by the Commission in the Tariff Order. Actual expenses being lower than the approved levels, the Petitioner has also claimed efficiency gains of Rs. 0.26 crores in PVVNL.

The Commission has assessed the allowance of R&M expenses at each Discom level. The Commission has considered R&M expenses as controllable expenses and accordingly disallowed R&M expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. In cases, where the actual expenses are below approved expenses, actual expenses have been considered. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only for FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus the Commission has approved R&M expenses of Rs. 222.36 crores for FY 2006-07 for consolidated Discoms.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission for all the distribution companies are shown in the table below:

**Table 8-17: APPROVED O&M EXPENSES FOR FY 2006-07 FOR DISCOMS (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>DVVNL</b>				
Employee Expenses	155.69	149.00	165.73	149.00
Repair & Maintenance Expenses	46.07	60.35	60.35	46.07



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Administrative and General Expenses	24.87	24.62	27.03	24.62
<b>Gross Operation and Maintenance Expenses</b>	<b>226.63</b>	<b>233.96</b>	<b>253.11</b>	<b>219.68</b>
Less: Capitalisation				
Employee Cost Capitalized	23.35	50.12	50.12	50.12
A&G Expenses Capitalized	3.73	8.30	8.30	8.30
<b>Total Capitalization</b>	<b>27.08</b>	<b>58.42</b>	<b>58.42</b>	<b>58.42</b>
<b>Net Operation and Maintenance Expenses</b>	<b>199.55</b>	<b>175.54</b>	<b>194.69</b>	<b>161.26</b>
<b>MVVNL</b>				
Employee Expenses	221.87	212.23	216.93	212.23
Repair & Maintenance Expenses	51.01	57.01	57.01	51.01
Administrative and General Expenses	25.67	44.27	44.27	25.67
<b>Gross Operation and Maintenance Expenses</b>	<b>298.55</b>	<b>313.50</b>	<b>318.21</b>	<b>288.91</b>
Less: Capitalisation				
Employee Cost Capitalized	33.28	33.05	33.05	33.05
A&G Expenses Capitalized	3.85	2.01	2.01	2.01
<b>Total Capitalization</b>	<b>37.13</b>	<b>35.06</b>	<b>35.06</b>	<b>35.06</b>
<b>Net Operation and Maintenance Expenses</b>	<b>261.42</b>	<b>278.44</b>	<b>283.15</b>	<b>253.85</b>
<b>PVVNL</b>				
Employee Expenses	196.54	184.25	208.17	184.25
Repair & Maintenance Expenses	71.23	70.72	70.97	70.72
Administrative and General Expenses	23.40	26.25	26.96	23.40
<b>Gross Operation and Maintenance Expenses</b>	<b>291.17</b>	<b>281.22</b>	<b>306.11</b>	<b>278.37</b>
Less: Capitalisation				
Employee Cost Capitalized	29.48	65.03	65.03	65.03
A&G Expenses Capitalized	3.51	7.78	7.78	7.78
<b>Total Capitalization</b>	<b>32.99</b>	<b>72.81</b>	<b>72.81</b>	<b>72.81</b>
<b>Net Operation and Maintenance Expenses</b>	<b>258.18</b>	<b>208.40</b>	<b>233.29</b>	<b>205.56</b>
<b>PuVVNL</b>				
Employee Expenses	244.41	247.13	248.37	244.41
Repair & Maintenance Expenses	54.56	89.27	89.27	54.56
Administrative and General Expenses	17.72	26.42	26.42	17.72



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>Gross Operation and Maintenance Expenses</b>	<b>316.69</b>	<b>362.82</b>	<b>364.06</b>	<b>316.69</b>
Less: Capitalisation				
Employee Cost Capitalized	36.66	41.86	41.86	41.86
A&G Expenses Capitalized	2.66	5.00	5.00	5.00
<b>Total Capitalization</b>	<b>39.32</b>	<b>46.86</b>	<b>46.86</b>	<b>46.86</b>
<b>Net Operation and Maintenance Expenses</b>	<b>277.37</b>	<b>315.96</b>	<b>317.20</b>	<b>269.83</b>
<b>CONSOLIDATED DISCOMS</b>				
Employee Expenses	818.51	792.61	839.21	789.88
Repair & Maintenance Expenses	222.87	277.34	277.60	222.36
Administrative and General Expenses	91.66	121.56	124.68	91.41
<b>Gross Operation and Maintenance Expenses</b>	<b>1133.04</b>	<b>1191.51</b>	<b>1241.49</b>	<b>1103.65</b>
Less: Capitalisation				
Employee Cost Capitalized	122.77	190.07	190.07	190.07
A&G Expenses Capitalized	13.75	23.08	23.08	23.08
<b>Total Capitalization</b>	<b>136.52</b>	<b>213.15</b>	<b>213.15</b>	<b>213.15</b>
<b>Net Operation and Maintenance Expenses</b>	<b>996.52</b>	<b>978.35</b>	<b>1028.34</b>	<b>890.49</b>

## 8.13 INTEREST AND FINANCE CHARGES

### 8.13.1 Interest on Long Term Loans

The Petitioner has claimed net interest expenses of Rs. 242.01 crores as against Rs. 93.50 crores approved in the Tariff Order for consolidated Discoms in respect of interest on long term loans.

Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts, the Commission has derived the actual capital investments undertaken by Discoms in FY 2006-07. The details are provided in the table below:



**Table 8-18: CAPITAL INVESTMENTS IN FY 2005-06 (Rs. Crores)**

Particulars	Derivation	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening WIP as on 1st April	A	68.97	163.57	102.54	106.62	<b>441.70</b>
Investments	B	216.18	283.55	355.82	412.01	<b>1267.56</b>
Employee Expenses Capitalisation	C	26.99	41.77	42.89	34.49	<b>146.15</b>
A&G Expenses Capitalisation	D	3.54	3.32	4.66	2.80	<b>14.32</b>
Interest Capitalisation on Interest on long term loans	E	0.00	10.37	8.91	14.07	<b>33.36</b>
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>315.69</b>	<b>502.58</b>	<b>514.82</b>	<b>569.99</b>	<b>1903.08</b>
Transferred to GFA (Total Capitalisation)	G	204.47	207.76	315.95	242.54	<b>970.71</b>
<b>Closing WIP</b>	<b>H= F-G</b>	<b>111.22</b>	<b>294.82</b>	<b>198.87</b>	<b>327.46</b>	<b>932.36</b>

**Table 8-19: CAPITAL INVESTMENTS IN FY 2006-07 (Rs. Crores)**

Particulars	Derivation	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening WIP as on 1st April	A	111.22	294.82	198.87	327.46	<b>932.36</b>
Investments	B	528.69	951.63	614.44	332.10	<b>2426.86</b>
Employee Expenses Capitalisation	C	50.12	33.05	65.03	41.86	<b>190.07</b>
A&G Expenses Capitalisation	D	8.30	2.01	7.78	5.00	<b>23.08</b>
Interest Capitalisation on Interest on long term loans	E	0.00	12.52	22.73	7.86	<b>43.11</b>
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>698.33</b>	<b>1294.02</b>	<b>908.86</b>	<b>714.27</b>	<b>3615.48</b>
Transferred to GFA (Total Capitalisation)	G	362.44	377.43	530.28	325.53	<b>1595.68</b>
<b>Closing WIP</b>	<b>H= F-G</b>	<b>335.89</b>	<b>916.59</b>	<b>378.58</b>	<b>388.74</b>	<b>2019.80</b>

The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contribution, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.



The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2006-07:

**Table 8-20: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2005-06 (Rs. Crores)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	242.66	196.60	236.58	218.43	<b>894.27</b>
Additions during the year	54.33	58.42	99.36	65.97	<b>278.08</b>
Less: Amortisation	62.11	13.90	20.82	17.12	<b>113.95</b>
<b>Closing Balance</b>	<b>234.88</b>	<b>241.12</b>	<b>315.12</b>	<b>267.27</b>	<b>1,058.39</b>

**Table 8-21: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2006-07 (Rs. Crores)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	234.88	241.12	315.12	267.27	<b>1,058.39</b>
Additions during the year	96.92	68.56	115.25	70.40	<b>351.13</b>
Less: Amortisation	18.41	17.05	28.44	12.70	<b>76.60</b>
<b>Closing Balance</b>	<b>313.39</b>	<b>292.63</b>	<b>401.94</b>	<b>324.98</b>	<b>1,332.93</b>

Thus, the approved financing of the capital investment is depicted in the table below:

**Table 8-22: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2005-06 (Rs. Crores)**

Particulars	Derivation	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Investment	A	216.18	283.55	355.82	412.01	<b>1267.56</b>
Less:						
Consumer Contribution	B	54.33	58.42	99.36	65.97	<b>278.08</b>
Investment funded by debt and equity	C=A-B	161.85	225.13	256.45	346.05	<b>989.49</b>
Debt Funded	70%	113.30	157.59	179.52	242.23	<b>692.64</b>
Equity Funded	30%	48.56	67.54	76.94	103.81	<b>296.85</b>



**Table 8-23: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2006-07 (Rs. Crores)**

Particulars	Derivation	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Investment	A	528.69	951.63	614.44	332.10	<b>2426.86</b>
Less:						
Consumer Contribution	B	96.92	68.56	115.25	70.40	<b>351.13</b>
Investment funded by debt and equity	C=A-B	431.76	883.07	499.19	261.70	<b>2075.73</b>
Debt Funded	70%	302.24	618.15	349.43	183.19	<b>1453.01</b>
Equity Funded	30%	129.53	264.92	149.76	78.51	<b>622.72</b>

Thus, from the above tables it is seen, that total investments made in distribution segment in FY 2006-07 were to the tune of Rs. 2,426.86 crores. The consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 351.13 crores. Thus, balance Rs. 2,075.73 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 1,453.01 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 622.72 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate as per audited accounts has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 120.11 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 8-24: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2005-06 (Rs Crores)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Loan	193.03	339.51	198.68	295.29	<b>1,026.52</b>
Loan Additions (70% of Investments)	113.30	157.59	179.52	242.23	<b>692.64</b>
Less: Repayments (Depreciation allowable for the year)	119.58	130.93	188.56	143.64	<b>582.71</b>
Closing Loan Balance	186.75	366.18	189.64	393.88	<b>1,136.44</b>
Weighted Average Rate of Interest	5.68%	10.04%	9.84%	9.29%	
<b>Interest on long term loan</b>	<b>10.78</b>	<b>35.42</b>	<b>19.10</b>	<b>32.01</b>	<b>97.32</b>
Interest Capitalisation Rate	0.00%	12.20%	10.51%	16.28%	<b>11.86%</b>
Less: Interest Capitalized	0.00	4.32	2.01	5.21	<b>11.54</b>
<b>Net Interest Charged</b>	<b>10.78</b>	<b>31.10</b>	<b>17.09</b>	<b>26.80</b>	<b>85.77</b>





**Table 8-25: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2006-07 (Rs Crores)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Loan	186.75	366.18	189.64	393.88	<b>1136.44</b>
Loan Additions (70% of Investments)	302.24	618.15	349.43	183.19	<b>1453.01</b>
Less: Repayments (Depreciation allowable for the year)	128.06	142.30	197.64	156.79	<b>624.78</b>
Closing Loan Balance	360.92	842.03	341.43	420.28	<b>1964.68</b>
Weighted Average Rate of Interest	7.17%	8.11%	9.21%	6.64%	
<b>Interest on long term loan</b>	<b>19.63</b>	<b>48.99</b>	<b>24.45</b>	<b>27.05</b>	<b>120.11</b>
Interest Capitalisation Rate	0.00%	14.56%	21.64%	11.23%	<b>12.87%</b>
Less: Interest Capitalized	0.00	7.13	5.29	3.04	<b>15.46</b>
<b>Net Interest Charged</b>	<b>19.63</b>	<b>41.85</b>	<b>19.16</b>	<b>24.01</b>	<b>104.65</b>

Thus, the net interest on long term loan has been approved at Rs. 104.65 crores for FY 2006-07.

### 8.13.2 Finance Charges

The Petitioner has claimed Rs. 39.19 crores as per audited accounts against Rs. 57.23 crores towards finance charges during FY 2006-07 in respect of consolidated Discoms. Items claimed under this head are towards items such as bank charges, finance charges, interest on consumer security deposits, etc.

The Commission approves the interest on consumer security deposit, bank charges and finance charges as per audited accounts amounting to Rs. 39.19 crores.

### 8.13.3 Interest on Working Capital

The Petitioner has claimed interest on working capital of Rs. 48.26 crores as compared to Rs. 134.46 crores approved in the Tariff Order for FY 2006-07.

In the original True-up Petition, the Petitioner had shown interest on working capital amounting to Rs. 101.12 crores as interest on long term loans. The Commission has scrutinised the submissions of the Petitioner in the response to the Deficiency Note. The Commission has segregated interest on long term loans from interest on working capital loans and have assessed them distinctly.



The actual interest on working capital incurred by the consolidated Discoms is Rs. 149.37 crores (instead of Rs. 48.25 crores claimed) compared to Rs. 134.46 crores approved in the Tariff Order.

The Commission does not approve any variation in the interest on working capital from the levels approved in the Tariff Order. Accordingly, Rs. 134.46 crores approved in Tariff Order would be allowed under truing up as well.

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for all the distribution companies for FY 2006-07:

**Table 8-26: APPROVED INTEREST AND FINANCE CHARGES FOR DVVNL FOR FY 2006-07**  
(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	34.54	24.11	24.11	19.63
Less: Interest Capitalisation	14.61	0.00	0.00	0.00
<b>Net Interest on Long Term Loans</b>	<b>19.93</b>	<b>24.11</b>	<b>24.11</b>	<b>19.63</b>
<b>B: Finance and Other Charges</b>				
Cost of raising finance	1.97	0.96	0.96	0.96
Bank Charges	0.35	0.04	0.04	0.04
Interest on Consumer Security Deposits	6.48	10.36	10.36	10.36
<b>Total Finance Charges</b>	<b>8.80</b>	<b>11.36</b>	<b>11.36</b>	<b>11.36</b>
<b>C: Interest on Working Capital</b>				
	<b>32.60</b>	<b>48.25</b>	<b>48.26</b>	<b>32.60</b>
<b>Total (A+B+C)</b>	<b>61.33</b>	<b>83.72</b>	<b>83.73</b>	<b>63.59</b>

**Table 8-27: APPROVED INTEREST AND FINANCE CHARGES FOR MVVNL FOR FY 2006-07**  
(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Interest on Long Term Loan	45.03	86.01	86.01	48.99
Less: Interest Capitalisation	18.99	12.52	12.52	7.13
<b>Net Interest on Long Term Loans</b>	<b>26.04</b>	<b>73.49</b>	<b>73.49</b>	<b>41.85</b>
<b><i>B: Finance and Other Charges</i></b>				
Cost of raising finance	2.30	-	-	-
Bank Charges	0.35	4.33	4.33	4.33
Interest on Consumer Security Deposits	5.46	5.74	5.74	5.74
<b>Total Finance Charges</b>	<b>8.11</b>	<b>10.07</b>	<b>10.07</b>	<b>10.07</b>
<b><i>C: Interest on Working Capital</i></b>	<b>33.40</b>	<b>-</b>	<b>-</b>	<b>33.40</b>
<b>Total (A+B+C)</b>	<b>67.55</b>	<b>83.56</b>	<b>83.56</b>	<b>85.33</b>

**Table 8-28: APPROVED INTEREST AND FINANCE CHARGES FOR PVVNL FOR FY 2006-07**

(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b><i>A: Interest on Long Term Loans</i></b>				
Gross Interest on Long Term Loan	42.19	105.03	105.03	24.45
Less: Interest Capitalisation	18.11	22.73	22.73	5.29
<b>Net Interest on Long Term Loans</b>	<b>24.08</b>	<b>82.31</b>	<b>82.31</b>	<b>19.16</b>
<b><i>B: Finance and Other Charges</i></b>				
Cost of raising finance	1.77	1.02	1.02	1.02
Bank Charges	0.45	0.14	0.14	0.14
Interest on Consumer Security Deposits	18.06	8.16	8.16	8.16
<b>Total Finance Charges</b>	<b>20.28</b>	<b>9.33</b>	<b>9.33</b>	<b>9.32</b>
<b><i>C: Interest on Working Capital</i></b>	<b>33.40</b>	<b>-</b>	<b>-</b>	<b>33.40</b>
<b>Total (A+B+C)</b>	<b>77.76</b>	<b>91.64</b>	<b>91.64</b>	<b>61.88</b>



**Table 8-29: APPROVED INTEREST AND FINANCE CHARGES FOR PuVVNL FOR FY 2006-07**  
(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	40.21	69.96	69.96	27.05
Less: Interest Capitalisation	16.76	7.86	7.86	3.04
<b>Net Interest on Long Term Loans</b>	<b>23.45</b>	<b>62.11</b>	<b>62.11</b>	<b>24.01</b>
<b>B: Finance and Other Charges</b>				
Cost of raising finance	2.44	0.00	0.00	0.00
Bank Charges	0.50	0.07	0.07	0.07
Interest on Consumer Security Deposits	17.10	8.35	8.35	8.35
<b>Total Finance Charges</b>	<b>20.04</b>	<b>8.42</b>	<b>8.42</b>	<b>8.42</b>
<b>C: Interest on Working Capital</b>				
	<b>35.06</b>	-	-	<b>35.06</b>
<b>Total (A+B+C)</b>	<b>78.55</b>	<b>70.53</b>	<b>70.53</b>	<b>67.49</b>

**Table 8-30: APPROVED INTEREST AND FINANCE CHARGES FOR CONSOLIDATED DISCOMS FOR FY 2006-07**

(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	161.97	285.12	285.12	120.11
Less: Interest Capitalisation	68.47	43.11	43.11	15.46
<b>Net Interest on Long Term Loans</b>	<b>93.50</b>	<b>242.01</b>	<b>242.01</b>	<b>104.65</b>
<b>B: Finance and Other Charges</b>				
Cost of raising finance	8.48	1.98	1.98	1.98
Bank Charges	1.65	4.59	4.59	4.59
Interest on Consumer Security Deposits	47.10	32.61	32.61	32.61
<b>Total Finance Charges</b>	<b>57.23</b>	<b>39.19</b>	<b>39.19</b>	<b>39.18</b>



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<i>C: Interest on Working Capital</i>	134.46	48.25	48.26	134.46
<b>Total (A+B+C)</b>	<b>285.18</b>	<b>329.44</b>	<b>329.45</b>	<b>278.28</b>

#### 8.14 DEPRECIATION

In the Tariff Order for FY 2006-07, the Commission had considered depreciation amounting to Rs. 691.08 crores on a gross fixed asset base of Rs. 8,814.95 crores.

The actual depreciation expense charged in the audited accounts is Rs. 515.47 crores. However the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2006-07. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 701.38 crores as depicted in the table below:

**Table 8-31: DEPRECIATION CLAIMED FOR DVVNL FOR FY 2006-07 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	0.06	0.00	-	0.06		-
ii) Freehold Land	-	-	-	-		-
Buildings	4.30	2.43	0.00	6.73	7.84%	0.43
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	46.06	190.40	157.53	78.94	7.84%	4.90
Lines, Cable Network etc.	213.78	169.47	8.57	374.68	7.84%	23.07
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	0.07	0.11	0.00	0.18	7.84%	0.01
Office Equipments	0.01	0.02	-	0.04	7.84%	0.00
Jeep & Motor Car	(0.09)	-	0.01	-0.10		-



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Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>264.21</b>	<b>362.44</b>	<b>166.12</b>	<b>460.53</b>		<b>28.41</b>
Fixed Asset as per Transfer Scheme	1,505.95	-	-	1,505.95	7.84%	118.07
<b>GRAND TOTAL</b>	<b>1,770.16</b>	<b>362.44</b>	<b>166.12</b>	<b>1,966.48</b>	<b>7.84%</b>	<b>146.48</b>

**Table 8-32: DEPRECIATION CLAIMED FOR MVVNL FOR FY 2006-07 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	0.03	-	-	0.03		-
ii) Freehold Land	-	-	-	-		-
Buildings	3.74	1.12	-	4.86	7.84%	0.34
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	104.42	168.85	122.64	150.63	7.84%	10.00
Lines, Cable Network etc.	197.07	204.33	5.83	395.58	7.84%	23.23
Vehicles	0.05	1.56	-	1.60	7.84%	0.06
Furniture & Fixtures	0.10	1.53	-	1.62	7.84%	0.07
Office Equipments	1.54	0.04	-	1.58	7.84%	0.12
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>306.95</b>	<b>377.43</b>	<b>128.47</b>	<b>555.91</b>		<b>33.82</b>
Fixed Asset as per Transfer Scheme	1,601.03	-	-	1,601.03	7.84%	125.52
<b>GRAND TOTAL</b>	<b>1,907.98</b>	<b>377.43</b>	<b>128.47</b>	<b>2,156.94</b>	<b>7.84%</b>	<b>159.34</b>



**Table 8-33: DEPRECIATION CLAIMED FOR PVVNL FOR FY 2006-07 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	0.09	0.11	-	0.20		-
ii) Freehold Land	-	-	-	-		-
Buildings	7.73	6.84	0.00	14.57	7.84%	0.87
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	145.48	362.46	238.37	269.58	7.84%	16.27
Lines, Cable Network etc.	206.26	160.55	20.45	346.36	7.84%	21.66
Vehicles	0.17	0.05	-	0.22	7.84%	0.02
Furniture & Fixtures	0.13	0.19	0.00	0.32	7.84%	0.02
Office Equipments	0.29	0.08	0.00	0.37	7.84%	0.03
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>360.15</b>	<b>530.28</b>	<b>258.82</b>	<b>631.61</b>		<b>38.87</b>
Fixed Asset as per Transfer Scheme	2,387.92	-	-	2,387.92	7.84%	187.21
<b>GRAND TOTAL</b>	<b>2,748.07</b>	<b>530.28</b>	<b>258.82</b>	<b>3,019.53</b>	<b>7.84%</b>	<b>226.08</b>

**Table 8-34: DEPRECIATION CLAIMED FOR PuVVNL FOR FY 2006-07 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	-	-	-		-
ii) Freehold Land	-	-	-	-		-
Buildings	5.81	6.19	0.00	12.00	7.84%	0.70
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	60.58	240.39	199.09	101.88	7.84%	6.37
Lines, Cable Network etc.	159.63	78.91	8.25	230.29	7.84%	15.29
Vehicles	-	-	-	-	7.84%	-



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Furniture & Fixtures	0.07	-	-	0.07	7.84%	0.01
Office Equipments	0.10	0.04	-	0.13	7.84%	0.01
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>226.19</b>	<b>325.53</b>	<b>207.34</b>	<b>344.37</b>		<b>22.37</b>
Fixed Asset as per Transfer Scheme	1,876.52	-	-	1,876.52	7.84%	147.12
<b>GRAND TOTAL</b>	<b>2,102.71</b>	<b>325.53</b>	<b>207.34</b>	<b>2,220.89</b>	7.84%	<b>169.48</b>

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 76.60 crores for consolidated Discoms, as detailed in Table 3-10, has been reduced from the allowable depreciation.

Thus the approved depreciation for FY 2006-07 is Rs. 624.79 crores for consolidated Discoms. The Discom wise allowable depreciation and depreciation for consolidated Discoms has been depicted in the table below:

**Table 8-35: APPROVED DEPRECIATION FOR DVVNL FOR FY 2006-07 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	142.85	120.17	146.48	146.48
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	18.41





Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>Net Allowable Depreciation</b>	<b>142.85</b>	<b>120.17</b>	<b>146.48</b>	<b>128.06</b>

**Table 8-36: APPROVED DEPRECIATION FOR MVVNL FOR FY 2006-07 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	158.19	118.39	159.34	159.34
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	17.05
<b>Net Allowable Depreciation</b>	<b>158.19</b>	<b>118.39</b>	<b>159.34</b>	<b>142.30</b>

**Table 8-37: APPROVED DEPRECIATION FOR PVVNL FOR FY 2006-07 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	220.86	189.91	226.08	226.08
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	28.44
<b>Net Allowable Depreciation</b>	<b>220.86</b>	<b>189.91</b>	<b>226.08</b>	<b>197.64</b>

**Table 8-38: APPROVED DEPRECIATION FOR PuVVNL FOR FY 2006-07 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	169.18	87.01	169.48	169.48



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy				12.70
<b>Net Allowable Depreciation</b>	<b>169.18</b>	<b>87.01</b>	<b>169.48</b>	<b>156.79</b>

**Table 8-39: APPROVED DEPRECIATION FOR CONSOLIDATED DISCOMS FOR FY 2006-07 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	691.08	515.47	701.38	701.38
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	76.60
<b>Net Allowable Depreciation</b>	<b>691.08</b>	<b>515.47</b>	<b>701.38</b>	<b>624.79</b>

### 8.15 DISCOUNT TO CONSUMERS

The Petitioner has submitted that the actual discount to consumers provided in FY 2006-07 is Rs. 8.06 crores as per audited accounts. Such rebates are given to consumers under different heads like load factor rebate, power factor rebate, etc.

As such discounts / rebates are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred i.e., Rs. 8.06 crores for consolidated Discoms.

**Table 8-40: APPROVED DISCOUNT TO CONSUMERS FOR FY 2006-07 (Rs Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
DVVNL	-	0.61	0.61	0.61



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
MVVNL	-	4.85	4.85	4.85
PVVNL	-	-	-	-
PuVVNL	-	2.59	2.59	2.59
<b>Consolidated Discoms</b>	-	<b>8.06</b>	<b>8.06</b>	<b>8.06</b>

### 8.16 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2006-07. In the audited financial statements for FY 2006-07, there has been net prior period expense recognition of Rs. 9.90 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2006-07.

### 8.17 OTHER MISCELLANEOUS EXPENSES

The Petitioner has claimed certain other expenses not specifically allowable under any head of the ARR to the tune of Rs. 1.76 crores. Such minor expenses towards items such as compensation, loss due to pilferage, material cost variance, etc have been bundled together under the nomenclature of 'Other Miscellaneous Expenses'.

As such expenses were not approved in the Tariff Order for FY 2006-07, the Commission has not considered such expenses for admissibility in the true-up as well.

### 8.18 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Petitioner has claimed Rs. 206.06 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited



accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2006-07 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

#### **8.19 REVENUE SUBSIDY FROM GOUP**

The Petitioner has submitted that the actual revenue subsidy received from GoUP was Rs. 1,547.38 crores during FY 2006-07 as against Rs. 1,512.00 crores approved in the Tariff Order.

The Commission has considered the actual subsidy received by the Petitioner amounting to Rs. 1,547.38 crores in the true-up.

#### **8.20 REVENUE SIDE TRUING UP**

##### **8.20.1 NON TARIFF INCOMES**

The Petitioner has submitted that the actual non-tariff income during FY 2006-07 was Rs. 19.41 crores as compared to Rs. 126.00 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

##### **8.20.2 REVENUE FROM SALE OF POWER**



The Petitioner has submitted that the actual revenue from sale of power during FY 2006-07 is Rs. 7,494.11 crores including Rs. 231.83 crores towards delayed payment charges as against Rs. 9,991.99 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

### 8.20.3 EFFICIENCY IMPROVEMENTS AND DEFICIT FINANCING

The Commission in Paras 8.148 to 8.151 of the Tariff Order for FY 2006-07, based on the petition made by the licensees, had approved, that the distribution companies would meet their revenue gap through efficiency improvements to the tune of Rs. 772.66 crores and balance of Rs. 1,151.27 crores through short term loans from financial institutions. The allocation among Discoms was also provided in the Tariff Order which is reproduced below:

**Table 8-41: FUNDING OF REVENUE GAP IN FY 2006-07 TARIFF ORDER (Rs Crores)**

Particulars	PVVNL	DVVNL	MVVNL	PuVVNL	Consolidated
Additional Govt. Subsidy	130.93	75.10	114.13	179.84	500.00
Efficiency Improvement	104.00	313.00	143.00	212.66	772.66
Short Term Loans	416.62	532.41	202.24	-	1,151.27
Total Funding	916.55	1,072.51	690.37	756.51	3,435.94
Unfunded Revenue Gap	-	-	-	-	-

The Commission had further stipulated that it would not take into account any gap consequent to shortfall in revenues for computation of tariffs in the future years. The relevant paragraph is reproduced below:

*“8.149 At this stage, the Commission would like to clarify that since the licensees have not proposed any tariff hike for meeting the revenue gap, rather all the gap is proposed to be bridged through efficiency improvements, committed Government subsidy including additional subsidy and through the Government support in the form of short term loans, therefore, any short fall in revenues or excess revenues will have to be adjusted against*



*the Government support and the Commission shall not take into account any such gap for computation of tariffs in the future years.”*

Accordingly, the Commission, while truing up, has considered Rs. 772.66 crores and Rs. 1,151.27 crores towards efficiency gains and deficit financing respectively, and has applied the same as a reduction from the allowable revenue gap for FY 2006-07 in the same discom-wise ratio as approved in the Tariff Order for FY 2006-07.

### 8.21 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2006-07 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2006-07 after final truing up for the distribution companies and for Consolidated Discoms is summarised in the Tables below:

**Table 8-42: DVVNL - ARR FOR FY 2006-07 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	3194.38	2571.09	2446.54	2469.35
Employee Expenses	155.69	149.00	165.73	149.00
Repair and Maintenance Expenses	46.07	60.35	60.35	46.07
A&G Expenses	24.87	24.62	27.03	24.62
Gross Interest on Long Term Loans	30.64	24.11	24.11	19.63
Finance Charges	8.80	11.36	11.36	11.36
Interest on Working Capital	32.60	48.25	48.26	32.60
Discount to Consumers	0.00	0.61	0.61	0.61
Depreciation	142.85	120.17	146.48	128.06
Prior Period Expenses	-	3.74	3.74	-
Other Misc Expenses	-	0.33	0.33	-
Provision for Bad and Doubtful Debts	-	11.87	56.59	-
<b>Gross Expenditure</b>	<b>3635.90</b>	<b>3025.49</b>	<b>2991.13</b>	<b>2881.30</b>
Less: Employee Capitalisation	23.35	50.12	50.12	50.12
Less: A&G Capitalisation	3.73	8.30	8.30	8.30
Less: Interest Capitalisation	14.61	-	-	-
<b>Total Capitalisation</b>	<b>41.69</b>	<b>58.42</b>	<b>58.42</b>	<b>58.42</b>
<b>Net Expenditure</b>	<b>3594.21</b>	<b>2967.07</b>	<b>2932.71</b>	<b>2822.88</b>



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	25.00	5.66	5.66	5.66
<b>Annual Revenue Requirement</b>	<b>3569.21</b>	<b>2961.41</b>	<b>2927.05</b>	<b>2817.22</b>
Revenue from Tariff including Delayed Payment Surcharge	2496.71	1642.14	1642.14	1642.14
GoUP Subsidy	227.10	248.94	248.94	248.94
Efficiency Improvement	313.00	-	-	313.00
Short Term Loans	532.41	-	-	532.41
<b>Net Revenue Gap</b>	<b>-0.01</b>	<b>1070.32</b>	<b>1035.96</b>	<b>80.72</b>

**Table 8-43: MVVNL - ARR FOR FY 2006-07 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	1994.86	2002.08	1905.09	1711.80
Employee Expenses	221.87	212.23	216.93	212.23
Repair and Maintenance Expenses	51.01	57.01	57.01	51.01
A&G Expenses	25.67	44.27	44.27	25.67
Gross Interest on Long Term Loans	48.80	86.01	86.01	48.99
Finance Charges	8.11	10.07	10.07	10.07
Interest on Working Capital	33.40	-	-	33.40
Discount to Consumers	-	4.85	4.85	4.85
Depreciation	158.19	118.39	159.34	142.30
Prior Period Expenses	-	3.58	3.58	-
Other Misc Expenses	-	0.63	0.63	-
Provision for Bad and Doubtful Debts	-	8.94	31.89	-
<b>Gross Expenditure</b>	<b>2541.91</b>	<b>2548.06</b>	<b>2519.68</b>	<b>2240.31</b>
Less: Employee Capitalisation	33.28	33.05	33.05	33.05
Less: A&G Capitalisation	3.85	2.01	2.01	2.01
Less: Interest Capitalisation	18.99	12.52	12.52	7.13
<b>Total Capitalisation</b>	<b>56.12</b>	<b>47.58</b>	<b>47.58</b>	<b>42.19</b>
<b>Net Expenditure</b>	<b>2485.79</b>	<b>2500.48</b>	<b>2472.10</b>	<b>2198.12</b>
Add: Return on Equity	-	-	-	-



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Less: Non-tariff Incomes	14.00	5.51	5.51	5.51
<b>Annual Revenue Requirement</b>	<b>2471.79</b>	<b>2494.97</b>	<b>2466.59</b>	<b>2192.61</b>
Revenue from Tariff including Delayed Payment Surcharge	1781.42	1423.21	1423.21	1423.21
GoUP Subsidy	345.13	333.26	333.26	333.26
Efficiency Improvement	143.00	-	-	143.00
Short Term Loans	202.24	-	-	202.24
<b>Net Revenue Gap</b>	<b>0.00</b>	<b>738.51</b>	<b>710.12</b>	<b>90.91</b>

**Table 8-44: PVVNL – ARR FOR FY 2006-07 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	3733.83	3635.73	3459.60	3468.32
Employee Expenses	196.54	184.25	208.17	184.25
Repair and Maintenance Expenses	71.23	70.72	70.97	70.72
A&G Expenses	23.40	26.25	26.96	23.40
Gross Interest on Long Term Loans	44.97	105.03	105.03	24.45
Finance Charges	20.28	9.33	9.33	9.32
Interest on Working Capital	33.40	-	-	33.40
Discount to Consumers	-	-	-	-
Depreciation	220.86	189.91	226.08	197.64
Prior Period Expenses	-	1.37	1.37	-
Other Misc Expenses	-	0.40	0.40	-
Provision for Bad and Doubtful Debts	-	0.66	45.40	-
<b>Gross Expenditure</b>	<b>4344.51</b>	<b>4223.65</b>	<b>4153.32</b>	<b>4011.49</b>
Less: Employee Capitalisation	29.48	65.03	65.03	65.03
Less: A&G Capitalisation	3.51	7.78	7.78	7.78
Less: Interest Capitalisation	18.11	22.73	22.73	5.29
<b>Total Capitalisation</b>	<b>51.10</b>	<b>95.54</b>	<b>95.54</b>	<b>78.10</b>
<b>Net Expenditure</b>	<b>4293.41</b>	<b>4128.11</b>	<b>4057.78</b>	<b>3933.39</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	44.00	3.09	3.09	3.09





Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>Annual Revenue Requirement</b>	<b>4249.41</b>	<b>4125.02</b>	<b>4054.69</b>	<b>3930.29</b>
Revenue from Tariff including Delayed Payment Surcharge	3332.88	2913.94	2913.94	2913.94
GoUP Subsidy	395.93	481.12	481.12	481.12
Efficiency Improvement	104.00	-	-	104.00
Short Term Loans	416.62	-	-	416.62
<b>Net Revenue Gap</b>	<b>-0.02</b>	<b>729.96</b>	<b>659.63</b>	<b>14.62</b>

**Table 8-45: PuVVNL – ARR FOR FY 2006-07 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	2658.59	2608.22	2481.86	2265.56
Employee Expenses	244.41	247.13	248.37	244.41
Repair and Maintenance Expenses	54.56	89.27	89.27	54.56
A&G Expenses	17.72	26.42	26.42	17.72
Gross Interest on Long Term Loans	37.47	69.96	69.96	27.05
Finance Charges	20.04	8.42	8.42	8.42
Interest on Working Capital	35.06	-	-	35.06
Discount to Consumers	-	2.59	2.59	2.59
Depreciation	169.18	87.01	169.48	156.79
Prior Period Expenses	-	1.21	1.21	-
Other Misc Expenses	-	0.40	0.40	-
Provision for Bad and Doubtful Debts	-	14.44	72.18	-
<b>Gross Expenditure</b>	<b>3237.03</b>	<b>3155.08</b>	<b>3170.17</b>	<b>2812.16</b>
Less: Employee Capitalisation	36.66	41.86	41.86	41.86
Less: A&G Capitalisation	2.66	5.00	5.00	5.00
Less: Interest Capitalisation	16.76	7.86	7.86	3.04
<b>Total Capitalisation</b>	<b>56.08</b>	<b>54.72</b>	<b>54.72</b>	<b>49.90</b>
<b>Net Expenditure</b>	<b>3180.95</b>	<b>3100.36</b>	<b>3115.45</b>	<b>2762.26</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	43.00	5.15	5.15	5.15



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>Annual Revenue Requirement</b>	<b>3137.95</b>	<b>3095.22</b>	<b>3110.31</b>	<b>2757.12</b>
Revenue from Tariff including Delayed Payment Surcharge	2381.46	1514.82	1514.82	1514.82
GoUP Subsidy	543.84	484.06	484.06	484.06
Efficiency Improvement	212.66	-	-	212.66
Short Term Loans	-	-	-	-
<b>Net Revenue Gap</b>	<b>-0.01</b>	<b>1096.34</b>	<b>1111.43</b>	<b>545.58</b>

**Table 8-46: CONSOLIDATED DISCOMS – ARR FOR FY 2006-07 AFTER FINAL TRUING UP**  
(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	11581.66	10817.12	10293.09	9915.03
Employee Expenses	818.51	792.61	839.21	789.88
Repair and Maintenance Expenses	222.87	277.34	277.60	222.36
A&G Expenses	91.66	121.56	124.68	91.41
Gross Interest on Long Term Loans	161.88	285.12	285.12	120.11
Finance Charges	57.23	39.19	39.19	39.18
Interest on Working Capital	134.46	48.25	48.26	134.46
Discount to Consumers	-	8.06	8.06	8.06
Depreciation	691.08	515.47	701.38	624.79
Prior Period Expenses	-	9.90	9.90	-
Other Misc Expenses	-	1.76	1.76	-
Provision for Bad and Doubtful Debts	-	35.91	206.06	-
<b>Gross Expenditure</b>	<b>13759.35</b>	<b>12952.28</b>	<b>12834.30</b>	<b>11945.26</b>
Less: Employee Capitalisation	122.77	190.07	190.07	190.07
Less: A&G Capitalisation	13.75	23.08	23.08	23.08
Less: Interest Capitalisation	68.47	43.11	43.11	15.46
<b>Total Capitalisation</b>	<b>204.99</b>	<b>256.26</b>	<b>256.26</b>	<b>228.61</b>
<b>Net Expenditure</b>	<b>13554.36</b>	<b>12696.02</b>	<b>12578.04</b>	<b>11716.65</b>



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	126.00	19.41	19.41	19.41
<b>Annual Revenue Requirement</b>	<b>13428.36</b>	<b>12676.61</b>	<b>12558.63</b>	<b>11697.24</b>
Revenue from Tariff including Delayed Payment Surcharge	9992.47	7494.11	7494.11	7494.11
GoUP Subsidy	1512.00	1547.38	1547.38	1547.38
Efficiency Improvement	772.66	-	-	772.66
Short Term Loans	1151.27	-	-	1151.27
<b>Net Revenue Gap</b>	<b>-0.04</b>	<b>3635.12</b>	<b>3517.14</b>	<b>731.82</b>

The treatment of revenue gap for FY 2006-07 has been discussed in succeeding Section 13.



## **9. TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2007-08**

As mentioned in the foregoing sections, the Commission had framed the Uttar Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Distribution Tariff) Regulations, 2006 on 6<sup>th</sup> October, 2006. These Regulations are applicable for the purposes of ARR filing and Tariff determination to all the distribution licensees within the State of Uttar Pradesh from FY 2007-08 onwards. Similarly, the Uttar Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006 were notified by the Commission on 6<sup>th</sup> October, 2006. These regulations are applicable for the purposes of ARR filing and Tariff determination of the transmission licensees within the State of Uttar Pradesh from FY 2007-08 onwards. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2007-08, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner. The Commission has allowed the true-up for FY 2007-08 considering the principles laid down in the Tariff Regulations

UPPTCL had commenced operations with effect from 1<sup>st</sup> April, 2007. The Commission in the Tariff Order for FY 2007-08 had approved separate bulk supply tariff and transmission tariff. The transmission tariff was revised vide Order dated 2<sup>nd</sup> November, 2011 in Petition No. 761 of 2011. The true-up in respect of transmission tariff has been approved by providing suitable adjustments w.r.t to the ARR approved in the Order dated 2<sup>nd</sup> November, 2011.

### **9.1 BULK SUPPLY TARIFF FOR DISTRIBUTION COMPANIES FOR FY 2007-08**

One of the major cost components of the distribution companies is cost of power, which is supplied by UPPCL. The distribution companies pay the transmission charges to UPPTCL which provides the transmission service.

In the following sections, the various elements of the ARR of UPPCL and UPPTCL are being trued up and the revenue gap has been assessed. The revenue gap would be recovered from the distribution companies through truing up of the bulk supply tariff.

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## 9.2 POWER PURCHASE QUANTUM AND COST FOR FY 2007-08

The Commission, in the Tariff Order for FY 2007-08 had approved a power purchase quantum of 57,538.68 MU and total power purchase expenses of Rs. 12,676.43 crores. The Petitioner, in its True-up petition has submitted that the actual power purchase expenses for FY 2007-08 are Rs. 12,293.89 crores towards power procurement of 55011.19 MU. There has been an under-achievement of the T&D loss target by the Petitioner in FY 2007-08. The actual T&D loss has been dismal at 36.75% as against 27.41% approved by the Commission in the relevant year.

The Petitioner has claimed the power purchase cost during truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 27.41%
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2007-08 are Rs. 10,713.36 crores.

The Commission has concurred with the philosophy considered by the Petitioner wherein the efficiency target of T&D loss level has been considered as controllable parameter whereas the quantity mix and price variance has been considered as uncontrollable parameter.

The Commission in Para 5.3.9 of the FY 2007-08 Tariff Order had approved a ceiling rate of Rs. 4.74 per kWh for short term and emergency purchases. The Commission in the response to the Deficiency Note has obtained the break-up of the rates and energy procured through short term sources and unscheduled interchange (UI). The table below depicts that the Petitioner has purchased energy through Adani Export, Tata Power Trading Corporation Limited, Global Energy Ltd and Lanco EU Ltd at an average rate of Rs. 5.16, Rs. 6.36, Rs. 5.95 and Rs. 6.42 per kWh respectively which is higher than the ceiling rate of Rs. 4.74 per kWh. The Commission disallows such costly purchases over and above the ceiling rate and accordingly disallows Rs. 23.26 crores towards power purchase cost incurred by the Petitioner in FY 2007-08.

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**Table 9-1: DISALLOWANCE IN POWER PURCHASE EXPENSES FOR FY 2007-08**

Source	Units Procured (MU)	Amount Incurred (Rs Crore)	Rate (Rs/kWh)	Ceiling Rate (Rs/kWh)	Disallowance (Rs/kWh)	Disallowance (Rs Crore)
a	b	c	d=c/b*10	E	f=d-e	g=f*b/10
Adani Export	21.35	11.01	5.16	4.74	-0.42	-0.89
NTPC VVNL	3.90	1.16	2.97	4.74	-	-
Tata Power Trading Corporation Ltd	74.37	47.28	6.36	4.74	-1.62	-12.03
Global Energy Ltd	0.45	0.27	5.95	4.74	-1.21	-0.05
Lanco EU Ltd	61.27	39.32	6.42	4.74	-1.68	-10.28
PTC	167.69	38.26	2.28	4.74	-	-
UI	2018.43	918.63	4.55	4.74	-	-
<b>Total</b>	<b>2347.46</b>	<b>1055.93</b>	<b>4.50</b>	<b>4.74</b>	<b>-4.92</b>	<b>-23.26</b>

Further, the Petitioner in its True-up petition has considered the energy sales of four distribution companies alone i.e., DVVNL, MVVNL, PVVNL and PuVVNL. However the Commission has considered the bulk sales to KESCO and NPCL as well to analyse the energy requirement at UPPCL level. This has been done to maintain consistency with the philosophy adopted in the Tariff Order for FY 2007-08

In this section, the Commission has assessed the allowable power purchase cost at the UPPCL level wherein the allowable power purchase cost at discom end has been trued up.

The table below summarises the sales, transmission losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

**Table 9-2: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2007-08**

Particulars	Unit	Tariff Order	Actual as per audited accounts	Approved
Power Purchase	MU	56428.00	55011.19	54350.38
Transmission Loss	MU	2821.00	3377.95	2717.13
Transmission Loss	%	5.00%	6.14%	5.00%



Particulars	Unit	Tariff Order	Actual as per audited accounts	Approved
Energy available at Discom End	MU	53607.00	51633.24	51633.24
Power Purchase Cost	Rs Crore	12676.41	12293.89	12270.63
Power Purchase Cost per unit	Rs/kWh	2.25	2.23	2.23
Allowable Power Purchase Cost at Discom end	Rs Crore			12123.23
Power Purchase Cost per unit at Discom end	Rs/kWh	2.36	2.38	2.35

The allowable power purchase cost has been assessed at Rs. 12,123.23 crores for FY 2007-08 at UPPCL level.

### 9.3 O&M EXPENSES

The transmission tariff was revised vide Order dated 2<sup>nd</sup> November, 2011 in Petition No. 761 of 2011 wherein the O&M expenses were approved based on provisional accounts. There is no deviation in the audited accounts vis-à-vis O&M expenses approved in Order dated 2<sup>nd</sup> November, 2011. Para 5 (e) of the Notes on Account to the audited accounts reveal that UPPTCL has made a provision of Rs. 51.32 crores towards pay arrears of 6<sup>th</sup> pay commission for the period from 1<sup>st</sup> April 2006 to 31<sup>st</sup> March, 2008. The Commission approves the pay revision arrears over and above the normal employee expenses as such expenses are uncontrollable in nature.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

**Table 9-3: APPROVED O&M EXPENSES FOR FY 2007-08 FOR UPPTCL (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	247.16	247.16	247.16	195.84
Repair & Maintenance Expenses	66.53	66.53	66.53	66.53
Administrative and General Expenses	12.30	12.30	12.30	12.30
<b>Gross Operation and Maintenance Expenses</b>	<b>325.99</b>	<b>325.98</b>	<b>325.99</b>	<b>274.66</b>
Less: Capitalisation				
Employee Cost Capitalized	53.63	53.63	53.63	53.63



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
A&G Expenses Capitalized	2.38	2.38	2.38	2.38
<b>Total Capitalization</b>	<b>56.01</b>	<b>56.01</b>	<b>56.01</b>	<b>56.01</b>
<b>Net Operation and Maintenance Expenses</b>	<b>269.98</b>	<b>269.97</b>	<b>269.98</b>	<b>218.65</b>
<b>Net O&amp;M as a percentage of the Closing GFA</b>				<b>3.78%</b>

In addition to the above, the Commission approves the adjustment of Rs. 51.32 crores towards 'provision for arrear payment consequent to 6<sup>th</sup> pay revision' in addition to the employee expenses shown in the table above. Thus, the Commission approves net O&M expenses of Rs. 218.65 crores and pay revision provision of Rs. 51.32 crores.

#### 9.4 INTEREST AND FINANCE CHARGES

##### 9.4.1 Interest on Long Term Loans

The UPPTCL has claimed net interest expenses of Rs. 155.27 crores as against Rs. 161.50 crores approved in the Order dated 2<sup>nd</sup> November, 2011.

Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts, the Commission has derived the actual capital investments undertaken by UPPTCL in FY 2007-08. The opening CWIP and GFA balances have been taken from the transmission transfer scheme dated 23<sup>rd</sup> December, 2010. The details are provided in the table below:

**Table 9-4: CAPITAL INVESTMENTS IN FY 2007-08 (Rs. Crores)**

Particulars	Derivation	2007-08
Opening WIP as on 1st April	A	536.44
Investments	B	1417.84
Employee Expenses Capitalisation	C	53.63
A&G Expenses Capitalisation	D	2.38
Interest Capitalisation on Interest on long term loans	E	41.25





Particulars	Derivation	2007-08
<b>Total Investments</b>	<b>F= A+B+C+D+E</b>	<b>2051.55</b>
Transferred to GFA (Total Capitalisation)	G	1253.19
<b>Closing WIP</b>	<b>H= F-G</b>	<b>798.36</b>

The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2007-08:

**Table 9-5: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2007-08 (Rs. Crores)**

Particulars	2007-08
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	55.60
Additions during the year	49.71
Less: Amortisation	2.73
<b>Closing Balance</b>	<b>102.58</b>

Thus, the approved financing of the capital investment is depicted in the table below:

**Table 9-6: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2007-08 (Rs. Crores)**

Particulars	Derivation	2007-08
Investment	A	1417.84
Less:		
Consumer Contribution	B	49.71
Investment funded by debt and equity	C=A-B	1368.14
Debt Funded	70%	957.69
Equity Funded	30%	410.44

Thus, from the above tables it is seen, that UPPTCL has made an investment of Rs. 1,417.84 crores in FY 2007-08. However the consumer contributions, capital subsidies



and grants received during the corresponding period is Rs. 49.71 crores. Thus, balance Rs. 1368.14 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 957.69 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 410.44 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate of 8.01% has been considered for computing the interest. The opening balance of long term loan has been considered from the transmission transfer scheme dated 23<sup>rd</sup> December, 2010. However, GoUP loan of Rs. 492.31 crore which has devolved upon UPPTCL from the Transfer Scheme has not been considered as no interest liability and principal repayment has been made on such loan.

Considering the above, the gross interest on long term loan is Rs. 183.54 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 9-7: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2007-08 (Rs Crores)**

Particulars	2007-08
Opening Loan	1947.35
Loan Additions (70% of Investments)	957.69
Less: Repayments (Depreciation allowable for the year)	270.53
Closing Loan Balance	2634.52
Weighted Average Rate of Interest	8.01%
<b>Interest on long term loan</b>	<b>183.54</b>
Interest Capitalisation Rate	20.99%
Less: Interest Capitalized	38.53
<b>Net Interest Charged</b>	<b>145.02</b>

#### 9.4.2 Finance Charges

The UPPTCL has claimed Rs. 6.62 crores towards finance charges during FY 2007-08. Items claimed under this head are towards items such as bank charges, finance charges, etc.

The Commission approves the bank charges, finance charges as per audited accounts to the extent of Rs. 6.62 crores.

#### 9.4.3 Interest on Working Capital



The Transmission Tariff Regulations provides for the normative interest on working capital based on the methodology outlined in the Regulations. In the Tariff Order for FY 2007-08, the Commission had allowed Rs. 25.63 crores towards interest on working capital for UPPTCL. No amounts were considered in the Order dated 2<sup>nd</sup> November, 2011. However since interest on working capital is allowed in terms of the Tariff Regulations, the Commission has allowed such claims in the true-up.

The Commission has approved Rs. 19.88 crores towards interest on working capital for FY 2007-08 as computed in the table below:

**Table 9-8: UPPTCL - APPROVED INTEREST ON WORKING CAPITAL FOR FY 2007-08**

(Rs. Crores)		
S No	Particulars	Approved
1	One month's O & M Expenses	18.22
2	One-twelfth of the sum of the book value of materials in stores at the end of each month of such financial year.	24.18
3	Receivables equivalent to 60 days average billing on consumers	116.61
	<b>Grand Total</b>	<b>159.01</b>
	Less:	
4	Total Security Deposits by the Consumers reduced by Security Deposits under section 47(1)(b) of the Electricity Act 2003	-
	<b>Net Working Capital</b>	<b>159.01</b>
	Rate of Interest on Working Capital	12.50%
	<b>Interest on Working Capital</b>	<b>19.88</b>

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for UPPTCL for FY 2007-08:

**Table 9-9: INTEREST AND FINANCE CHARGES FOR UPPTCL (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	161.50	196.52	196.52	183.54
Less: Interest Capitalisation	0.00	41.25	41.25	38.53
<b>Net Interest on Long Term Loans</b>	<b>161.50</b>	<b>155.27</b>	<b>155.27</b>	<b>145.02</b>



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>B: Finance and Other Charges</b>				
Bank Charges	-	6.62	6.62	6.62
<b>Total Finance Charges</b>	<b>0.00</b>	<b>6.62</b>	<b>6.62</b>	<b>6.62</b>
<b>C: Interest on Working Capital</b>	-	-	-	<b>19.88</b>
<b>Total (A+B+C)</b>	<b>161.50</b>	<b>161.89</b>	<b>161.89</b>	<b>171.51</b>

## 9.5 DEPRECIATION

In the Order dated 2<sup>nd</sup> November, 2011, the Commission had considered depreciation to the extent of Rs. 253.79 crores for UPPTCL. The actual depreciation expense charged in the audited accounts is Rs. 253.79 crores. However, the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the UPPTCL has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2007-08. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 306.93 crores as depicted in the table below:

**Table 9-10: DEPRECIATION CLAIMED FOR UPPTCL FOR FY 2007-08 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	24.87	-	24.87		
ii) Freehold Land	-	0.05	-	0.05		
Buildings	-	175.53	0.02	175.51		
Other Civil Works	-	38.35	-	38.35		
Plants & Machinery	-	2,797.58	62.34	2,735.24		
Lines, Cable Network etc.	-	2,793.75	13.20	2,780.55		
Vehicles	-	3.91	0.21	3.70		
Furniture & Fixtures	-	1.10	0.01	1.09		



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Office Equipments	-	1.74	0.04	1.70		
Jeep & Motor Car	-	-	-	-		
Assets taken over from Licensees pending final Valuation	-	25.22	-	25.22		
<b>Total</b>	-	<b>5,862.09</b>	<b>75.81</b>	<b>5,786.28</b>		-
Less: Provisional Transfer to Discoms						
<b>GRAND TOTAL</b>	-	<b>5,862.09</b>	<b>75.81</b>	<b>5,786.28</b>	5.27%	<b>306.93</b>

The Commission does not concur with the aforementioned philosophy and depreciation computations presented by the Petitioner. The Petitioner has considered the GFA balances transferred in the transmission transfer scheme as part of additions in FY 2007-08 and have computed the full year depreciation on GFA additions during the year.

The GFA transferred to the UPPTCL as per transfer scheme is to the tune of Rs. 4,608.90 crores. Further, the capitalisation during the year is Rs. 1,253.19 crore (depreciable – Rs. 1,228.27 crores; non depreciable – Rs. 24.92 crores).

The revised depreciation computations are provided below:

**Table 9-11: GROSS DEPRECIATION APPROVED CLAIMED FOR UPPTCL FOR FY 2007-08  
(Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified		24.87	-	24.87		
ii) Freehold Land		0.05	-	0.05		
Buildings		175.53	0.02	175.51		
Other Civil Works		38.35	-	38.35		
Plants & Machinery	2304.45	493.13	62.34	2735.24		
Lines, Cable Network etc.	2304.45	489.30	13.20	2780.55		
Vehicles		3.91	0.21	3.70		



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Furniture & Fixtures		1.10	0.01	1.09		
Office Equipments		1.74	0.04	1.70		
Jeep & Motor Car		-	-	-		
Assets taken over from Licensees pending final Valuation		25.22	-	25.22		
<b>Total</b>	<b>4608.90</b>	<b>1253.19</b>	<b>75.81</b>	<b>5786.28</b>		<b>-</b>
Less: Provisional Transfer to Discoms						
<b>GRAND TOTAL</b>	<b>4608.90</b>	<b>1253.19</b>	<b>75.81</b>	<b>5786.28</b>	<b>5.27%</b>	<b>273.26</b>

Further, the UPPTCL has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 2.73 crores as detailed in Table 3-10, has been reduced from the allowable depreciation for FY 2007-08.

Thus the approved depreciation for FY 2007-08 is Rs. 270.53 crores in respect of UPPTCL as depicted in the table below:

**Table 9-12: APPROVED DEPRECIATION FOR UPPTCL FOR FY 2007-08 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	253.79	253.79	306.93	273.26
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	2.73
<b>Net Allowable Depreciation</b>	<b>253.79</b>	<b>253.79</b>	<b>306.93</b>	<b>270.53</b>



## **9.6 PRIOR PERIOD EXPENSES**

The UPPTCL has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2007-08. In the audited financial statements for FY 2007-08, there has been recognition of Rs. 0.03 crores of prior period incomes and prior period expenses of Rs. 6.89 crores, thereby the net prior period expense claimed is Rs. 6.86 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2007-08.

## **9.7 REVENUE SIDE TRUING UP**

### **9.7.1 NON TARIFF INCOMES**

The UPPTCL has submitted that the actual non-tariff income during FY 2007-08 were Rs. 11.34 crores as compared to Rs. 12.36 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the UPPTCL, under this head.

## **9.8 AGGREGATE REVENUE REQUIREMENT FOR UPPTCL FOR FY 2007-08 AFTER TRUING UP**

The Aggregate Revenue Requirement for UPPTCL for FY 2007-08 after final truing up is summarised in the Table below:

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**Table 9-13: ARR FOR UPPTCL FOR FY 2007-08 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	247.16	247.16	247.16	195.84
Repair and Maintenance Expenses	66.53	66.53	66.53	66.53
A&G Expenses	12.30	12.30	12.30	12.30
Gross Interest on Long Term Loans	161.50	196.52	196.52	183.54
Finance Charges	-	6.62	6.62	6.62
Interest on Working Capital	-	-	-	19.88
Depreciation	253.79	253.79	306.93	270.53
Prior Period Expenses	6.53	6.86	6.86	-
Provision for Bad and Doubtful Debts	-	13.79	-	-
<b>Gross Expenditure</b>	<b>747.81</b>	<b>803.56</b>	<b>842.92</b>	<b>755.23</b>
Less: Employee Capitalisation	53.63	53.63	53.63	53.63
Less: A&G Capitalisation	2.38	2.38	2.38	2.38
Less: Interest Capitalisation	-	41.25	41.25	38.53
<b>Total Capitalisation</b>	<b>56.01</b>	<b>97.26</b>	<b>97.26</b>	<b>94.54</b>
<b>Net Expenditure</b>	<b>691.80</b>	<b>706.30</b>	<b>745.66</b>	<b>660.69</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	12.36	11.34	11.34	12.35
<b>Annual Revenue Requirement</b>	<b>679.44</b>	<b>694.96</b>	<b>734.32</b>	<b>648.33</b>
GoUP Subsidy	-	-	-	-
Add: Provision for Pay Revision				51.32
<b>Net Revenue Requirement</b>	<b>679.44</b>	<b>694.96</b>	<b>734.32</b>	<b>699.65</b>
Energy Handled	51573.00	48398.07	48398.07	51633.24
<b>Transmission Charge per kWh</b>	<b>0.1317</b>	<b>0.1436</b>	<b>0.1517</b>	<b>0.1355</b>

## 9.9 DERIVATION OF THE BULK SUPPLY TARIFF AND TRANSMISSION TARIFF FOR DISTRIBUTION COMPANIES

### 9.9.1 The Petitioner's Submission:

The Petitioner has computed the allowable ARR of the UPPCL, UPPTCL and thereafter has allocated the ARR among four Discoms namely DVVNL, MVVNL, PVVNL and PuVVNL in the ratio of the actual power purchase input at each Discom during FY 2007-08.





The Petitioner in the true-up petition has estimated the allowable bulk supply tariff for the distribution companies at Rs. 2.371 per kWh and transmission tariff at Rs. 0.152 per kWh as per the tables below:

**Table 9-14: DERIVATION OF THE BULK SUPPLY TARIFF FOR FY 2007-08**

Particulars	Unit	Tariff Order	Actual
ARR of UPPCL in respect of bulk supply and transmission business	Rs Crores	12,676.43	11,476.37
Energy Handled	MU	54,662.25	48,398.07
<b>Bulk Supply Tariff</b>	<b>Rs/kWh</b>	<b>2.319</b>	<b>2.371</b>

**Table 9-15: DERIVATION OF THE TRANSMISSION TARIFF FOR FY 2007-08**

Particulars	Unit	Tariff Order	Actual
ARR of UPPCL in respect of bulk supply and transmission business	Rs Crores	679.44	734.32
Energy Handled	MU	54,662.54	48,398.07
<b>Bulk Supply Tariff</b>	<b>Rs/kWh</b>	<b>0.124</b>	<b>0.152</b>

The allocation of cost of UPPCL and UPPTCL among four Discoms has been done by the Petitioner as per the table below:

**Table 9-16: ALLOCATION OF COST OF UPPTCL FOR FY 2007-08**

Particulars	Unit	Meerut	Agra	Lucknow	Varanasi	Total
Actual Power Purchase	MU	16652	11778	8702	11267	48398
Trued-up BST Rate (Bulk Supply & Transmission Cost)	Rs/kWh	2.523	2.523	2.523	2.523	2.523
<b>Allocation of Cost of UPPCL</b>	<b>Rs Crore</b>	<b>4,201.29</b>	<b>2,971.52</b>	<b>2,195.37</b>	<b>2,842.51</b>	<b>12,210.69</b>

### 9.9.2 The Commission's Analysis:

The Petitioner in the true-up petition has assumed allocation of the bulk supply tariff and transmission charges over four Discoms only namely DVVNL, MVVNL, PVVNL and PuVVNL. However, UPPCL and UPPTCL serve KESCO and NPCL as well. Considering this fact, the Commission has considered allocation of the bulk supply tariff and transmission charges over all the Discoms namely DVVNL, MVVNL, PVVNL, PuVVNL, KESCO and NPCL.

As per the truing up, the Commission has assessed the allowable power purchase cost of Rs. 12,123.23 crores and allowable transmission charges of Rs. 699.65 as compared to



Rs. 12,676.43 crores and Rs. 679.44 crores approved in the Tariff Order for FY 2007-08 and Order dated 2<sup>nd</sup> November, 2011 respectively.

Considering the actual energy handled, the bulk supply tariff has been assessed at Rs. 2.348 per kWh as compared to Rs. 2.36 per kWh approved in the Tariff Order for FY 2007-08. The trued up transmission charge has been assessed at Rs. 0.1355 per kWh as compared to Rs. 0.1317 per kWh approved in the Order dated 2<sup>nd</sup> November, 2011.

**Table 9-17: TRUED UP BULK SUPPLY TARIFF FOR FY 2007-08**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Net ARR (Rs Crore)	12676.43	16091.30	11476.37	12123.23
Energy Handled (MU)	53607.00	48398.07	48398.07	51633.24
Bulk Supply Tariff (Rs/kWh)	2.36	3.325	2.371	2.348

**Table 9-18: TRUED UP TRANSMISSION TARIFF FOR FY 2007-08**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Net ARR (Rs Crore)	679.44	694.96	734.32	699.65
Energy Handled (MU)	51573.00	48398.07	48398.07	51633.24
Transmission Tariff (Rs/kWh)	0.1317	0.1436	0.1517	0.1355



## 9.10 TRUING UP OF THE ARR OF THE DISTRIBUTION COMPANIES FOR FY 2007-08

In the following sections, the ARR and Revenue Gap / (Surplus) of the distribution companies is assessed after truing up for FY 2007-08.

## 9.11 POWER PURCHASE EXPENSES

The trued up bulk supply tariff has been determined in the foregoing section. The Commission in the FY 2007-08 Tariff Order had prescribed the distribution loss targets for each Discom. The Commission has computed the allowable power purchase by grossing up the actual energy sales by the approved distribution loss target for each Discom. The allowable power purchase input has been multiplied by the trued up bulk supply tariff to derive the allowable power purchase cost of each Discom for truing up.

Accordingly, the table below provides the allowable power purchase cost for each Discom for FY 2007-08:

**Table 9-19: ALLOWABLE DISCOM WISE POWER PURCHASE COST FOR FY 2007-08**

Particulars	(Rs Crore)			
	DVVNL	MVVNL	PVVNL	PuVVNL
Actual Power Purchase (MU)	11602.49	8683.23	16947.34	11344.09
Sales (MU)	8087.13	6548.45	11966.01	8195.26
Distribution Loss Target (%)	25.35%	18.35%	25.41%	22.79%
Allowable Power Purchase (MU)	10833.04	8020.49	16043.10	10614.56
Trued up Bulk Supply Tariff	2.348	2.348	2.348	2.348
<b>Allowable Power Purchase (Rs Crore)</b>	<b>2543.54</b>	<b>1883.17</b>	<b>3766.84</b>	<b>2492.25</b>

## 9.12 TRANSMISSION CHARGES

The trued up transmission tariff has been determined in the foregoing section. The Commission in the FY 2007-08 Tariff Order had prescribed the distribution loss targets for each Discom. The Commission has computed the allowable power purchase by grossing up the actual energy sales by the approved distribution loss target for each Discom. The allowable power purchase input has been multiplied by the trued up transmission tariff to derive the allowable transmission charges for each Discom for truing up.



Accordingly, the table below provides the allowable transmission charges for each Discom for FY 2007-08:

**Table 9-20: ALLOWABLE TRANSMISSION CHARGES FOR FY 2007-08 (Rs Crore)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL
Allowable Units Wheeled (MU)	10833.04	8020.49	16043.10	10614.56
Trued up Transmission Charge (Rs/kWh)	0.1355	0.1355	0.1355	0.1355
<b>Transmission Charges (Rs Crore)</b>	<b>146.79</b>	<b>108.68</b>	<b>217.39</b>	<b>143.83</b>

### 9.13 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses and R&M expenditure.

The Petitioner's submissions on each of the heads of O&M expenditure for FY 2007-08, and the Commission's analysis on the truing up of the O&M expenditure heads are detailed below:

#### 9.13.1 The Petitioner's Submissions

The Petitioner has submitted that the actual gross employee expenses for FY 2007-08 were Rs. 965.70 crores as against Rs. 810.76 crores approved by the Commission in the Tariff Order for consolidated Discoms. The employee expenses capitalised as per audited accounts are to the tune of Rs. 236.39 crores as against Rs. 121.62 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 729.31 crores as against Rs. 689.14 crores approved in the Tariff Order. The Petitioner has also claimed efficiency gains of Rs. 31.63 crores, Rs.26.00 crores and Rs. 2.93 crores in PVVNL, MVVNL and PVVNL respectively.

Further, the Petitioner has submitted that the actual gross A&G expenses for FY 2007-08 were Rs. 141.31 crores as against Rs. 112.14 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 32.57 crores against 16.83 crores approved in the Tariff Order. Thus the net A&G expenses as per audited accounts are Rs. 108.73 crores as against Rs. 95.31 crores approved in the Tariff Order.



The actual repair and maintenance expenses for FY 2007-08 were Rs. 369.44 crores for consolidated Discoms as against Rs. 248.38 crores approved by the Commission in the Tariff Order. Actual expenses being lower than the approved levels, the Petitioner has also claimed efficiency gains of Rs. 1.60 crores and Rs. 1.32 crores in PVVNL and DVVNL respectively.

The summary of the O&M expenses approved in the Tariff Order for FY 2007-08 vis-à-vis the actual O&M expenditure is shown in the table below:

**Table 9-21: ACTUAL O&M EXPENSES FOR FY 2007-08 FOR DISCOMS (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition
<b>AGRA DISCOM</b>			
Employee Expenses	160.13	149.92	175.92
Repair & Maintenance Expenses	51.34	103.21	103.21
Administrative and General Expenses	26.49	31.32	32.65
<b>Gross Operation and Maintenance Expenses</b>	<b>237.96</b>	<b>284.46</b>	<b>311.78</b>
Less: Capitalisation			
Employee Cost Capitalized	24.02	65.81	65.81
A&G Expenses Capitalized	3.98	11.46	11.46
<b>Total Capitalization</b>	<b>28.00</b>	<b>77.27</b>	<b>77.27</b>
<b>Net Operation and Maintenance Expenses</b>	<b>209.96</b>	<b>207.19</b>	<b>234.51</b>
<b>LUCKNOW DISCOM</b>			
Employee Expenses	215.98	222.77	225.70
Repair & Maintenance Expenses	56.85	86.26	86.26
Administrative and General Expenses	38.39	50.05	50.05
<b>Gross Operation and Maintenance Expenses</b>	<b>311.22</b>	<b>359.08</b>	<b>362.01</b>
Less: Capitalisation			
Employee Cost Capitalized	32.40	45.05	45.05
A&G Expenses Capitalized	5.76	6.32	6.32
<b>Total Capitalization</b>	<b>38.16</b>	<b>51.36</b>	<b>51.36</b>
<b>Net Operation and Maintenance Expenses</b>	<b>273.06</b>	<b>307.72</b>	<b>310.65</b>
<b>MEERUT DISCOM</b>			
Employee Expenses	205.85	188.62	220.25
Repair & Maintenance Expenses	79.38	84.57	84.57
Administrative and General Expenses	25.34	27.90	29.50
<b>Gross Operation and Maintenance Expenses</b>	<b>310.57</b>	<b>301.09</b>	<b>334.32</b>



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition
Less: Capitalisation			
Employee Cost Capitalized	30.88	76.91	76.91
A&G Expenses Capitalized	3.80	9.56	9.56
<b>Total Capitalization</b>	<b>34.68</b>	<b>86.47</b>	<b>86.47</b>
<b>Net Operation and Maintenance Expenses</b>	<b>275.89</b>	<b>214.62</b>	<b>247.85</b>
<b>VARANASI DISCOM</b>			
Employee Expenses	228.80	404.38 <sup>4</sup>	404.38
Repair & Maintenance Expenses	60.81	95.40	95.40
Administrative and General Expenses	21.92	32.03	32.03
<b>Gross Operation and Maintenance Expenses</b>	<b>311.53</b>	<b>531.81</b>	<b>531.81</b>
Less: Capitalisation			
Employee Cost Capitalized	34.32	48.62	48.62
A&G Expenses Capitalized	3.29	5.24	5.24
<b>Total Capitalization</b>	<b>37.61</b>	<b>53.86</b>	<b>53.86</b>
<b>Net Operation and Maintenance Expenses</b>	<b>273.92</b>	<b>477.95</b>	<b>477.95</b>
<b>CONSOLIDATED DISCOMS</b>			
Employee Expenses	810.76	965.70	1026.25
Repair & Maintenance Expenses	248.38	369.44	369.44
Administrative and General Expenses	112.14	141.31	144.23
<b>Gross Operation and Maintenance Expenses</b>	<b>1171.28</b>	<b>1476.45</b>	<b>1539.93</b>
Less: Capitalisation			
Employee Cost Capitalized	121.62	236.39	236.39
A&G Expenses Capitalized	16.83	32.57	32.57
<b>Total Capitalization</b>	<b>138.45</b>	<b>268.96</b>	<b>268.96</b>
<b>Net Operation and Maintenance Expenses</b>	<b>1032.83</b>	<b>1207.48</b>	<b>1270.96</b>

### 9.13.2 The Commission's Analysis

The Tariff Regulations provide that the O&M expenditure for the year i.e., FY 2007-08 shall be calculated on the basis of the historical / audited cost and past trends during the

<sup>4</sup> Gross Employee Expenses of Rs. 404.38 crores includes 'provision for arrear payment consequent to 6<sup>th</sup> Pay Revision amounting to Rs. 100.82 crores. This is provided in the notes on account to the audited accounts.



preceding five years. However, any abnormal variation during the preceding five years shall be excluded. For years subsequent to the base year, the O&M expenses for the base year would be escalated at inflation rates notified by the Central Government for different years. The inflation rate for above purpose shall be the weighted average of Wholesale Price Index and Consumer Price Index in the ratio of 60:40. Further incremental O&M expenses for the ensuing financial year ( $n^{\text{th}}$  year) shall be allowed @ 2.50% of capital addition during the current year ( $n-1$ ).

The Discoms were carved out by the Second Transfer Scheme and started operations from 12<sup>th</sup> August, 2003. Hence the segregated full year accounts are available only for the last three years i.e., FY 2004-05, 2005-06 and 2006-07. Hence the Commission has considered the trend in O&M expenditure in the preceding three years.

The table below provides the details of the O&M expenses for the FY 2007-08 along with the preceding three years:

**Table 9-22: ACTUAL O&M EXPENSES FROM FY 2004-05 TO 2007-08 (RS CRORES)**

Particulars	2004-05	2005-06	2006-07	2007-08	CAGR (%)
<b>DVVNL</b>					
Employee Expenses	142.77	142.45	149.00	149.92	1.64%
Repair & Maintenance Expenses	41.57	44.45	60.35	103.21	35.41%
Administrative and General Expenses	16.03	24.05	24.62	31.32	25.03%
<b>Gross Operation and Maintenance Expenses</b>	<b>200.36</b>	<b>210.95</b>	<b>233.96</b>	<b>284.46</b>	<b>12.39%</b>
Less: Capitalisation					
Employee Cost Capitalized	22.88	26.99	50.12	65.81	42.22%
A&G Expenses Capitalized	2.35	3.54	8.30	11.46	69.48%
<b>Total Capitalization</b>	<b>25.23</b>	<b>30.53</b>	<b>58.42</b>	<b>77.27</b>	<b>45.22%</b>
<b>Net Operation and Maintenance Expenses</b>	<b>175.13</b>	<b>180.41</b>	<b>175.54</b>	<b>207.19</b>	<b>5.76%</b>
<b>Net O&amp;M as a percentage of the Closing GFA</b>				<b>8.99%</b>	
<b>MVVNL</b>					
Employee Expenses	205.35	199.14	212.23	222.77	2.75%
Repair & Maintenance Expenses	40.26	50.50	57.01	86.26	28.92%
Administrative and General Expenses	28.90	37.87	44.27	50.05	20.09%
<b>Gross Operation and Maintenance</b>	<b>274.51</b>	<b>287.51</b>	<b>313.50</b>	<b>359.08</b>	<b>9.37%</b>



Order on True-up for FY 2000-01 to 2007-08

Particulars	2004-05	2005-06	2006-07	2007-08	CAGR (%)
<b>Expenses</b>					
Less: Capitalisation					
Employee Cost Capitalized	30.45	41.77	33.05	45.05	13.95%
A&G Expenses Capitalized	0.56	3.32	2.01	6.32	124.57%
<b>Total Capitalization</b>	<b>31.01</b>	<b>45.08</b>	<b>35.06</b>	<b>51.36</b>	<b>18.32%</b>
<b>Net Operation and Maintenance Expenses</b>	<b>243.51</b>	<b>242.43</b>	<b>278.44</b>	<b>307.72</b>	<b>8.11%</b>
<b>Net O&amp;M as a percentage of the Closing GFA</b>				<b>12.94%</b>	
<b>PVVNL</b>					
Employee Expenses	221.91	198.86	184.25	188.62	-5.27%
Repair & Maintenance Expenses	51.10	56.03	70.72	84.57	18.28%
Administrative and General Expenses	22.14	23.94	26.25	27.90	8.01%
<b>Gross Operation and Maintenance Expenses</b>	<b>295.15</b>	<b>278.83</b>	<b>281.22</b>	<b>301.09</b>	<b>0.67%</b>
Less: Capitalisation					
Employee Cost Capitalized	28.07	42.89	65.03	76.91	39.93%
A&G Expenses Capitalized	2.72	4.66	7.78	9.56	51.98%
<b>Total Capitalization</b>	<b>30.79</b>	<b>47.55</b>	<b>72.81</b>	<b>86.47</b>	<b>41.08%</b>
<b>Net Operation and Maintenance Expenses</b>	<b>264.36</b>	<b>231.28</b>	<b>208.40</b>	<b>214.62</b>	<b>-6.71%</b>
<b>Net O&amp;M as a percentage of the Closing GFA</b>				<b>6.17%</b>	
<b>PUVVNL</b>					
Employee Expenses	238.06	238.80	247.13	303.56 <sup>5</sup>	8.44%
Repair & Maintenance Expenses	67.59	76.88	89.27	95.40	12.17%
Administrative and General Expenses	22.24	24.68	26.42	32.03	12.93%
<b>Gross Operation and Maintenance Expenses</b>	<b>327.89</b>	<b>340.36</b>	<b>362.82</b>	<b>430.99</b>	<b>9.54%</b>
Less: Capitalisation					
Employee Cost Capitalized	21.57	34.49	41.86	48.62	31.13%
A&G Expenses Capitalized	2.62	2.80	5.00	5.24	26.04%
<b>Total Capitalization</b>	<b>24.18</b>	<b>37.29</b>	<b>46.86</b>	<b>53.86</b>	<b>30.60%</b>

<sup>5</sup> Normalised employee cost excluding provision for arrear payment consequent to 6<sup>th</sup> pay revision amounting to Rs. 100.82 crore





Particulars	2004-05	2005-06	2006-07	2007-08	CAGR (%)
<b>Net Operation and Maintenance Expenses</b>	<b>303.71</b>	<b>303.07</b>	<b>315.96</b>	<b>377.13</b>	<b>7.48%</b>
<b>Net O&amp;M as a percentage of the Closing GFA</b>				<b>15.58%</b>	

The Commission has analysed the actual O&M expenses of the Petitioner for the base year 2007-08, along with the preceding three years i.e., from FY 2004-05 to 2006-07.

In case of DVVNL and MVVNL, the O&M expenses have grown by a CAGR of 5.76% and 8.11% respectively which is reflective of the normal inflation index over such period. In case of PVVNL, the licensee has been able to reduce its O&M expenses, particularly the employee costs. The normal O&M expenses (excluding 'provision for arrear payment consequent to 6<sup>th</sup> pay revision') in case of PuVVNL have grown at a CAGR of 7.48% over the period FY 2004-08 which is reflective of the normal inflation index over such period. The 'provision for arrear payment consequent to 6<sup>th</sup> pay revision' amounting to Rs. 100.82 crores is an abnormal item and has been treated separately.

Given this background, the Commission approves the actual O&M expenses incurred by the distribution companies in FY 2007-08 in line with audited accounts. Further, the 'provision for arrear payment consequent to 6<sup>th</sup> pay revision' amounting to Rs. 100.82 crores in case of PuVVNL is allowed separately as it is uncontrollable in nature. The summary of the O&M expenses approved by the Commission for all the distribution companies are shown in the table below:

**Table 9-23: APPROVED O&M EXPENSES FOR FY 2007-08 FOR DISCOMS (Rs. Crores)**

Particulars	Approved
<b>DVVNL</b>	
Employee Expenses	149.92
Repair & Maintenance Expenses	103.21
Administrative and General Expenses	31.32
<b>Gross Operation and Maintenance Expenses</b>	<b>284.46</b>
Less: Capitalisation	
Employee Cost Capitalized	65.81
A&G Expenses Capitalized	11.46
<b>Total Capitalization</b>	<b>77.27</b>
<b>Net Operation and Maintenance Expenses</b>	<b>207.19</b>
<b>Net O&amp;M as a percentage of the Closing GFA</b>	<b>8.99%</b>
<b>MVVNL</b>	



Particulars	Approved
Employee Expenses	222.77
Repair & Maintenance Expenses	86.26
Administrative and General Expenses	50.05
<b>Gross Operation and Maintenance Expenses</b>	<b>359.08</b>
Less: Capitalisation	
Employee Cost Capitalized	45.05
A&G Expenses Capitalized	6.32
<b>Total Capitalization</b>	<b>51.36</b>
<b>Net Operation and Maintenance Expenses</b>	<b>307.72</b>
<b>Net O&amp;M as a percentage of the Closing GFA</b>	<b>12.94%</b>
<b>PVVNL</b>	
Employee Expenses	188.62
Repair & Maintenance Expenses	84.57
Administrative and General Expenses	27.90
<b>Gross Operation and Maintenance Expenses</b>	<b>301.09</b>
Less: Capitalisation	
Employee Cost Capitalized	76.91
A&G Expenses Capitalized	9.56
<b>Total Capitalization</b>	<b>86.47</b>
<b>Net Operation and Maintenance Expenses</b>	<b>214.62</b>
<b>Net O&amp;M as a percentage of the Closing GFA</b>	<b>6.17%</b>
<b>PuVVNL</b>	
Employee Expenses	303.56
Repair & Maintenance Expenses	95.40
Administrative and General Expenses	32.03
<b>Gross Operation and Maintenance Expenses</b>	<b>430.99</b>
Less: Capitalisation	
Employee Cost Capitalized	48.62
A&G Expenses Capitalized	5.24
<b>Total Capitalization</b>	<b>53.86</b>
<b>Net Operation and Maintenance Expenses</b>	<b>377.13</b>
<b>Net O&amp;M as a percentage of the Closing GFA</b>	<b>15.58%</b>
<b>CONSOLIDATED DISCOMS</b>	
Employee Expenses	864.88
Repair & Maintenance Expenses	369.44
Administrative and General Expenses	141.31
<b>Gross Operation and Maintenance Expenses</b>	<b>1375.63</b>



Particulars	Approved
Less: Capitalisation	
Employee Cost Capitalized	236.39
A&G Expenses Capitalized	32.57
<b>Total Capitalization</b>	<b>268.96</b>
<b>Net Operation and Maintenance Expenses</b>	<b>1106.66</b>

In addition to the above, the Commission approves a one-time adjustment of Rs. 100.82 crores for PuVVNL towards 'provision for arrear payment consequent to 6<sup>th</sup> pay revision'. Thus, the Commission approves net O&M expenses of Rs. 1,106.66 crores for consolidated Discoms and pay revision provision of Rs. 100.82 crores for PuVVNL additionally.

#### 9.14 INTEREST AND FINANCE CHARGES

##### 9.14.1 Interest on Long Term Loans:

The Petitioner has claimed net interest expenses of Rs. 318.01 crores as against Rs. 231.60 crores approved in the Tariff Order for consolidated Discoms.

Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts, the Commission has derived the actual capital investments undertaken by Discoms in FY 2007-08. The details are provided in the table below:

**Table 9-24: CAPITAL INVESTMENTS IN FY 2007-08 (Rs. Crores)**

Particulars	Derivation	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening WIP as on 1st April	A	335.89	916.59	378.58	388.74	<b>2019.80</b>
Investments	B	676.82	290.03	448.29	380.06	<b>1795.20</b>
Employee Expenses Capitalisation	C	65.81	45.05	76.91	48.62	<b>236.39</b>
A&G Expenses Capitalisation	D	11.46	6.32	9.56	5.24	<b>32.57</b>
Interest Capitalisation on Interest on long term loans	E	0.00	16.16	18.96	4.24	<b>39.36</b>
	F=					
<b>Total Investments</b>	<b>A+B+C+D+E</b>	<b>1089.98</b>	<b>1274.14</b>	<b>932.30</b>	<b>826.91</b>	<b>4123.33</b>



Particulars	Derivation	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Transferred to GFA (Total Capitalisation)	G	533.51	377.42	774.82	431.03	<b>2116.78</b>
<b>Closing WIP</b>	<b>H= F-G</b>	<b>556.47</b>	<b>896.72</b>	<b>157.48</b>	<b>395.88</b>	<b>2006.54</b>

The Commission has considered a normative tariff approach with a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies in FY 2007-08:

**Table 9-25: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED IN FY 2007-08 (Rs. Crores)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	313.39	292.63	401.94	324.98	<b>1332.93</b>
Additions during the year	152.92	92.91	171.90	116.96	<b>534.69</b>
Less: Amortisation	23.25	20.69	22.38	15.44	<b>81.76</b>
<b>Closing Balance</b>	<b>443.06</b>	<b>364.85</b>	<b>551.45</b>	<b>426.50</b>	<b>1785.86</b>

Thus, the approved financing of the capital investment is depicted in the table below:

**Table 9-26: FINANCING OF THE CAPITAL INVESTMENTS IN FY 2007-08 (Rs. Crores)**

Particulars	Derivation	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Investment	A	676.82	290.03	448.29	380.06	<b>1795.20</b>
Less:						
Consumer Contribution	B	152.92	92.91	171.90	116.96	<b>534.69</b>
Investment funded by debt and equity	C=A-B	523.89	197.12	276.39	263.11	<b>1260.51</b>
Debt Funded	70%	366.72	137.98	193.48	184.18	<b>882.36</b>
Equity Funded	30%	157.17	59.13	82.92	78.93	<b>378.15</b>



Thus, from the above tables it is seen, that total investments made in distribution segment in FY 2007-08 were to the tune of Rs. 1,795.20 crores. The consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 534.69 crores. Thus, balance Rs. 1,260.51 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 882.36 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 378.15 crores through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate as per audited accounts has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 199.20 crores. The interest capitalisation has been considered at the same rate as per audited accounts. The computations for interest on long term loan are depicted below:

**Table 9-27: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2007-08 (Rs Crores)**

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Opening Loan	360.92	842.03	341.43	420.28	<b>1964.68</b>
Loan Additions (70% of Investments)	366.72	137.98	193.48	184.18	<b>882.36</b>
Less: Repayments (Depreciation allowable for the year)	144.21	157.10	232.23	166.49	<b>700.03</b>
Closing Loan Balance	583.44	822.92	302.68	437.97	<b>2147.00</b>
Weighted Average Rate of Interest	8.28%	9.76%	11.55%	9.71%	
<b>Interest on long term loan</b>	<b>39.11</b>	<b>81.22</b>	<b>37.19</b>	<b>41.68</b>	<b>199.20</b>
Interest Capitalisation Rate	0.00%	16.08%	14.65%	4.37%	<b>10.21%</b>
Less: Interest Capitalized	0.00	13.06	5.45	1.82	<b>20.33</b>
<b>Net Interest Charged</b>	<b>39.11</b>	<b>68.16</b>	<b>31.74</b>	<b>39.86</b>	<b>178.87</b>

Thus, the net interest on long term loan has been approved at Rs. 178.87 crores.

#### **9.14.2 Finance Charges:**

The Petitioner has claimed Rs. 162.36 crores against Rs. 70.19 crores approved by the commission towards finance charges during FY 2007-08 in respect of consolidated Discoms. Items claimed under this head are towards items such as bank charges, finance charges, interest on consumer security deposits, etc.



There is an abnormal booking of Rs. 111.65 crores in PuVVNL in respect of bank charges. The same do not seem to be commensurate with past years. In the response to the Deficiency note, the Petitioner has clarified that it pertains to an accounting entry which was subsequently reversed in subsequent years due to auditor's observations. Accordingly, the Commission has disallowed such expense. The Commission approves finance charges to the extent of Rs. 50.71 crores only based on audited accounts.

#### 9.14.3 Interest on Working Capital:

The Distribution Tariff Regulations provides for the normative interest on working capital based on the methodology outlined in the Regulations. In the Tariff Order for FY 2007-08, the Commission had allowed Rs. 353.32 crores towards interest on working capital for consolidated Discoms. The Commission in this Order has assessed the working capital and interest thereon based on the trued up ARR of the Petitioner.

The Commission has approved Rs. 69.77 crores towards interest on working capital for FY 2007-08 for consolidated Discoms as computed in the tables below:

**Table 9-28: DISCOM WISE APPROVED INTEREST ON WORKING CAPITAL FOR FY 2007-08**  
(Rs. Crores)

S No	Particulars	DVVNL	MVVNL	PVVNL	PuVVNL
1	One month's O & M Expenses	17.27	25.64	17.88	31.43
2	One-twelfth of the sum of the book value of materials in stores at the end of each month of such financial year.	12.03	15.74	15.31	14.19
3	Receivables equivalent to 60 days average billing on consumers	325.84	281.79	562.41	347.17
	<b>Grand Total</b>	<b>355.14</b>	<b>323.17</b>	<b>595.60</b>	<b>392.79</b>
	Less:				
4	Total Security Deposits by the Consumers reduced by Security Deposits under section 47(1)(b) of the Electricity Act 2003	186.10	137.39	436.53	348.54
	<b>Net Working Capital</b>	<b>169.04</b>	<b>185.78</b>	<b>159.07</b>	<b>44.25</b>
	Rate of Interest on Working Capital	12.50%	12.50%	12.50%	12.50%
	<b>Interest on Working Capital</b>	<b>21.13</b>	<b>23.22</b>	<b>19.88</b>	<b>5.53</b>



The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for the distribution companies for FY 2007-08:

**Table 9-29: APPROVED INTEREST AND FINANCE CHARGES FOR DVVNL FOR FY 2007-08**

(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	74.10	30.33	30.33	39.11
Less: Interest Capitalisation	17.04	0.00	0.00	0.00
<b>Net Interest on Long Term Loans</b>	<b>57.06</b>	<b>30.33</b>	<b>30.33</b>	<b>39.11</b>
<b>B: Finance and Other Charges</b>				
Finance Charges	-	0.52	0.52	0.52
Bank Charges	4.82	0.13	0.13	0.13
Interest on Consumer Security Deposits	7.84	12.63	12.63	12.63
<b>Total Finance Charges</b>	<b>12.66</b>	<b>13.28</b>	<b>13.28</b>	<b>13.28</b>
<b>C: Interest on Working Capital</b>	<b>103.56</b>	<b>58.72</b>	<b>58.72</b>	<b>21.13</b>
<b>Total (A+B+C)</b>	<b>173.28</b>	<b>102.34</b>	<b>102.34</b>	<b>73.52</b>

**Table 9-30: APPROVED INTEREST AND FINANCE CHARGES FOR MVVNL FOR FY 2007-08**

(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	77.09	100.47	100.47	81.22
Less: Interest Capitalisation	17.73	16.16	16.16	13.06
<b>Net Interest on Long Term Loans</b>	<b>59.36</b>	<b>84.31</b>	<b>84.31</b>	<b>68.16</b>
<b>B: Finance and Other Charges</b>				
Bank Charges	4.33	0.09	0.09	0.09
Interest on Consumer Security Deposits	6.34	6.49	6.49	6.49
<b>Total Finance Charges</b>	<b>10.67</b>	<b>6.58</b>	<b>6.58</b>	<b>6.58</b>



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>C: Interest on Working Capital</b>	<b>82.26</b>	-	-	<b>23.22</b>
<b>Total (A+B+C)</b>	<b>152.29</b>	<b>90.89</b>	<b>90.89</b>	<b>97.96</b>

**Table 9-31: APPROVED INTEREST AND FINANCE CHARGES FOR PVVNL FOR FY 2007-08**

(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	76.80	129.43	129.43	37.19
Less: Interest Capitalisation	17.66	18.96	18.96	5.45
<b>Net Interest on Long Term Loans</b>	<b>59.14</b>	<b>110.47</b>	<b>110.47</b>	<b>31.74</b>
<b>B: Finance and Other Charges</b>				
Finance Charges	-	0.51	0.51	0.51
Bank Charges	3.18	0.10	0.10	0.10
Interest on Consumer Security Deposits	20.65	13.07	13.07	13.07
<b>Total Finance Charges</b>	<b>23.83</b>	<b>13.67</b>	<b>13.67</b>	<b>13.67</b>
<b>C: Interest on Working Capital</b>	<b>98.64</b>	-	-	<b>19.88</b>
<b>Total (A+B+C)</b>	<b>181.61</b>	<b>124.14</b>	<b>124.14</b>	<b>65.30</b>

**Table 9-32: APPROVED INTEREST AND FINANCE CHARGES FOR PuVVNL FOR FY 2007-08**

(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	72.77	97.15	97.15	41.68
Less: Interest Capitalisation	16.73	4.24	4.24	1.82
<b>Net Interest on Long Term Loans</b>	<b>56.04</b>	<b>92.91</b>	<b>92.91</b>	<b>39.86</b>





Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>B: Finance and Other Charges</b>				
Bank Charges	4.07	111.65	111.65	0.00
Interest on Consumer Security Deposits	18.96	17.17	17.17	17.17
<b>Total Finance Charges</b>	<b>23.03</b>	<b>128.83</b>	<b>128.83</b>	<b>17.17</b>
<b>C: Interest on Working Capital</b>				
	68.86	-	-	5.53
<b>Total (A+B+C)</b>	<b>147.93</b>	<b>221.73</b>	<b>221.73</b>	<b>62.57</b>

**Table 9-33: APPROVED INTEREST AND FINANCE CHARGES FOR CONSOLIDATED DISCOMS FOR FY 2007-08 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
<b>A: Interest on Long Term Loans</b>				
Gross Interest on Long Term Loan	300.76	357.38	357.38	199.20
Less: Interest Capitalisation	69.16	39.36	39.36	20.33
<b>Net Interest on Long Term Loans</b>	<b>231.60</b>	<b>318.01</b>	<b>318.01</b>	<b>178.87</b>
<b>B: Finance and Other Charges</b>				
Finance Charges	-	1.03	1.03	1.03
Bank Charges	16.40	111.97	111.97	0.32
Interest on Consumer Security Deposits	53.79	49.36	49.36	49.36
<b>Total Finance Charges</b>	<b>70.19</b>	<b>162.36</b>	<b>162.36</b>	<b>50.71</b>
<b>C: Interest on Working Capital</b>				
	353.32	58.72	58.72	69.77
<b>Total (A+B+C)</b>	<b>655.11</b>	<b>539.10</b>	<b>539.10</b>	<b>299.35</b>

### 9.15 DEPRECIATION

In the Tariff Order for FY 2007-08, the Commission had considered depreciation amounting to Rs. 941.93 crores on a gross fixed asset base of Rs. 11,371.69 crores.



The actual depreciation expense charged in the audited accounts is Rs. 464.65 crores. However the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2007-08. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 781.80 crores as depicted in the table below:

**Table 9-34: DEPRECIATION CLAIMED FOR DVVNL FOR FY 2007-08 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	0.06	-	-	0.06		-
ii) Freehold Land	-	-	-	-		-
Buildings	6.73	2.34	-	9.07	7.84%	0.62
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	78.94	266.77	180.66	165.05	7.84%	9.56
Lines, Cable Network etc.	374.68	264.09	13.69	625.08	7.84%	39.19
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	0.18	0.10	-	0.29	7.84%	0.02
Office Equipments	0.04	0.22	-	0.25	7.84%	0.01
Jeep & Motor Car	(0.10)	-	0.03	-0.14		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>460.53</b>	<b>533.51</b>	<b>194.37</b>	<b>799.67</b>		<b>49.40</b>
Fixed Asset as per Transfer Scheme	1,505.95	-	-	1,505.95	7.84%	118.07
<b>GRAND TOTAL</b>	<b>1,966.48</b>	<b>533.51</b>	<b>194.37</b>	<b>2,305.62</b>	<b>7.84%</b>	<b>167.47</b>



**Table 9-35: DEPRECIATION CLAIMED FOR MVVNL FOR FY 2007-08 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	0.03	-	-	0.03		-
ii) Freehold Land	-	-	-	-		-
Buildings	4.86	1.78	-	6.65	7.84%	0.45
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	150.63	207.23	150.00	207.87	7.84%	14.05
Lines, Cable Network etc.	395.58	167.75	5.87	557.45	7.84%	37.36
Vehicles	1.60	0.00	-	1.60	7.84%	0.13
Furniture & Fixtures	1.62	0.14	-	1.76	7.84%	0.13
Office Equipments	1.58	0.51	-	2.09	7.84%	0.14
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>555.91</b>	<b>377.42</b>	<b>155.87</b>	<b>777.46</b>		<b>52.27</b>
Fixed Asset as per Transfer Scheme	1,601.03	-	-	1,601.03	7.84%	125.52
<b>GRAND TOTAL</b>	<b>2,156.94</b>	<b>377.42</b>	<b>155.87</b>	<b>2,378.49</b>	<b>7.84%</b>	<b>177.79</b>

**Table 9-36: DEPRECIATION CLAIMED FOR PVVNL FOR FY 2007-08 (Rs. Crores)**

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	0.20	0.07	-	0.27		-
ii) Freehold Land	-	-	-	-		-
Buildings	14.57	5.44	0.02	19.98	7.84%	1.35
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	269.58	495.70	278.12	487.16	7.84%	29.66
Lines, Cable Network etc.	346.36	273.31	40.05	579.61	7.84%	36.30



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Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Vehicles	0.22	0.03	0.08	0.17	7.84%	0.02
Furniture & Fixtures	0.32	0.21	-	0.53	7.84%	0.03
Office Equipments	0.37	0.07	-	0.44	7.84%	0.03
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>631.61</b>	<b>774.82</b>	<b>318.27</b>	<b>1,088.15</b>		<b>67.40</b>
Fixed Asset as per Transfer Scheme	2,387.92	-	-	2,387.92	7.84%	187.21
<b>GRAND TOTAL</b>	<b>3,019.53</b>	<b>774.82</b>	<b>318.27</b>	<b>3,476.07</b>	<b>7.84%</b>	<b>254.61</b>

Table 9-37: DEPRECIATION CLAIMED FOR PuVVNL FOR FY 2007-08 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Land & Land Rights						
i) Unclassified	-	-	-	-		-
ii) Freehold Land	-	-	-	-		-
Buildings	12.00	4.74	0.00	16.74	7.84%	1.13
Other Civil Works	-	-	-	-	7.84%	-
Plants & Machinery	101.88	310.27	222.81	189.34	7.84%	11.42
Lines, Cable Network etc.	230.29	115.96	8.94	337.31	7.84%	22.25
Vehicles	-	-	-	-	7.84%	-
Furniture & Fixtures	0.07	0.02	-	0.09	7.84%	0.01
Office Equipments	0.13	0.04	-	0.17	7.84%	0.01
Jeep & Motor Car	-	-	-	-		-
Assets taken over from Licensees pending final Valuation	-	-	-	-		-
<b>Total</b>	<b>344.37</b>	<b>431.03</b>	<b>231.75</b>	<b>543.65</b>		<b>34.81</b>



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Fixed Asset as per Transfer Scheme	1,876.52	-	-	1,876.52	7.84%	147.12
<b>GRAND TOTAL</b>	<b>2,220.89</b>	<b>431.03</b>	<b>231.75</b>	<b>2,420.17</b>	<b>7.84%</b>	<b>181.93</b>

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 81.76 crores for consolidated Discoms, as detailed in Table 3-10, has been reduced from the allowable depreciation.

Thus the approved depreciation for FY 2007-08 is Rs. 700.04 crores for consolidated Discoms. The Discom wise allowable depreciation and depreciation for consolidated Discoms has been depicted in the table below:

**Table 9-38: APPROVED DEPRECIATION FOR DVVNL FOR FY 2007-08 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	201.50	122.27	167.47	167.47
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	23.25
<b>Net Allowable Depreciation</b>	<b>201.50</b>	<b>122.27</b>	<b>167.47</b>	<b>144.22</b>

**Table 9-39: APPROVED DEPRECIATION FOR MVVNL FOR FY 2007-08 (Rs. Crores)**



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	226.26	131.79	177.79	177.79
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	20.69
<b>Net Allowable Depreciation</b>	<b>226.26</b>	<b>131.79</b>	<b>177.79</b>	<b>157.10</b>

**Table 9-40: APPROVED DEPRECIATION FOR PVVNL FOR FY 2007-08 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	272.80	120.89	254.61	254.61
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	22.38
<b>Net Allowable Depreciation</b>	<b>272.80</b>	<b>120.89</b>	<b>254.61</b>	<b>232.23</b>

**Table 9-41: APPROVED DEPRECIATION FOR PuVVNL FOR FY 2007-08 (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	241.37	89.70	181.93	181.93
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	15.44
<b>Net Allowable Depreciation</b>	<b>241.37</b>	<b>89.70</b>	<b>181.93</b>	<b>166.49</b>



**Table 9-42: APPROVED DEPRECIATION FOR CONSOLIDATED DISCOMS FOR FY 2007-08**  
(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	941.93	464.65	781.80	781.80
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy	-	-	-	81.76
<b>Net Allowable Depreciation</b>	<b>941.93</b>	<b>464.65</b>	<b>781.80</b>	<b>700.04</b>

#### 9.16 DISCOUNT TO CONSUMERS

The Petitioner has submitted that the actual discount to consumers provided in FY 2007-08 is Rs. 4.11 crores as per audited accounts. Such rebates are given to consumers under different heads like load factor rebate, power factor rebate, etc.

As such discounts / rebates are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred i.e., Rs. 4.11 crores for consolidated Discoms.

**Table 9-43: APPROVED DISCOUNT TO CONSUMERS FOR FY 2007-08 (Rs Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
DVVNL	-	0.20	0.20	0.20
MVVNL	-	3.42	3.42	3.42
PVVNL	-	-	-	-
PuVVNL	-	0.49	0.49	0.49
<b>Consolidated Discoms</b>	<b>-</b>	<b>4.11</b>	<b>4.11</b>	<b>4.11</b>

#### 9.17 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2007-08. In the audited accounts



for FY 2007-08, there has been net prior period expense recognition of Rs. -155.77 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2007-08, except in one case.

The Para 14 of the Notes to Audited Accounts of PuVVNL state that, PuVVNL has made a provision of Rs. 89.82 crores towards arrear liability consequent to 6<sup>th</sup> pay revision for the period 1<sup>st</sup> January, 2006 to 31<sup>st</sup> March, 2007. As such expense is fairly depicted in the audited accounts and is uncontrollable in nature, the Commission approves such pay revision provision amounting to Rs. 89.82 crores for PuVVNL in FY 2007-08.

#### **9.18 OTHER MISCELLANEOUS EXPENSES**

The Petitioner has claimed certain other expenses not specifically allowable under any head of the ARR to the tune of Rs. 1.76 crores. Such minor expenses towards items such as compensation, loss due to pilferage, material cost variance, etc have been bundled together under the nomenclature of 'Other Miscellaneous Expenses'.

As such expenses were not approved in the Tariff Order for FY 2007-08, the Commission has not considered such expenses for admissibility in the true-up as well.

#### **9.19 PROVISION FOR BAD AND DOUBTFUL DEBTS**

The Petitioner has claimed Rs. 65.46 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

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The Commission in the Tariff Order for FY 2007-08 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

#### **9.20 REVENUE SUBSIDY FROM GOUP**

The Petitioner has submitted that the actual revenue subsidy received from GoUP was Rs. 1,854.72 crores during FY 2007-08 as against Rs. 1,822.00 crores approved in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

#### **9.21 ADDITIONAL SUBSIDY REQUIREMENT FROM GOUP**

The Distribution Tariff Regulations are effective from FY 2007-08. Para 6.10 of the Distribution Tariff Regulations provide:

***“6.10 Provision of Subsidy***

- 1. The Commission, while determining the tariff, shall see that the tariff progressively reflects the cost of supply of electricity and the cross subsidy is reduced or eliminated.*
- 2. If the State Government decides to subsidize any consumer or class of consumers, the State Government shall pay the amount to compensate the affected licensee by grant of such subsidy in advance.*

*Provided that no such direction of the State Government to grant subsidy shall be operative if the payment is not made in accordance with the relevant provisions contained in these Regulations and the Act. In such a case, the tariff of the applicable categories may be revised excluding the subsidy.*

- 3. The Government shall, by notification, declare the consumers or class of consumers to be subsidized.*
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**4. Tariff of the subsidized category shall be designed taking into account the subsidy allocated to that category.**

**5. The Distribution Licensee shall furnish details of power consumed by the subsidized category to the State Government and the Commission. The Distribution Licensee shall provide meters on all rural distribution transformers and shall also furnish the power consumption details in respect of agricultural and rural domestic consumption based on readings from such meters and normative distribution losses on a monthly basis.” (Emphasis supplied)**

The Commission in its Letter No. UPERC/D(T)/2013-176 dated 06<sup>th</sup> May, 2013 had directed the Petitioner to furnish the details in respect of energy sold and thru rate of subsidised categories. The Petitioner filed the response to the Deficiency Note on 15<sup>th</sup> May, 2013 vide Letter No. 1045/RAU/ARR FY 2013-14. The Petitioner has failed to provide the desired data and has stated that the sub-category wise energy sales data in respect of rural domestic and private tube wells categories were not maintained by the licensees. However it has submitted the broad category wise details.

In the absence of sub-category wise data, the Commission has adopted the sales figures for FY 2007-08 as provided in the Tariff Order for FY 2009-10. The Commission has computed the actual subsidy requirement considering the actual sales of the subsidised categories namely LMV-1 (a): Consumer getting supply as per "Rural Schedule" and LMV-5: Private Tube wells (PTW) in FY 2007-08. As per the table provided below, the actual subsidy requirement has been worked out to be Rs. 2,940.83 crores. Out of the above, the revenue subsidy available from GoUP is only Rs. 1,854.72 crores. Thus the balance subsidy of Rs. 1,086.11 crores has been applied as a reduction from the ARR being tried up. The distribution licensees need to realise such sums from the State Government.

**Table 9-44: COMPUTATION OF SUBSIDY REQUIREMENT FOR FY 2007-08 (Rs Crores)**

Particulars	Sales (MU)	Cost of Service (Rs/kWh)	Thru Rate (Rs/kWh)	Loss (Rs kWh)	Loss (Rs Crore)
LMV-1: (a) Consumer getting supply as per "Rural Schedule"	6132.00	3.87	1.03	2.84	1744.07
LMV-5: PTW	4317.00	3.87	1.10	2.77	1196.76
<b>Total Loss</b>					<b>2940.83</b>
Subsidy Available					1854.72



Particulars	Sales (MU)	Cost of Service (Rs/kWh)	Thru Rate (Rs/kWh)	Loss (Rs kWh)	Loss (Rs Crore)
Balance Subsidy to be made available by GoUP					1086.11

The additional subsidy requirement has been allocated among Discoms in the ratio of their sales in FY 2007-08 as the Discom wise sales to rural domestic and private tube wells categories has not been provided by the Discoms.

**Table 9-45: ALLOCATION OF ADDITIONAL SUBSIDY REQUIREMENT AMONG DISCOMS**

(Rs Crores)

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Total Sales in FY 2007-08 (MU)	8087.13	6548.45	11966.01	8195.26	34796.85
Allocation of Balance Subsidy among Discoms (Rs Crores)	252.42	204.40	373.49	255.80	1086.11

## 9.22 REVENUE SIDE TRUING UP

### 9.22.1 NON TARIFF INCOMES

The Petitioner has submitted that the actual non-tariff income during FY 2007-08 was Rs. 21.56 crores as compared to Rs. 71.56 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

### 9.22.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2007-08 is Rs. 9,103.28 crores including Rs. 223.47 crores towards delayed payment charges as against Rs. 11,424.19 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.



### 9.22.3 DEFICIT FINANCING IN FY 2007-08

The Commission in the Tariff Order for FY 2007-08, based on the petition made by the licensees, had approved that the distribution companies would meet their revenue gap through deficit financing to the tune of Rs. 3,013.93 crores through short term loans from financial institutions. The allocation among Discoms was also provided in the Tariff Order which is reproduced below:

**Table 9-46: FUNDING OF REVENUE GAP IN FY 2007-08 TARIFF ORDER (Rs Crores)**

Details	MVVNL	PVVNL	PuVVNL	DVVNL	Total
Gross ARR	3,042.56	5,257.72	3,813.76	4,146.08	16,260.12
Revenue from Existing Tariff	1,993.67	3,883.51	2,623.69	2,923.32	11,424.19
<b>Net Revenue Gap</b>	<b>1,048.89</b>	<b>1,374.21</b>	<b>1,190.07</b>	<b>1,222.76</b>	<b>4,835.93</b>
<b>Funded Through:</b>					
<i>Tariff Increase</i>	-	-	-	-	-
<i>Government Subsidy</i>	440.47	460.02	643.92	277.59	1,822.00
<i>Deficit Financing</i>	484.11	680.07	382.92	759.84	2,306.94
<i>Any Other Means(Savings on Power Purchase Cost)</i>	124.31	234.12	163.23	185.33	706.99
<b>Net Revenue Gap Carried Forward</b>	-	-	-	-	-

The Commission had in Para 9.2.4 of the Tariff Order stipulated that the implications of the same would not be included in any of the future ARR / Tariff requirements of the licensees. The relevant paragraph is reproduced below:

*“9.2.4 However, the Commission has allowed these institutional loans as subsidy from GoUP and the debt servicing of such loans is to be directly funded by the GoUP through budgetary provisions and the same should not be included in any of the future ARR / Tariff requirements of the licensees.”*

Accordingly, the Commission, while truing up, has considered Rs. 3,013.93 crores towards deficit financing, and has applied the same as a reduction from the allowable revenue gap for FY 2007-08 in the same discom-wise ratio as approved in the Tariff Order for FY 2007-08.

### 9.23 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2007-08 AFTER TRUING UP



The Aggregate Revenue Requirement for FY 2007-08 after final truing up for the distribution companies and for Consolidated Discoms is summarised in the Tables below:

**Table 9-47: DVVNL - ARR FOR FY 2007-08 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	3323.01	2738.19	2971.52	2543.54
Transmission Expenses	268.80	220.45		146.79
Employee Expenses	160.13	149.92	175.92	149.92
Repair and Maintenance Expenses	51.34	103.21	103.21	103.21
A&G Expenses	26.49	31.32	32.65	31.32
Gross Interest on Long Term Loans	74.10	30.33	30.33	39.11
Finance Charges	12.66	13.28	13.28	13.28
Interest on Working Capital	103.56	58.72	58.72	21.13
Discount to Consumers	-	0.20	0.20	0.20
Depreciation	201.50	122.27	167.47	144.22
Prior Period Expenses	-	1.79	1.79	-
Other Misc Expenses	-	0.33	0.33	-
Provision for Bad and Doubtful Debts	-	14.03	61.99	-
<b>Gross Expenditure</b>	<b>4221.59</b>	<b>3484.06</b>	<b>3617.43</b>	<b>3192.74</b>
Less: Employee Capitalisation	24.02	65.81	65.81	65.81
Less: A&G Capitalisation	3.98	11.46	11.46	11.46
Less: Interest Capitalisation	17.04	-	-	0.00
<b>Total Capitalisation</b>	<b>45.04</b>	<b>77.27</b>	<b>77.27</b>	<b>77.27</b>
<b>Net Expenditure</b>	<b>4176.55</b>	<b>3406.79</b>	<b>3540.16</b>	<b>3115.47</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	30.47	6.86	6.86	6.86
<b>Annual Revenue Requirement</b>	<b>4146.08</b>	<b>3399.93</b>	<b>3533.30</b>	<b>3108.61</b>
Revenue from Tariff including Delayed Payment Surcharge	2923.32	1955.06	1955.06	1955.06
GoUP Subsidy	277.59	295.09	295.09	295.09
Deficit Financing	945.17	-	-	945.17
<b>Net Revenue Gap</b>	<b>-</b>	<b>1149.78</b>	<b>1283.15</b>	<b>-86.71</b>
Less: Additional Subsidy to be provided by GoUP				252.42
Add: Arrear Provision for Pay Revision				



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Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Net Revenue Gap	0.00	1149.78	1283.15	-339.13

**Table 9-48: MVVNL - ARR FOR FY 2007-08 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	2228.90	2302.37	2195.37	1883.17
Transmission Expenses	180.30	0.00		108.68
Employee Expenses	215.98	222.77	225.70	222.77
Repair and Maintenance Expenses	56.85	86.26	86.26	86.26
A&G Expenses	38.39	50.05	50.05	50.05
Gross Interest on Long Term Loans	77.09	100.47	100.47	81.22
Finance Charges	10.67	6.58	6.58	6.58
Interest on Working Capital	82.26	-	-	23.22
Discount to Consumers	-	3.42	3.42	3.42
Depreciation	226.26	131.79	177.79	157.10
Prior Period Expenses	-	2.27	2.27	-
Other Misc Expenses	-	0.63	0.63	-
Provision for Bad and Doubtful Debts	-	17.53	38.87	-
<b>Gross Expenditure</b>	<b>3116.70</b>	<b>2924.15</b>	<b>2887.40</b>	<b>2622.48</b>
Less: Employee Capitalisation	32.40	45.05	45.05	45.05
Less: A&G Capitalisation	5.76	6.32	6.32	6.32
Less: Interest Capitalisation	17.73	16.16	16.16	13.06
<b>Total Capitalisation</b>	<b>55.89</b>	<b>67.52</b>	<b>67.52</b>	<b>64.42</b>
<b>Net Expenditure</b>	<b>3060.81</b>	<b>2856.63</b>	<b>2819.88</b>	<b>2558.05</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	18.25	2.79	2.79	2.79
<b>Annual Revenue Requirement</b>	<b>3042.56</b>	<b>2853.83</b>	<b>2817.08</b>	<b>2555.26</b>
Revenue from Tariff including Delayed Payment Surcharge	1993.67	1690.74	1690.74	1690.74
GoUP Subsidy	440.47	389.32	389.32	389.32
Deficit Financing	608.42	-	-	608.42
<b>Net Revenue Gap</b>	<b>-</b>	<b>773.77</b>	<b>737.02</b>	<b>-133.22</b>
Less: Additional Subsidy to be				204.40



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
provided by GoUP				
Add: Arrear Provision for Pay Revision				
<b>Net Revenue Gap</b>	<b>0.00</b>	<b>773.77</b>	<b>737.02</b>	<b>-337.62</b>

**Table 9-49: PVVNL – ARR FOR FY 2007-08 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	4197.74	4093.05	4201.29	3766.84
Transmission Expenses	339.55	316.39		217.39
Employee Expenses	205.85	188.62	220.25	188.62
Repair and Maintenance Expenses	79.38	84.57	84.57	84.57
A&G Expenses	25.34	27.90	29.50	27.90
Gross Interest on Long Term Loans	76.80	129.43	129.43	37.19
Finance Charges	23.83	13.67	13.67	13.67
Interest on Working Capital	98.64	-	-	19.88
Discount to Consumers	-	-	-	-
Depreciation	272.80	120.89	254.61	232.23
Prior Period Expenses	-	-265.21	-265.21	-
Other Misc Expenses	-	0.40	0.40	-
Provision for Bad and Doubtful Debts	-	1.69	48.88	-
<b>Gross Expenditure</b>	<b>5319.93</b>	<b>4711.41</b>	<b>4717.40</b>	<b>4588.30</b>
Less: Employee Capitalisation	30.88	76.91	76.91	76.91
Less: A&G Capitalisation	3.80	9.56	9.56	9.56
Less: Interest Capitalisation	17.66	18.96	18.96	5.45
<b>Total Capitalisation</b>	<b>52.34</b>	<b>105.43</b>	<b>105.43</b>	<b>91.92</b>
<b>Net Expenditure</b>	<b>5267.59</b>	<b>4605.98</b>	<b>4611.97</b>	<b>4496.38</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	9.87	4.95	4.95	4.95
<b>Annual Revenue Requirement</b>	<b>5257.72</b>	<b>4601.03</b>	<b>4607.01</b>	<b>4491.43</b>
Revenue from Tariff including Delayed Payment Surcharge	3883.51	3374.45	3374.45	3374.45
GoUP Subsidy	460.02	561.45	561.45	561.45



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Deficit Financing	914.19	-	-	914.19
<b>Net Revenue Gap</b>	-	<b>665.12</b>	<b>671.11</b>	<b>-358.67</b>
Less: Additional Subsidy to be provided by GoUP				373.49
Add: Arrear Provision for Pay Revision				
<b>Net Revenue Gap</b>	<b>0.00</b>	<b>665.12</b>	<b>671.11</b>	<b>-732.16</b>

**Table 9-50: PuVVNL – ARR FOR FY 2007-08 AFTER FINAL TRUING UP (Rs. Crores)**

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	2926.78	2658.90	2842.51	2492.25
Transmission Expenses	236.75	214.06		143.83
Employee Expenses	228.80	404.38	404.38	303.56
Repair and Maintenance Expenses	60.81	95.40	95.40	95.40
A&G Expenses	21.92	32.03	32.03	32.03
Gross Interest on Long Term Loans	72.77	97.15	97.15	41.68
Finance Charges	23.03	128.83	128.83	17.17
Interest on Working Capital	68.86	-	-	5.53
Discount to Consumers	-	0.49	0.49	0.49
Depreciation	241.37	89.70	181.93	166.49
Prior Period Expenses	-	105.38	105.38	89.92
Other Misc Expenses	-	0.40	0.40	-
Provision for Bad and Doubtful Debts	-	32.21	85.94	-
<b>Gross Expenditure</b>	<b>3881.09</b>	<b>3858.93</b>	<b>3974.44</b>	<b>3388.35</b>
Less: Employee Capitalisation	34.32	48.62	48.62	48.62
Less: A&G Capitalisation	3.29	5.24	5.24	5.24
Less: Interest Capitalisation	16.73	4.24	4.24	1.82
<b>Total Capitalisation</b>	<b>54.34</b>	<b>58.10</b>	<b>58.10</b>	<b>55.68</b>
<b>Net Expenditure</b>	<b>3826.75</b>	<b>3800.82</b>	<b>3916.33</b>	<b>3332.67</b>
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	12.97	6.95	6.95	6.95
<b>Annual Revenue Requirement</b>	<b>3813.78</b>	<b>3793.88</b>	<b>3909.39</b>	<b>3325.73</b>





Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Revenue from Tariff including Delayed Payment Surcharge	2623.69	2083.02	2083.02	2083.02
GoUP Subsidy	643.92	608.86	608.86	608.86
Deficit Financing	546.17	-	-	546.17
<b>Net Revenue Gap</b>	-	<b>1101.99</b>	<b>1217.50</b>	<b>87.67</b>
Less: Additional Subsidy to be provided by GoUP				255.80
Add: Arrear Provision for Pay Revision				100.82
<b>Net Revenue Gap</b>	<b>-0.02</b>	<b>1101.99</b>	<b>1217.50</b>	<b>-67.31</b>

**Table 9-51: CONSOLIDATED DISCOMS – ARR FOR FY 2007-08 AFTER FINAL TRUING UP**  
(Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	12676.43	11792.51	12210.69	10685.80
Transmission Expenses	1025.40	750.90		616.70
Employee Expenses	810.76	965.70	1026.25	864.88
Repair and Maintenance Expenses	248.38	369.44	369.44	369.44
A&G Expenses	112.14	141.31	144.23	141.31
Gross Interest on Long Term Loans	300.76	357.38	357.38	199.20
Finance Charges	70.19	162.36	162.36	50.71
Interest on Working Capital	353.32	58.72	58.72	69.77
Discount to Consumers	-	4.11	4.11	4.11
Depreciation	941.93	464.65	781.80	700.04
Prior Period Expenses	-	-155.77	-155.77	89.92
Other Misc Expenses	-	1.76	1.76	-
Provision for Bad and Doubtful Debts	-	65.46	235.68	-
<b>Gross Expenditure</b>	<b>16539.31</b>	<b>14978.55</b>	<b>15196.66</b>	<b>13791.88</b>
Less: Employee Capitalisation	121.62	236.39	236.39	236.39
Less: A&G Capitalisation	16.83	32.57	32.57	32.57
Less: Interest Capitalisation	69.16	39.36	39.36	20.33
<b>Total Capitalisation</b>	<b>207.61</b>	<b>308.33</b>	<b>308.33</b>	<b>289.30</b>
<b>Net Expenditure</b>	<b>16331.70</b>	<b>14670.22</b>	<b>14888.33</b>	<b>13502.58</b>



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	71.56	21.56	21.56	21.56
<b>Annual Revenue Requirement</b>	<b>16260.14</b>	<b>14648.66</b>	<b>14866.78</b>	<b>13481.03</b>
Revenue from Tariff including Delayed Payment Surcharge	11424.19	9103.28	9103.28	9103.28
GoUP Subsidy	1822.00	1854.72	1854.72	1854.72
Deficit Financing	3013.95	-	-	3013.95
<b>Net Revenue Gap</b>	<b>-</b>	<b>3690.67</b>	<b>3908.78</b>	<b>-490.92</b>
Less: Additional Subsidy to be provided by GoUP				1086.11
Add: Arrear Provision for Pay Revision				100.82
<b>Net Revenue Gap</b>	<b>-0.02</b>	<b>3690.67</b>	<b>3908.78</b>	<b>-1476.21</b>

The treatment of revenue gap for FY 2007-08 has been discussed in succeeding Section 13.



## 10. REVENUE GAPS AFTER TRUING UP

### 10.1 REVENUE GAP OF UPPTCL

Based on the truing up exercise elaborated in the foregoing sections, in case of UPPTCL, the net recoverable gap subsequent to final truing up of FY 2007-08 is to the tune of Rs. Rs. 20.21 crores.

### 10.2 YEAR WISE REVENUE GAPS / (SURPLUS) OF DISCOMS

The Commission has detailed the truing up exercise of Discoms in the aforementioned sections. The overall revenue gaps / (surplus) of the distribution companies over the period FY 2000-01 to 2007-08 combined together is depicted in the table below:

**Table 10-1: YEAR WISE REVENUE GAPS / (SURPLUS) - CONSOLIDATED DISCOMS**

(Rs. Crores)				
Year	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
FY 2000-01	-0.11	2211.15	1869.63	313.73
FY 2001-02	-0.20	1400.30	1275.84	1357.20
FY 2002-03	-0.01	1319.24	1565.56	508.83
FY 2003-04	6.37	1755.71	698.57	279.49
FY 2004-05	-0.55	1728.02	1803.12	773.07
FY 2005-06		Not Applicable		
FY 2006-07	-0.04	3635.12	3517.14	731.82
FY 2007-08	-0.02	3690.67	3908.78	-1476.21
<b>Total</b>	<b>5.44</b>	<b>15740.21</b>	<b>14638.65</b>	<b>2487.93</b>

Thus, after final truing up, of the financial years 2000-01 to 2007-08, there is a net revenue gap of Rs. 2,487.93, which the distribution companies are eligible to recover through tariff.

### 10.3 DISCOM WISE REVENUE GAP

Subsequent to the second transfer scheme in August 2003, involving the creation of the distribution companies, the Commission assesses and approves the ARR for each Discom separately. However for the years FY 2000-01 to 2003-04, the Commission has approved



ARR and Tariff at overall UPPCL / Consolidated Discoms level. In order to facilitate the assessment and approval of the ARR and its recovery through tariff, at each distribution company level, the Commission has allocated the revenue gap for the years 2000-01 to 2003-04, in the ratio of the power purchase input at each distribution company level in FY 2004-05.

Accordingly, the Discom wise revenue gaps are provided in the table below:

**Table 10-2: DISCOM WISE REVENUE GAPS AFTER TRUING UP (Rs. Crores)**

Year	DVVNL	MVVNL	PVVNL	PuVVNL	Total
FY 2000-01	75.44	57.28	104.89	76.12	313.73
FY 2001-02	326.36	247.78	453.75	329.31	1357.20
FY 2002-03	122.36	92.90	170.12	123.46	508.83
FY 2003-04	67.21	51.03	93.44	67.82	279.49
FY 2004-05	359.73	-24.42	215.96	221.79	773.07
FY 2006-07	80.72	90.91	14.62	545.58	731.82
FY 2007-08	-339.13	-337.62	-732.16	-67.31	-1476.21
<b>Total</b>	<b>692.69</b>	<b>177.85</b>	<b>320.61</b>	<b>1296.78</b>	<b>2487.93</b>



## 11. CARRYING COST

### **The Petitioner's Submissions:**

The Petitioner has submitted that it is eligible for carrying cost on the under-recovered amount upon final trueing up; as such amounts are in the nature of deferred payments. To support its contention it has quoted the reference of the APTEL judgment in Appeal No. 117 of 2008. The Petitioner has computed the carrying cost on the yearly under-recovered amounts based on the applicable SBI PLR rate approved in relevant Tariff Orders of this Commission.

Accordingly, the Petitioner has sought a carrying cost of Rs. 11,352.36 crores upon a projected revenue gap of Rs. 14,638.65 crores.

### **The Commission's Analysis:**

There has been an inordinate delay by the distribution companies in filing the True-up Petitions in spite of several directives by this Commission. The distribution companies were constrained to file such petitions only after a judicial pronouncement by the APTEL. It is fairly established that true-up should be regularly conducted and uncontrollable costs should be recovered speedily to ensure that future consumers are not burdened with past costs. The true-up being claimed in this Petition is for a period ranging from 5-12 years back. The onus of such unreasonable delay squarely falls on the Petitioner and is not due to any process of law.

The Commission appreciates that the claim of carrying cost is towards revenue gap as a result of legitimate expenditure in the true up. However issue of delayed filing of true up petitions is also pertinent to be considered.

The Commission would decide on the issue of carrying cost while approving the mechanism and time period for recovery of true up amounts as described in Section 13.

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## 12. DIRECTIVES

This section deals with the Commission's directives to the distribution companies DVVNL, MVVNL, PVVNL and PuVVNL along with the transmission licensee UPPTCL under the present True-up Order along with the time frame for compliance

**TABLE 12-1: DIRECTIVES**

S. N	Description of Directive	Time Period for compliance from the date of issue of the True-up Order
1	The Commission directs the Petitioner to furnish the True-up Petitions along with audited accounts in respect of the DVVNL, MVVNL, PVVNL, PuVVNL and UPPTCL for the financial year 2011-12.	Along with ARR / Tariff Petition for FY 2014-15
2	The Commission directs the Petitioner to formulate a policy for identifying and writing off fictitious arrears and submit a copy of such report before the Commission.	Within 6 months
3	The Commission directs the Petitioner to provide the break-up and details of each item booked under prior period expenses with respect to the financial year to which they pertain failing which no claims under this head would be considered	Along with the next True-up Petition.
4	The Petitioner is directed to provide the details pertaining to the accumulated regulatory depreciation claimed on each class of asset.	Within 3 months
5	<p>The Commission in its Letter No. UPERC/D(T)/2013-1670 dated 4<sup>th</sup> February, 2013 had directed the UPPTCL to furnish true up related information in tariff formats in respect of Petition No. 849 of 2012.</p> <p>The Petitioner is directed to furnish the true up information based on audited accounts for FY 2007-08 as well in a similar manner.</p>	Within 1 month



### 13. TREATMENT OF THE GAP AND WAY FORWARD

The UPPCL is permitted to raise revision bills towards bulk supply tariff on the distribution licensees and extra state consumers / licensees based on the trued up bulk supply rates approved in this Order. The table below summarises the trued up bulk supply rates approved in this Order.

**TABLE 13-1: YEARLY BULK SUPPLY RATES**

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Bulk Supply Tariff approved in Tariff Order (Rs/kWh)	*	1.921	1.92	1.93	1.897	##	2.41	2.36
Trued up Bulk Supply Tariff (Rs/kWh)	*	1.824	1.849	1.664	2.103	##	2.315	2.348

\* In FY 2000-01, the Commission had treated the difference between the aggregate income and expenditure of the bulk power purchaser as the amount payable towards cost of bulk power purchased from UPPCL. Accordingly, specific BST rates have been approved by the Commission in the True up orders of the bulk power purchaser.

## No adjustment has been provided, as no Tariff Order was issued by the Commission for FY 2005-06.

The entire amount of net recoverable gap subsequent to final truing up of FY 2000-01 to 2007-08, amounting to Rs. 2,487.93 crores would be adjusted with the amount of the Aggregate Revenue Requirement of the distribution companies namely DVVNL, MVVNL, PVVNL and PuVVNL for the year 2013-14 or that for any other ensuing year or through a separate order, as may be decided by the Commission.

Similarly, in case of UPPTCL, the net recoverable gap subsequent to final truing up of FY 2007-08, amounting to Rs. 20.21 crores would be adjusted with the amount of the Aggregate Revenue Requirement of the UPPTCL for the year 2013-14 or that for any other ensuing year or through a separate order, as may be decided by the Commission.



The decision of the Commission in this regard will be given in the Tariff Order of the aforementioned distribution companies for the year 2013-14 or that for any other ensuing year or in a separate order.

**(Meenakshi Singh)**  
**Member**

**(Shree Ram)**  
**Member**

Dated: 21<sup>st</sup> May, 2013

Lucknow