

**MADHYA PRADESH ELECTRICITY REGULATORY COMMISSION  
"Urja Bhawan", Shivaji Nagar, Bhopal - 462 016**



**Petition No. 114/2006**

**PRESENT:**

**D. Roy Bardhan, Member**

**R. Natarajan, Member**

**IN THE MATTER OF:**

**Filing of application for True up of the Transmission Tariff for FY-06 and FY-07  
to FY-09 under Multi Year Tariff regime.**

**MPPTCL (Petitioner) represented, among others, by –**

- 1. Shri V. K. Kashyap, Joint Secretary**
- 2. Shri Alok Singh, Joint Director (Finance).**
- 3. Shri Vincent D'souza, Executive Engineer**
- 4. Shri Anurag Yadav, Additional Executive Engineer**

## **ORDER**

*(Passed on this 1<sup>st</sup> Day of March, 2007)*

- 1 The Madhya Pradesh Electricity Regulatory Commission (hereinafter referred to as “the Commission”) having heard the applicant, interveners, consumers, consumer representatives of various consumer groups on 22<sup>nd</sup> January 2007 at Bhopal, having had formal interactions with the officers of Madhya Pradesh Power Transmission Company Ltd. (hereinafter referred to as “MPPTCL” or “Transmission Licensee”) during the months of November 2006, December 2006 and January 2007 and having met with the members of the State Advisory Committee on 17<sup>th</sup> January 2007 and having considered the documents available on record and orders issued by Government of Madhya Pradesh (Energy Department) on 31<sup>st</sup> May 2005 making the Transfer Scheme Rules effective from 1<sup>st</sup> June 2005, (order no. 3679/FRS/18/13/2002 dated 31.5.2005), on 3<sup>rd</sup> June 2006 making the Madhya Pradesh Electricity Reforms Transfer Scheme Rules, 2006 and on 17<sup>th</sup> October 2006 reallocating the Generating Capacity available to the State among the three Distribution Companies of the State, hereby accepts the applications with modifications, conditions and directions as herewith attached.
  
- 2 The Commission has gone through the Petition filed by the Transmission Licensee of the State. The Commission has noted that the State Government has not issued the final Balance sheet till date i.e. the basis of projection made by the Licensee is still provisional. The Commission, in its Transmission Tariff Order for FY07 to FY09 has stated that the transmission charges determined by the Commission for FY07 are subject to changes, if any, in the notified opening balance Sheet that may be made by GoMP before 31st May 2006 or on availability of audited balance sheet as on 01/06/2005. Since the depreciation,

interest and O&M expenses have been allowed on the basis of submissions made by the Licensee, there may be a need to review the tariff determined based on the actual capitalization, loans actually availed and the actual physical progress which will be done at the time of review when the tariff for FY08 is determined. The Commission had reasons to believe that at the time of reviewing the Petition for FY08 for truing up and for determining the tariff, the Audited Balance Sheet of the Transmission Licensee would be available. Further, the present petition as filed by the Transmission Licensee was based on the Trial Balances of FY06. During the course of scrutiny of the Petition, the Transmission Licensee has submitted its Statement of Accounts duly audited by its Statutory Auditor and submitted to AG for AG's certificate. The Commission had already determined the transmission tariff for FY07 to FY09 vide its order of March 13, 2006. As the audited statement of accounts are available, the Commission has decided to take up the truing up exercise for the tariff determined for FY06 and to give the effect of the resultant into the transmission tariff for FY08. With regard to the truing up of the norms and the Tariff as determined by the Commission vide its Transmission Tariff Order for FY07 to FY09 dated 13/03/2006; the Commission has decided to consider the claim for the uncontrollable factors only after the audited Statements of Account for the years under tariff period are available. In the present order the Commission has not considered this request of the Licensee and has decided to continue with the tariff as determined vide its order of 13/03/2006.

- 3 The Petitioner must take immediate steps to implement the Order after giving seven (7) days public notice in accordance with clause 1.30 of MPERC (Details to be furnished and fee payable by licensee or generating company for determination of tariff and manner of making application) Regulations, 2004 and must also provide information to the Commission in support of having complied with this order. The Commission shall consider the transmission charges determined in this order for the Distribution Licensees in their Revenue Requirement for FY08. These rates shall be applicable till 31/03/2008.

4 Ordered as above read with attached detailed reasons and grounds,

**(R. Natarajan)**  
**Member (Econ.)**

**(D. Roy Bardhan)**  
**Member (Engg.)**

**Date : 1<sup>st</sup> March, 2007**

**Place: Bhopal**

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## **CHAPTER 1**

### **Background of the order**

#### **Introduction**

- 1.1 This order relates to petition number 114 of 2006 filed by the Madhya Pradesh Power Transmission Company Limited (hereinafter referred to as “MPPTCL” or “Transmission Licensee”) for truing up of the Transmission Tariff for FY-06 and FY-07 to FY-09 under Multi Year Tariff regime. MPPTCL is the owner of the transmission network previously owned by Madhya Pradesh State Electricity Board (hereinafter referred to as “MPSEB” or “Board”). MPPTCL has started functioning independently from 1<sup>st</sup> June 2005. While passing the order for determination of Transmission Tariff for FY06 and also for FY07 to FY09, the Commission has examined in detail the operational and the financial data of the transmission function of the period when the functions were part of MPSEB. The order passed by the Commission for FY06 was based on the past records, submission of MPPTCL and views expressed by stakeholders. The order passed by the Commission for FY07 to FY09 was based on the Multi Year Principles i.e. on the performance benchmarks set by the Commission for multi year regime vide its notification of 6<sup>th</sup> December 2005 namely “Madhya Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations 2005”. In the Transmission Tariff Order of the Commission passed on 13/03/2006 for FY07 to FY09, the Commission stated that the transmission charges determined by the Commission for FY07 are subject to changes, if any, in the notified opening balance Sheet that may be made by GoMP before 31st May 2006 or on availability of audited balance sheet as on 01/06/2005. Since the depreciation, interest and O&M expenses have been allowed on the basis of submissions made by the Licensee, there may be a need to review the tariff determined based on the actual capitalization, loans actually availed and the physical progress achieved when the tariff for FY08 is reviewed. The Transmission Licensee was required to file its proposal for truing up of the Transmission Tariff on the basis of the regulations issued by the Commission in this regard.

## **Procedural history**

- 1.2 In its Transmission Tariff Order for FY07 to FY09, the Commission determined the Transmission Tariff which were effective w.e.f. 1<sup>st</sup> April 2006 and would continue to be operative till 31<sup>st</sup> March 2009 under multi year tariff principles subject to yearly approval of the Commission along with any changes necessitated on account of uncontrollable factors. Clause 1.25 of the Commission's regulations namely Madhya Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2005 stipulates as under:

“A Transmission Licensee shall file a petition at the beginning of the tariff period and every year thereafter. A review shall be undertaken by the Commission to scrutinise and true up the data and to accommodate any uncontrollable variations. This filing shall be in accordance with the formats prescribed in MPERC (Details to be furnished and fees payable by licensee or generating company for determination of tariff and manner of making an application) Regulation, 2004 by 15<sup>th</sup> October every year.”

Accordingly, the Transmission Licensee was directed to file its petition by the due date i.e. 15<sup>th</sup> October 2006. MPPTCL requested for extension for filing the Petition from 15/10/2006 to 31/10/2006 and then up to 07/11/2006, which the Commission accepted. MPPTCL filed the Petition on 06/11/2006.

- 1.3 The Commission, having determined the Transmission Tariff for FY07 to FY09, has been regularly directing the Transmission Licensee to execute long term agreements with the long term users of the transmission system viz. the three Distribution Licensees of the State, but the Transmission Licensee has not paid heed to this direction. The Commission registered a Suo-Moto Petition (No.98/2006) and directed the Transmission Licensee to execute long term agreements with the Distribution Licensees of the State. The Commission is of the opinion that in the absence of the long term commitment for the utilisation of the transmission system capacity in MW between the Transmission Licensee and the Distribution Licensees, the transmission tariff as determined by the Commission in Rs./MW can not be recovered.
- 1.4 The Transmission Licensee has filed the Petition for the truing up of the Transmission Tariff that has been determined by the Commission vide its Tariff Order of 07/02/2006 for FY06 and for revision in the O&M norms as determined by the Commission in its Transmission Tariff Order for FY07 to FY09. The summary of the ARR and the Transmission Charges as filed by the Transmission Licensee on the basis of the audited Statement of Accounts are given below:



**Table-1: Summary of the ARR filed by the Transmission Licensee:**

<b>APPROVED ARRs BY COMMISSION (ORDERS Dt.07/02/2006 and 13/03/2006)</b>					
<b>Sl. No.</b>	<b>Details</b>	<b>FY06*</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
1	O&M Expenses	73.06	92.66	98.21	104.11
2	Depreciation	62.38	99.74	110.31	117.56
3	Interest on Loans	59.16	54.94	71.50	82.93
4	Interest on working capital		67.13	70.45	61.06
5	Return on Equity	84.23	122.78	127.26	127.26
6	Provision for terminal liabilities	106.35	160.00	167.48	177.52
7	Taxes and fee paid to MPERC+others	0.00	1.43	1.73	2.02
8	<b>Total</b>	<b>385.18</b>	<b>598.68</b>	<b>646.94</b>	<b>672.46</b>

\* Annual amount pro-rated for 10 months

<b>TRUE-UP PETITION - TRANSMISSION ARR FILED BY MPPTCL</b>					
<b>Sl. No.</b>	<b>Details</b>	<b>FY06*</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
1	O&M Expenses	95.67	132.74	161.09	177.05
2	Depreciation	132.61	142.87	143.90	178.07
3	Interest on Loans	87.64	148.18	213.19	273.71
4	Interest on working capital		18.82	21.90	25.70
5	Return on Equity	84.23	125.70	140.40	154.08
6	Provision for terminal liabilities	128.19	181.62	192.53	204.07
7	Taxes and fee paid to MPERC+others	0.00	1.36	1.44	1.54
8	<b>Total</b>	<b>528.34</b>	<b>751.28</b>	<b>874.46</b>	<b>1014.21</b>

^ income tax not included in ARR

<b>PERCENTAGE CHANGE SOUGHT THROUGH TRUING UP</b>					
<b>Sl. No.</b>	<b>Details</b>	<b>FY06*</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
1	O&M Expenses	31%	43%	64%	70%
2	Depreciation	113%	43%	30%	51%
3	Interest on Loans	48%	170%	198%	230%
4	Interest on working capital		-72%	-69%	-58%
5	Return on Equity	0%	2%	10%	21%
6	Provision for terminal liabilities	21%	14%	15%	15%
7	Taxes and fee paid to MPERC+others		-5%	-17%	-24%
8	<b>Total</b>	<b>38%</b>	<b>25%</b>	<b>35%</b>	<b>51%</b>

**Public Hearing and Consultation with State Advisory Committee**

- 1.5 The Commission decided to issue a public notice for inviting comments from the stakeholders on the petition filed by MPPTCL. The Public notice was published in Hindi in the following Newspapers on 17<sup>th</sup> November 2006:

Dainik Bhaskar (Gwalior),  
Nai Duniya (Indore),  
Dainik Jagran (Rewa),  
Avantika (Ujjain),  
Nav Bharat (Jabalpur),  
Raj Express (Bhopal) and  
Hindustan Times (English, All Madhya Pradesh Edition)

- 1.6 The Commission held a public hearing on the tariff petition of MPPTCL at Bhopal on 22<sup>nd</sup> January 2006 in its Office in Urja Bhavan at Shivaji Nagar, Bhopal.
- 1.7 A presentation on the tariff proposal of MPPTCL was made before the members of the State Advisory Committee on 17<sup>th</sup> January 2006. The members made their observations on the petition and gave valuable suggestions, which have been kept in mind while finalising this order.

## CHAPTER 2

## Status of the Transmission Company:

- 2.1 MPPTCL is a company incorporated under the Companies Act, 1956 in 2002 and was functioning under an O & M Agreement with MPSEB ever since. The Government of Madhya Pradesh notified the transfer scheme vide its notification No. 3679/FRS/18/13/2002 dated 31<sup>st</sup> May 2005 as per which the MPPTCL was assigned assets and liabilities, on a provisional basis, as per the table given below:

Table-2: Provisional Opening Balance Sheet of MPPTCL

(Rs. Crore)

Liabilities		Amount		Assets		Amount	
<b>Equity From GoMP</b>		<b>845</b>			Gross Assets	2407	
<b>Project Specific Capital Liabilities (Including payments overdue)</b>	Power Finance Corporation (PFC)	321		<b>Fixed Assets</b>	Less Accumulated depreciation	1076	
	SADA Gwalior	15					
	Loan from GoMP (ADB)	195			<b>Net Fixed Asset</b>	<b>1331</b>	<b>1331</b>
	<b>Total</b>	<b>531</b>	<b>531</b>	<b>Capital Works in Progress</b>		<b>847</b>	
<b>Loan from MPSEB</b>		<b>835</b>		<b>Regulatory Assets towards Pension Liabilities</b>		<b>3910</b>	
<b>Current Liabilities</b>	Staff Related	20		<b>Current Assets</b>	Stock	66	
	Intt. Accrued but not due	13					
	<b>Total</b>	<b>33</b>	<b>33</b>		<b>Total</b>	<b>66</b>	<b>66</b>
<b>Pension Liabilities</b>		<b>3910</b>					
<b>Borrowings for working capital</b>	<b>Overdraft</b>	<b>0</b>					
	<b>Working capital demand loan + cash credit</b>	<b>0</b>	<b>0</b>				
<b>Accumulated Surplus/ (Deficit)</b>		<b>0</b>					
<b>Reserves and Reserve Funds</b>		<b>0</b>					
<b>Total Liabilities</b>		<b>6154</b>		<b>Total Assets</b>		<b>6154</b>	

Notes: -

- The values of the fixed Assets are as per the book values
- The Contingent Liabilities to the extent they are associated with or related to transmission activities or to the Undertakings or Assets of MPTRANSCO shall vest in MPTRANSCO. (Estimated to be Rs. 41.66 Cr.)
- The above balance sheet is provisional till finalisation of actual balance sheet as on date of transfer date.

**As per the notification, the above balance sheet is provisional for a period of 12 months. During the provisional period, the GoMP may change the values stated in the opening balance sheet.**

- 2.2 MPPTCL assumed independent functioning from 1<sup>st</sup> June 2005 consequent to the notification of its Balance Sheet by the State Government on 31<sup>st</sup> May 2005. On the Petition filed by the Transmission Licensee for determination of Transmission tariff for FY06, the Commission passed the Tariff Order on 07/02/2006.
- 2.3 The Transmission Tariff Order of the Commission for FY06 was based on the Balance Sheet notified by the GoMP. The Commission gave a detailed note on the allocation of the equity, project specific loans and MPSEB loans towards GFA & CWIP in the Transmission tariff Order for FY06. The same is reproduced in the following paragraphs.
- 2.4 Allocation of Equity and Loans between Completed Works and Capital Works-in-Progress was as follows:
- 2.4.1 *As per the Government of Madhya Pradesh notification of 31<sup>st</sup> May 2005, MPPTCL had been allocated an amount of Rs. 845 Crore as Equity from Government of MP. They have also been allocated project specific capital liabilities of Rs. 531 Crore comprising of Rs. 321 Crore from PFC, Rs. 15 Crore from SADA, Gwalior and Rs. 195 Crore of ADB loan through Government of MP. In addition, Rs. 835 Crore of loan from MPSEB (not identifiable with any project) has also been allocated to MPPTCL. The notification does not separately indicate the amount of equity invested in completed Works and that invested in Capital Works-in-Progress. It is necessary, therefore to allocate the equity into completed Works and Capital Works-in-Progress because the Commission will be able to allow return on equity only on commissioned projects.*
- 2.4.2 *As per the notification, the Gross Assets allocated on the basis of book values amount to Rs. 2407 Crore. Considering a normative debt equity ratio of 70:30, it is assumed that equity amount invested on Fixed Assets would be Rs. 722.10 Crore leaving a balance of Rs. 122.90 Crore as equity component in Capital Works-in-Progress. Rounding it off, it could be assumed that Rs. 722 Crore had been invested in completed Works that is eligible for Return on Equity at 14% per annum. Return on Equity on the balance amount of Rs. 123 Crore would be allowed as and when the Capital Works-in-Progress gets commissioned.*
- 2.4.3 *In the notified opening balance sheet an amount of Rs. 847 Crore has been indicated as Capital Works in Progress. The MPPTCL had not indicated in their Petition how this has been funded. As stated in the previous paragraph, the Commission considers Rs. 123 Crore as equity component of the Capital Works in Progress and the balance as loan component.*

- 2.4.4 *Out of the PFC loan of Rs. 321 Crore, MPPTCL has identified Rs. 315 Crore as utilized for completed Works as also the entire SADA loan of Rs. 15 Crore. Out of the ADB loan (through Government of MP) of Rs. 195 Crore, Rs. 189 Crore (444.31/458.59) has been utilised for completed Works according to MPPTCL. Thus, out of the total project specific loans of Rs. 531 Crore only Rs. 12 Crore has been considered by the Commission as utilised for Capital Works-in-Progress.*
- 2.4.5 *As per the Government of Madhya Pradesh notification of 31<sup>st</sup> March 2005, Rs. 835 Crore had been allotted to MPPTCL as MPSEB loan. As stated earlier, the Commission considers Rs. 724 Crore as loan component in the Capital Works-in-Progress, which are stated to be worth Rs. 847 Crore. Rs. 12 Crore of loan has been deemed to be utilised from the project specific portion of the loans and the rest Rs. 712 Crore from MPSEB loan. Thus out of the total MPSEB loan of Rs. 835 Crore, Rs. 123 Crore has been considered by the Commission as used for working capital requirements.*
- 2.4.6 *Interest on the loans identified with completed Works and Working Capital will be dealt with in the section on Interest and Finance charges. Interest on the loans considered as used in Capital Works-in-Progress will be capitalized and will not be considered in the Revenue Requirement till these Works get commissioned. The deployment of equity, project specific loans and MPSEB loan as considered by the Commission is shown in the following table:*

**Table-3: Source wise Deployment of Fund in Commission’s Order for FY06**

Sl. No.	Source	Amount as per notified Balance Sheet	Fixed Assets	Amount in Rs. Crore	
				Capital Works In Progress (CWIP)	Working Capital
1.	Equity	845.00	722.00	123.00	
2.	Project Specific Loans	531.00	519.00	12.00	
3.	MPSEB Loan	835.00		712.00	123.00

- 2.5 As the Government of MP is yet to notify the Final Balance Sheet the Commission is of the opinion that the aforementioned allocation will be applicable for the present petition also.

## CHAPTER 3

### A - Intra-State Transmission System and Transmission System Capacity

- 3.1 The intra-State transmission system is a conglomerate of various voltages extra high transmission lines and substations. As on 31/03/2006 the intra-State transmission system comprises the following transmission lines and substations: -

**Table-4: Transmission System in the State**

Sl. No	Voltage Level	EHV Lines	EHV Substation	
		Circuit kMs	No.	MVA Capacity
1	400kV	2314.31	4	3885.00
2	220kV	6989.00	34	8850.00
3	132kV	10507.00	146	10419.00
4	66kV	61.00	1	20.00
<b>Total</b>		<b>19871.31</b>	<b>185</b>	<b>23174.00</b>

- 3.2 The Transmission Licensee has not proposed any change in the Average Capacity of the Intra-State Transmission System as determined by the Commission in its Transmission Tariff Orders for FY06 and for FY07 to FY09. The details are as under:

**Table-5: Average Transmission Capacity as Determined by Commission**

Sl. No.	Average Transmission Capacity of Intra-State Transmission System			
	FY06	FY07	FY08	FY09
1	5563 MW	6010 MW	7220 MW	8170 MW

- 3.3 In the regulations issued by the Commission on Open Access namely, “MPERC (Terms and Conditions for intra-State Open Access in MP) Regulations, 2005”, the Commission has defined the Average Capacity of the Intra-State Transmission System as

*“Av Cap means the average capacity in MW served by the Intra-State transmission system of the Transmission Licensee in the previous financial year, and shall be the sum of the generating capacities, connected to the transmission system and contracted capacities of other Long Term transactions handled by the system of the Transmission Licensee.”*

- 3.4 The average Transmission Capacity as determined by the Commission had further been distributed among the Distribution Licensees of the State after deducting the capacity allocated to SEZ in the following manner:

**Table-6: Transmission System Capacity Allocation (in %age) among Discoms**

Sl. No.	Distribution Licensee / Long-term Customer	Percentage of Capacity allocation
1	MP Poorv Kshetra Vidyut Vitaran Company Limited (East Discom)	29.72%
2	MP Madhya Kshetra Vidyut Vitaran Company Limited (Central Discom)	32.63%
3	MP Paschim Kshetra Vidyut Vitaran Company Limited (West Discom)	37.65%
<b>4</b>	<b>Grand Total</b>	<b>100.00%</b>

- 3.5 Accordingly, the Transmission System Capacity was allocated among the Long term users of the transmission system as given in the following table:

**Table-7: Transmission System Capacity Allocation (in MW) among Discom**

Sl. No.	Distribution Licensee / Long-term Customer	Capacity Allocation (MW)			
		FY06	FY07	FY08	FY09
1	MP Poorv Kshetra Vidyut Vitaran Company Limited (East Discom)	1650	1783	2138	2421
2	MP Madhya Kshetra Vidyut Vitaran Company Limited (Central Discom)	1812	1958	2348	2658
3	MP Paschim Kshetra Vidyut Vitaran Company Limited (West Discom)	2091	2259	2709	3067
4	SEZ	10	10	25	25
<b>5</b>	<b>Grand Total</b>	<b>5563</b>	<b>6010</b>	<b>7220</b>	<b>8170</b>

3.6 The Energy Department, Government of Madhya Pradesh has notified the allocation of all the installed generating capacity available to the State as on September 2006 among the three Distribution Companies of the State vide its gazette notification of October 18, 2006. In this notification the Government has divided the total available generation capacity among the three Distribution Companies. Out of total available generation capacity to the State, 29.6% capacity has been allocated to East Discom, 32.5% capacity to Central Discom and 37.9% capacity to West Discom. The total capacity available to the State has been taken as 6806.66 MW. Accordingly, after deducting the auxiliary consumption and the inter-State transmission losses (i.e. up to MP periphery) the Transmission system capacity for FY07 to FY09 will be as given in the following table:

**Table-8: Determination of Revised Transmission System Capacity**

Particulars	FY07			FY08			FY09		
	Total Capacity	Aux. Cons.	Capacity for Trans. System	Total Capacity	Aux. Cons.	Capacity for Trans. System	Total Capacity	Aux. Cons.	Capacity for Trans. System
MPPGCL Thermal	2272.50	216.17	2056.33	2982.50	276.99	2705.51	2982.50	274.18	2708.32
MPPGCL Hydel	895.00	2.73	892.27	915.00	2.80	912.20	915.00	2.80	912.20
Joint Venture Hydel i.e. ISP & SSP	1851.50	5.55	1845.95	1851.50	5.55	1845.95	2111.50	5.55	2105.95
Central Sector	1885.49	152.04	1646.78	1937.32	156.70	1691.59	2705.32	201.82	2378.32
Additional Share EREB	50.00	4.50	43.23	50.00	4.50	43.23	50.00	4.50	43.23
SEZ	10.00	0.90	8.65	25.00	2.25	21.61	25.00	2.25	21.61
<b>Grand Total</b>	<b>6964.49</b>	<b>381.89</b>	<b>6493.19</b>	<b>7761.32</b>	<b>448.80</b>	<b>7220.08</b>	<b>8789.32</b>	<b>491.11</b>	<b>8169.62</b>
<b>Say</b>	<b>6493 MW</b>			<b>7220 MW</b>			<b>8170 MW</b>		

3.7 In the Transmission Tariff Order for FY07 to FY09, the Commission had distributed the transmission capacity for FY07, based on its scrutiny of the Petition but as per the GoMP notification of 18/10/2006 the capacity has been increased to 6493 MW from 6010 MW. Hence the percentage of capacity allocation among the Distribution Companies needs to be changed. Accordingly, the revised transmission system capacity allocation is as shown in the Table given below:



**Table-9: Revised Transmission System Capacity Allocation (in MW)**

Sl. No.	Distribution Licensee / Long-term Customer	Capacity Allocation (MW)			
		%age	FY07	FY08	FY09
1	MP Poorv Kshetra Vidyut Vitaran Company Limited	29.60	1919	2130	2411
2	MP Madhya Kshetra Vidyut Vitaran Company Limited	32.50	2107	2338	2647
3	MP Paschim Kshetra Vidyut Vitaran Company Limited	37.90	2457	2727	3087
4	Total	100.00	6483	7195	8145
5	SEZ		10	25	25
6	<b>Grand Total</b>		<b>6493</b>	<b>7220</b>	<b>8170</b>

- 3.8 The total transmission charges as recovered from the long term users of the transmission system of the Transmission Licensee for FY07 have not been revised. However on account of the increase in the transmission capacity from 6010 MW to 6493 MW, the per MW charges would require a change. Also, the capacity allocation among the three Distribution Companies has undergone a change and the Transco is required to recover the transmission charges as per the new allocation. The Commission directs the Transmission Licensee to file the details of the amount recovered from the Distribution Licensees during FY07. The Commission will pass the necessary orders in this regard in due course. The capacity determined for the remaining two years of the tariff period is based on projections. The capacity can be firmed up only when the projected new generation capacities considered during these years become a reality. The long-term customers are advised to enter into agreements for sharing the additional capacities and agree to pay MPPTCL on the basis of the above allocated capacities.
- 3.9 In its Transmission Tariff Orders for FY06 and for FY07 to FY09, the Commission directed the Distribution Licensees to take steps to finalise their long-term transmission capacity utilisation agreement with the Transmission Licensee failing which the Distribution Licensees will have to face the difficulty of being left high and dry without any long-term agreement. The Distribution Licensees may also be not in a position to recover the transmission expenses unless they have a proper agreement with the Transmission Licensee. The Commission has a number of times directed the Transmission Licensee and the Distribution Licensees of the State to execute transmission service agreements and is happy to note that the Transmission Licensee has submitted the Transmission Service Agreement executed with the Distribution Licensees of the State in the month of November 2006. The Commission is in the process of examining them. The order shall be issued in due course.

## **B – Performance of the State Transmission System**

### **Transmission Loss:**

3.10 MPPTCL has claimed that the addition in the capacity of the transmission system has helped in reducing the transmission losses. The transmission loss of 6.12% in FY04 has been reduced to 5.23% in FY06 against the Commission’s order of 5.22%. The transmission loss has been further proposed to be reduced to 4.90% by FY09. The transmission loss profile as submitted by MPPTCL from FY04 is given below:

**Table-10: Annual Transmission losses:**

<b>Details</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Estd.</b>	<b>Estd.</b>	<b>Estd.</b>
Energy Received into System (MUs)	27555	29531	31306	39183	41808	44963
Energy Sent Out of System (MUs)	25870	27871	29669	37224	39759	42741
Energy Lost (MUs)	1685	1660	1637	1959	2049	2202
<b>Transmission Loss (%)</b>	<b>6.12%</b>	<b>5.62%</b>	<b>5.23%</b>	<b>5.00%</b>	<b>4.90%</b>	<b>4.90%</b>
Reduction in loss (%)	1.81%	0.50%	0.39%	0.22%	0.10%	0.00%

3.11 The Commission has noted that MPPTCL has reduced the transmission losses from 6.12% in FY04 to 5.23% in FY06. The Transmission Licensee has further proposed to reduce the losses to 4.9% by the end of the tariff period i.e. by FY09. The Commission has in its Transmission Tariff Order for FY07 to FY09 accepted the Licensee’s above proposal of keeping the transmission losses as 5% for FY07 and 4.9 % for FY08 and FY09. The Commission further directed the Transmission Licensee to place greater thrust to reduce the losses further as these are of the order of 4.40% in Gujarat, 4.86% in Karnataka and 4.6% in Rajasthan. The PGCIL losses for the last 52 weeks up to 31<sup>st</sup> October 2006 are of the order of 4.6%. The Commission has noted that FY07 losses upto December 06 are 4.8% against Commission’s stipulations of 5%. While reviewing the Strategic Business Plan of the Transmission Licensee, the Commission had asked the Licensee to further reduce the loss profile so as to bring it in the vicinity of the PGCIL level. It has been informed to the Commission that further reduction of the transmission losses from 4.9% would require huge investment. The present priority of the Licensee is to meet the Grid Code conditions with regard to the voltage at interface points and the loading and availability of transmission system elements such as transformers, transmission lines, etc. The generating projects that are to be commissioned in the forthcoming years will increase the quantum of energy transaction over the transmission system and accordingly the Licensee has prepared its investment plan. The Licensee has further indicated that in the present circumstances it would be difficult to arrange funds needed for capital expenditure for reducing losses. In view of this the Transmission Licensee is directed to strive to contain transmission losses as given above.

- 3.12 The losses that occur in the network of PGCIL during transmission of energy from generating sources situated outside the State of Madhya Pradesh up to MPPTCL's periphery are in addition to the losses that occur in the MPPTCL transmission system.
- 3.13 The Commission has also directed the Transmission Licensee to compute the voltage wise transmission losses so as to locate the voltage level where the major bottleneck lies. The 220kV system urgently requires the Transmission Licensee's attention which has been amply demonstrated in the table given below. For removal of these bottlenecks investment is required for addition of transformation capacity and strengthening of transmission lines.

**Table-11: Voltage wise losses in Transmission System:**

Sl. No.	Total Losses at	Losses in %					
		FY05		FY06			
		Oct-Dec.'04	Jan-Mar.'05	Apr-Jun.'05	Jul-Sep.'05	Oct-Dec.'05	Jan-Mar.'06
1	400 kV	1.36	1.12	1.49	1.33	1.44	1.36
2	220 kV	3.55	3.04	2.88	2.92	3.57	3.49
3	132 kV	1.73	1.57	0.97	1.21	1.48	1.68
4	<b>Total Transmission Losses</b>	<b>5.48</b>	<b>4.87</b>	<b>4.35</b>	<b>4.42</b>	<b>5.43</b>	<b>5.49</b>

**Reliability & Quality of Supply**

- 3.14 For reliable and quality supply to Distribution Companies and thereby to retail consumers the transmission network should remain in a healthy state. The voltage wise interruptions are as follows:

**Table-12: Voltage wise interruptions in Transmission System**

Sl. No.	Voltage Level	FY04		FY05		FY06		FY07(June'06)	
		Nos.	Duration (Hrs.)	Nos.	Duration (Hrs.)	Nos.	Duration (Hrs.)	Nos.	Duration (Hrs.)
1	400	6	76.26	2	40.07	3	48.03	2	31.45
2	220	35	459.73	51	713.25	26	443.39	8	88.01
3	132	30	546.63	68	856.08	48	790.20	12	173.35

- 3.15 The total duration and the numbers of interruptions have increased in FY05 over FY04. During the year 2005-06 except for 400kV, interruptions at 220kV and 132kV have reduced. The trend that is visible upto June 2006 in FY07 indicates that the duration and the number of interruptions are likely to exceed FY06 level. However, the voltage wise system availability remained above 98% in FY06. The quarter and voltage wise transmission system availability for FY05 and FY06 is given below:

**Table-13: Quarter wise Transmission System Availability**

System Voltage	Actual System Availability during the Year 2004-05				Actual System Availability during the Year 2005-06			
	April – June	July – September	October – December	January - March	April - June	July – September	October – December	January - March
400 kV	99.93%	98.62%	99.97%	98.88%	98.37%	94.35%	99.08%	99.73%
220 kV	99.87%	98.25%	99.83%	98.71%	98.27%	99.45%	99.31%	98.24%
132 kV	99.83%	99.57%	99.83%	99.26%	99.17%	99.15%	99.33%	99.22%

- 3.16 The overall system availability compares favourably with the target availability of 97% for FY07 and FY08 and 97.5% for FY09 as per MPERC (Terms and Conditions for determination of Transmission Tariff) Regulations, 2005. The availability achieved by MPPTCL compares favourably with the normative availability of 98% fixed by CERC in its order dated 16<sup>th</sup> January 2004. The Commission has already specified incentive / penalty mechanism for MPPTCL for deviation in availability from the norms specified in MPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations 2005.

**EHV Transformer failure**

- 3.17 Failure of EHV transformer results in disruption of power supply to a large area. Most of the failures can be attributed to operational causes. The failure rate reported for FY04, FY05, FY06 and FY07 upto (June 06) is as follows:

**Table-14: Transformer failure**

Sl. No.	Particulars	FY04		FY05		FY06		FY07 (June'06)	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Auto Transformer	1	1.09	1	1.05	1	0.95	0	0
2	Power Transformer	4	1.3	7	2.16	8	1.94	1	0.24

3.18 It is observed that the total number of transformer failure have shown an increasing trend and this is a cause for concern. The Commission would like the Licensee to keep such failures to the minimum so as to achieve the availability targets.

**Interface points**

3.19 MPPTCL has identified 438 interface points as on 31/03/2005 with MPPGCL, other generators viz. Indira Sagar Project, PGCIL, Distribution Companies of the State, HT consumers and neighbouring states. It has increased to 464 in FY06. The gist of interface points is indicated in the table below:

**Table-15: Interface Points**

Interface Point With	No. of Interface Points as on 31-03-2005	No. of Interface Points as on 31-03-2006
MPPGCL	28	38
Indira Sagar Project	3	3
PGCIL / Central Sector	11	20
Inter State	16	11
MP Poorv KVVCL	95	96
MP Madhya KVVCL	100	102
MP Paschim KVVCL	133	136
CPP Wheeling	1	1
HT Consumers Wheeling	51	56
Open Access	0	1
<b>Total</b>	<b>438</b>	<b>464</b>

- 3.20 These interface points should have ABT compliant meters so that intra-State ABT can be implemented. The interface points with PGCIL already have ABT compliant meters. The National Electricity Policy stipulates that the intra-State ABT should be introduced in the State by April 1, 2006. The Commission had already directed MPPTCL to make all necessary arrangements so as to achieve the target envisaged in the National Electricity Policy. There have been slippages in the target and now the Transmission Licensee is proposing to implement the intra-State ABT by December 2006. The programme has been delayed due to delay in procurement of ABT compliant meters.
- 3.21 The operational performance should be reflected not only in terms of reduction in losses, improvement in voltage profile but also in terms of reduction of loss of human and animal life as well. The number of accidents, both fatal and non-fatal, was higher in FY05 and in also FY06 as compared to FY04. MPPTCL is advised to take stock of such happenings and prevent them from occurring. Safety of personnel and others should be of paramount importance in the operation of transmission network and should be appropriately taken care of.

**Table-16: Electrical Accidents**

FY04			FY05				FY06				
Fatal		Non-Fatal	Total	Fatal		Non-Fatal	Total	Fatal		Non-Fatal	Total
Human	Animal	Human		Human	Animal	Human		Human	Animal	Human	
2	0	5	7	2	0	12	14	2	0	9	11

**Strategic Transmission Business Plan**

- 3.22 MPPTCL had separately filed its strategic transmission business plan. This plan also includes the investment plan of the Transmission Licensee. The gist of the plan filed is given below:

**Table-17: Year wise Fund Requirement**

Sl. No	Particulars	Year wise Fund Requirement up to year 2011-12							
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
1.	400 kV Lines	0.00	7.24	70.00	103.00	80.00	30.88	0.00	291.13
2.	400 kV S/s	7.90	7.13	50.00	67.00	43.00	34.00	0.00	209.03
3.	220 kV Lines	87.40	342.26	208.66	190.65	119.10	86.08	70.00	1104.17
4.	220 kV S/s	45.06	157.10	165.52	121.55	52.00	98.30	122.75	762.28
5.	132 kV Lines	69.03	178.66	152.38	176.25	197.95	69.87	171.74	1015.88
6.	132 kV S/s	57.59	169.65	197.88	210.11	191.32	140.22	91.89	1058.66
7.	Misc. Works	14.85	10.75	0.00	2.70	0.00	0.00	0.00	28.30
<b>8.</b>	<b>Total</b>	<b>281.83</b>	<b>872.82</b>	<b>844.44</b>	<b>871.26</b>	<b>683.37</b>	<b>459.35</b>	<b>456.38</b>	<b>4469.45</b>

- 3.23 Out of the total proposed capital expenditure plan of Rs 4469.45 Crore, the Financial Assistance of Rs. 1491.72 Crore from various financial institutions has been arranged. The year wise details of tied up funds are given below:

**Table-18: Year wise Funds Tied Up:**

Sl. No	Particulars	Year wise Funds Tie-up up to year 2011-12							
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
1.	400 kV Lines	0.00	7.25	10.00	2.00	0.00	0.00	0.00	<b>19.25</b>
2.	400 kV S/s	7.90	7.13	10.00	0.00	0.00	0.00	0.00	<b>25.03</b>
3.	220 kV Lines	87.40	342.28	114.41	0.00	0.00	0.00	0.00	<b>544.09</b>
4.	220 kV S/s	44.29	157.10	45.77	0.00	0.00	0.00	0.00	<b>247.16</b>
5.	132 kV Lines	69.03	178.66	71.13	0.00	0.00	0.00	0.00	<b>318.82</b>
6.	132 kV S/s	57.59	169.65	84.53	0.00	0.00	0.00	0.00	<b>311.77</b>
7.	Misc. Works	14.85	10.75	0.00	0.00	0.00	0.00	0.00	<b>25.60</b>
<b>8.</b>	<b>Total</b>	<b>281.06</b>	<b>872.82</b>	<b>335.84</b>	<b>2.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>1491.72</b>

- 3.24 For the remaining amount of Rs. 2977.73 Crore the proposals are being posed to different financial institutions. MPPTCL has indicated that the financial assistance from different financing agencies has been obtained on the following terms:

**Table-19: Conditions of Funds Tied Up:**

Sl. No.	Name of Funding Agency	%age of Project cost as loan	Funding from own source	Rate of Interest.
1.	Asian Development Bank (ADB)	70% (+20% from PFC as counter funding)	10%	10.5% (ADB) 8.75% (PFC)
2.	Power Finance Corporation (PFC)	70%	30%	8.75%
3.	Rural Electrification Corporation (REC)	70%	30%	8.75%

- 3.25 The Commission has given the provisional approval on the plan filed by the Transmission Licensee on 23/11/2006 subject to the following conditions:

(a) The impact of investment on Return on Equity, the interest cost and depreciation shall be considered while truing up when the licensee submits its audited financial accounts for FY 06-07.

(b) The licensee shall inform the Commission after every six months (by 20<sup>th</sup> October and 20<sup>th</sup> April of each financial year) about the physical and financial progress in respect of each work executed under various schemes.

(c) The licensee shall also be required to justify by 20th April of every financial year the investment made during last financial year by indicating the improvement in transmission system in respect of improvement of voltage profile and loading conditions of the State Transmission System.

(d) The Licensee shall examine the economic, technical, system and environmental aspects of all viable alternatives to the proposal for investing in or acquiring new assets to meet such needs.

(e) The Licensee shall make investment in the said financial year in accordance with the said investment plan. However, if any unforeseen contingencies require reallocation of funds within the schemes listed in the annual investment plan, the licensee shall inform the following to the Commission in its half yearly report:

- (i) Physical and financial achievement of all works covered under annual investment plan.
- (ii) Re-allocation of fund, if any required within the schemes listed in annual investment plan.
- (iii) The details of works, which have not been taken up by the licensee during the period under report.

(f) The Licensee shall submit complete work-wise and scheme wise detail of the annual investment plan for next financial year by 1st July 2007 as prescribed by the Commission in the Capex Guidelines.

3.26 The Transmission Licensees shall comply with the aforementioned conditions timely. The capitalisation of the asset shall be considered when the Transmission Licensee files its audited statement of account to the Commission. The Commission has determined the Transmission Tariff for FY07 to FY09 on the basis of provisional balance sheet notified by the State Government. While passing the Transmission Tariff Order for FY07 to FY09 the Commission had envisaged that by the time of filing of the Petition, the audited Balance Sheet and Profit and Loss Account for the past year would be available which would form the basis for trueing up the uncontrollable cost. In absence of the audited Statement of Account the Commission is not in position to review the capitalisation of the asset and depreciation thereon.



## **CHAPTER-4**

### **Transmission Cost**

#### **A. Introduction**

- 4.1 The Commission had determined the transmission charges for the years from FY07 to FY09 vide its transmission tariff order of March 13, 2006. Earlier, the Commission had also determined the transmission tariff for FY06 vide its order of February 07, 2006. In both the orders the Commission determined the ARR and the Transmission Tariff on the basis of the provisional Opening Balance Sheet notified by the Government of MP vide its notification of 03/06/2005. As indicated in the previous chapters that while passing the Transmission Tariff Orders the Commission had envisaged that the Opening Balance Sheets of the successor Companies of MPSEB would be finalised as per the schedule i.e. by 31<sup>st</sup> May 2006. The Commission had determined the Transmission Tariff on the basis of the principles for multi year tariff notified in its MPERC (Terms & Conditions for Determination of Transmission Tariff) Regulations, 2005.
- 4.2 All the allowable expenses are to be recoverable from long-term users of the transmission system of MPPTCL in the ratio of their allocated capacity. Short-term users need to pay as per terms and conditions notified for them in open access regulations.

#### **B. Annual Fixed Charges**

- 4.3 Annual fixed charges of the Transmission Licensee comprise the following expenses:
1. O&M Expenses comprise Employee Cost, Administrative and General Expenses and Repair and Maintenance Expenses.
  2. Depreciation
  3. Interest On Loan and Working Capital
  4. Return on Equity
  5. Other Expenses i.e. Taxes, Duties, Fees paid to MPERC etc.
  6. Provision for Terminal Benefits
- 4.4 In its Transmission Tariff Orders for FY06 and FY07 to FY09 the Commission has determined various expenses as given in the following table:

**Table-20: Approved Transmission ARRs (Rs. Crore)**

Sl. No.	Details	FY06*	FY07	FY08	FY09
1	O&M Expenses	73.06	92.66	98.21	104.11
2	Depreciation	62.38	99.74	110.31	117.56
3	Interest on Loans	59.16	54.94	71.50	82.93
4	Interest on working capital		67.13	70.45	61.06
5	Return on Equity	84.23	122.78	127.26	127.26
6	Provision for terminal liabilities	106.35	160.00	167.48	177.52
7	Taxes and fee paid to MPERC+others	0.00	1.43	1.73	2.02
8	<b>Total</b>	<b>385.18</b>	<b>598.68</b>	<b>646.94</b>	<b>672.46</b>

\* For FY06 the ARR has been prorated for 10 Months as the Company had started its independent functioning from 01/06/2005.

- 4.5 In the subject Petition the Transmission Licensee has sought the truing up of the expenses for FY06 and revision in the expenses for the period FY07 to FY09. The details of the proposed ARRs along with the projected trued amount is given in the table below:

**Table-21: Transmission ARRs with Truing Up (Rs. Crore)**

Sl. No.	Details	FY06*		FY07		FY08		FY09	
		Amount	% change	Amount	% change	Amount	% change	Amount	% change
1	O&M Expenses	95.68	31%	132.74	43%	161.09	64%	177.05	70%
2	Depreciation	132.61	113%	142.87	43%	143.90	30%	178.07	51%
3	Interest on Loans	87.64	48%	148.18	170%	213.19	198%	273.71	230%
4	Interest on working capital			18.82	-72%	21.90	-69%	25.70	-58%
5	Return on Equity	84.23	0%	125.70	2%	140.40	10%	154.08	21%
6	Provision for terminal liabilities	128.19	21%	181.62	14%	192.53	15%	204.07	15%
7	Taxes and fee paid to MPERC+others	0.00		1.36	-5%	1.44	-17%	1.54	-24%
8	<b>Total</b>	<b>528.34</b>	<b>38%</b>	<b>751.28</b>	<b>25%</b>	<b>874.46</b>	<b>35%</b>	<b>1014.21</b>	<b>51%</b>

\* For FY06 the ARR has been prorated for 10 Months as the Company had started its independent functioning from 01/06/2005.

- 4.6 The Transmission Licensee has indicated in the Petition that the Opening Balance Sheet has not yet been finalised by the Government of MP. The Statements of Accounts of MPPTCL for FY06 (for the period from 01/06/2005 to 31/03/2006), which were under audit at the time of filing of the subject Petition, have now been finalised and the same have been filed with the Commission. The opening balances of these accounts are as per the notified Provisional Opening balance Sheet which may undergo a change when the GoMP will finalise the Opening Balance Sheet. The Petitioner has requested the Commission to allow them to file the additional submission to modify this Petition on notification of the “Final Opening Balance Sheet as on 31/05/2005”.
- 4.7 The Commission has taken the stock of the situation that the Annual Accounts for FY06 (from 01/06/2005 to 31/03/2006) have been audited but the opening balances have been taken from the Provisional Opening Balance Sheet which are yet to be finalised by the GoMP. The Transmission Tariffs for FY06 and for FY07 to FY09 were determined by the Commission on the basis of the aforementioned provisional Opening Balance Sheet. The regulation for the determination of the transmission tariff under the multi year frame work namely MPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2005 provides for the truing up of the ARR of the Transmission Licensee for uncontrollable factors on the basis of the audited statement of accounts. The clause 1.25 of the aforementioned regulation stipulates that

*“A Transmission Licensee shall file a petition at the beginning of the tariff period and every year thereafter. A review shall be undertaken by the Commission to scrutinise and true up the data and to accommodate any uncontrollable variations. This filing shall be in accordance with and in the formats prescribed in MPERC (Details to be furnished and fees payable by licensee or generating company for determination of tariff and manner of making an application) Regulation, 2004 by 15<sup>th</sup> October every year.”*

The Transmission Licensee has filed the present Petition under the above quoted clause for truing up of the Transmission Tariff of FY06 and for revision of norms and the tariff determined by the Commission for the tariff period FY07 to FY09. The Commission has decided to true up the Transmission Tariff for FY06 on the basis of the audited Statements of Accounts of FY06. The Transmission Licensee is directed to file the details / variations as soon as the Government of MP finalises the Opening Balance Sheet for incorporating the revisions in the tariff determined, subject to the cost being prudent.

- 4.8 The issues of Truing up of Transmission Tariff Order for FY06, the revision in the Tariff and the existing norms on which the Transmission Tariff for FY07 to FY09 had been determined, are discussed in the following paragraphs.

### **C. Truing-Up of Transmission Tariff for FY06**

#### **(a) Operation and Maintenance (O&M) Expenses**

- 4.9 The Operation and Maintenance (O&M) Expenses comprise Employee Expenses, Administrative and General (A&G) Expenses and Repairs and Maintenance (R&M) Expenses. For FY06 the Commission had determined these expenses on the basis of the historical data. In the Petition filed for FY06 the Transmission Licensee submitted the capitalisation rates for employee cost at 33.14%, A&G cost at 22% and R&M cost at 12% on the basis of the capitalisation rates of FY02, FY03, FY04 and FY05. The Licensee had requested the Commission not to consider the capitalisation rates on past data but instead to consider the capitalisation at 10%. On the basis of the information filed by MPPTCL, the Commission, in its order for FY06 had considered capitalisation rate for these expenses at 10% (Clause 4.18 of Transmission Tariff Order for FY06). The Commission determined the Employee Cost Rs. 53.03 Crore, A&G Cost Rs.8.40 Crore and Repairs and maintenance Cost Rs. 11.63 Crore (Total Rs. 73.06 Crore) for FY06 (10 Months).
- 4.10 On the basis of the Trial Balances and subsequently the audited Accounts the Transmission Licensee has sought the truing up in the O&M expenses for FY06 as follows:

**Table-22: O&M Expenses (Rs. Crore)**

Sl. No.	Details	FY06
1	O&M as approved by the Commission	73.06
2	O&M as proposed by the Licensee on the basis of Trial Balance	95.67
3	O&M as per the Audited Accounts	94.82
4	Percentage increase from Commission's Orders	30%

For FY06, the Commission considered 10% as the capitalisation rate. As per the Audited Accounts the rate of capitalisation is 7.77% for Employee Expenses, 7.85% for A&G Expenses and 0.62% for R&M Expenses.

- 4.11 For FY06, as per the Audited Accounts the Employee Expenses are as follows:

Salaries:	59.48 Crore
Allowances & Other benefits	14.97 Crore
Contractual Appointment / Deputation Cost	0.09 Crore
Terminal Benefits	128.96 Crore
Total Employee Cost	203.50 Crore
Less : Employee Cost Capitalisation	5.85 Crore
Employee Cost	197.65 Crore

Out of the total employee cost as indicated above, Rs. 128.96 Crore is for Terminal Benefits. The cost of Terminal Benefits has been treated separately by the Commission. As this amount of Rs.128.96 Crore includes Rs.77.13 Lakh towards the payment for the life insurance schemes (GTIS, LIC, SCLIS etc.), the same has not been considered as part of the Terminal Benefits but as a part of the employee expenses. Therefore, the total employee expenses for FY06 have been recomputed to Rs. 69.46 Crore (59.48+14.97+0.09+0.77-5.85).

- 4.12 Further, the A&G Expenses and R&M Expenses as per the audited accounts are Rs. 13.80 Crore and Rs.11.56 Crore. The Licensee vide its letter of January 19, 2007 informed the Commission that an amount of Rs. 4.60 Crore has been allocated by MPSEB towards the expenses of Personnel and Common Services at Head Quarter Jabalpur distributed to all the successor Companies of MPSEB. This amount has been included in the Administrative and General Expenses. The Commission had already made it clear to the successor Companies of the Board that it will not allow any expenses incurred by them for meeting the expenses of the Board as the Board has already been disintegrated into five Companies and the Board had been entrusted with the responsibility of a Trading Licensee. Further now this responsibility has been given to a trading company MPPTCL. Therefore, in the present case the expense claimed by the Transmission Licensee for meeting MPSEB expenses has not been allowed. The amount accepted by the Commission for truing up of A&G expenses has been reduced by Rs. 4.60 Crore. As R&M expenses have been proposed as per the audits Statement of Account by the Transmission Licensee, the same have been accepted by the Commission for truing up. The truing up as accepted by the Commission for the O&M expenses for FY06 is given below:

**Table-23: Trued Up O&M Expenses for FY06 (Rs. Crore)**

Elements of O&M	As per FY06 Order	As per Audited Accounts	As approved after Truing Up	True Up Allowed
<b>Employee Cost</b>	<b>53.03</b>	<b>69.46</b>	<b>69.46</b>	<b>16.43</b>
<b>A&amp;G Expenses</b>	<b>8.40</b>	<b>13.80</b>	<b>9.20</b>	<b>0.80</b>
<b>R&amp;M Expenses</b>	<b>11.63</b>	<b>11.56</b>	<b>11.56</b>	<b>(-) 0.07</b>
<b>Total (O&amp;M)</b>	<b>73.06</b>	<b>94.82</b>	<b>90.22</b>	<b>17.16</b>

**(b) Terminal benefits**

- 4.13 The State Government of MP through the notification on Transfer Scheme of 13/06/2005 has transferred the responsibility of meeting the pension liabilities to MPPTCL. The Transfer Scheme provides for setting up a Fund for meeting the terminal liabilities of
- i. Existing Pensioners (including family pensioners) of MPSEB who are eligible for pension as on date of transfer.
  - ii. Towards the pension and other benefits for the past services rendered by the employees up to the date of transfer in Board of prospective pensioners who retire after the date of transfer.
  - iii. Prospective pensioners working in MPPTCL who retire after the date of transfer for total pension and other terminal benefits.
- 4.14 At the time of passing the Transmission Tariff Order, the Commission had observed that the formalities with regard to the setting up of the Fund as envisaged in the Transfer Scheme had not been completed. The Commission had determined the amount of terminal benefits for FY06 on the basis of the past years' data and a 6% increase had been allowed over the amount actually paid in FY05. Accordingly, the Transmission Licensee was allowed Rs. 127.62 Crore (Rs.106.35 Crore for 10 months) towards the terminal benefits for FY06.
- 4.15 The Transmission Licensee in its present Petition has submitted that during FY06 (for 10 months), it had disbursed Rs.128.19 Crore against Rs.106.35 Crore as allowed by the Commission towards the Terminal Benefits in the Transmission Tariff Order for FY06. The Leave encashment has been excluded as per the directive of the Commission.
- 4.16 From the audited Statements of Account it has been observed that the Transmission Licensee actually disbursed Rs. 128.96 Crore towards the terminal benefits in FY06. Out of this amount the Rs.77.13 Lakh had been towards payment made for Life Insurance Schemes (GTIS, SCLIS, LIC, etc.) of retiring employees. As this amount has been included in the Employee cost, the amount towards the terminal benefits has been reduced to Rs. 128.19 Crore ( $128.96 - 0.77 = 128.19$ ). The Commission while passing its Transmission Tariff Orders for FY06 had indicated that the actual expenses for funding the Terminal Benefit Trust would be considered during the truing up exercise when the Trust is operationalised. The Commission has observed that the Trust has not been yet operationalised, but the actual payment towards the Terminal Benefits has been certified by the statutory auditors. In view of this the Commission has considered the request of MPPTCL and has allowed the total expenditure of Rs. 128.19 Crore towards the payment of Terminal Benefits to the Transmission Licensee.

**Table-24: Trued Up Terminal Benefits for FY06 (Rs. Crore)**

Particular	As per FY06 Order	As per Audited Accounts	As approved after Truing Up	True Up Allowed
<b>Terminal Benefit</b>	<b>106.35</b>	<b>128.19</b>	<b>128.19</b>	<b>21.84</b>

**(c) Depreciation**

4.17 The Fixed Assets break up as on 31<sup>st</sup> May 2005 as per the provisional Balance Sheet notified by the Government of Madhya Pradesh is given below:

**Table-25: Status Fixed Asset 31/05/2005 (Rs. Crore):**

Gross Value	Accumulated Depreciation	Net Value
<b>2407.00</b>	<b>1076.10</b>	<b>1330.90</b>

4.18 The Provisional Opening Balance Sheet does not give break-up of GFA into assets categories. It is still not finalized. The Petitioner has confirmed that balances mentioned in the above Table have been taken from the records maintained by MPSEB at that time and these are subject to final notification by Government of Madhya Pradesh. On the direction of the Commission the Licensee had subsequently submitted break up of assets value, category-wise accumulated depreciation and depreciation for one year based on their own estimate/ record. The Commission had allowed depreciation as under in their tariff order dated 07.02.2006 based on CERC rates:

**Table-26: Fixed Asset break-up as on 31/05/2005 (Rs. Crore):**

Account Code	Particulars	Gross Fixed Asset Value	% of Total Value	Accumulated Depreciation	Depreciation Rate (%)	Depreciation for the year
10.1	Land and Land Rights	2.32	0.10	0.06	0.38	0.01
10.2	Building & Civil Works	30.09	1.25	6.16	1.80	0.54
10.5	Plant and Machinery	1149.10	47.74	499.82	3.60	41.37
10.6	Lines, Cable and Networks	1193.50	49.58	561.28	2.57	30.67
10.7	Vehicles	2.84	0.12	2.00	18.00	0.51
10.8	Furniture & Fixtures	29.15	1.21	6.68	6.00	1.75
10.9	Office Equipments					
	<b>TOTAL</b>	<b>2407.00</b>	<b>100.00</b>	<b>1076.00</b>		74.85 (62.38 for 10 Months)

- 4.19 In the present Petition, the Transmission Licensee has submitted that as the Final Opening Balance Sheet is yet to be notified by the State Government therefore it is not requesting for truing up of the depreciation for FY06. However, the Licensee has submitted before the Commission that for principal repayment of the MPSEB loans advance against depreciation may be allowed. It is indicated by the Licensee that during FY06 the Licensee has repaid the loans of the order of Rs.132.61 Crore. Out of which Rs. 62.38 Crore had been paid from depreciation fund. For the balance repayment of Rs.70.23 Crore to MPSEB, Advance Against Depreciation may be allowed.
- 4.20 The statutory auditor of the Licensee has commented on depreciation computation on the opening Fixed Assets value of Rs.2407.00 Crore as follows:
- “Assets of Rs.2407 Crore received in Provisional Opening Balance Sheet as on 01.06.05 in Transfer Scheme is depreciated @ 3.10% (Average Rate) as no details of the said assets were available. The amount of depreciation is subject to change on notification of detailed final balance sheet by Govt. of MP.”*
- 4.21 Further, the Commission appreciates the fact that all numbers given in the Provisional Opening Balance Sheet as per Transfer Scheme notification are provisional in nature and may be of the date prior to the date of notification of the Transfer Scheme as the Balance Sheet of MPSEB as on 31<sup>st</sup> March 2005 was not ready at that time. The Petitioner has received no details of opening balance a fact which is beyond their control.

**Table-27: Asset Capitalisation as for FY06 (Rs. Crore):**

Account Code	Particulars	Original Cost	Depreciation as per Audited Account
10.101	Land	0.24	0.00
	<b>Building</b>		
10.201	Office Building	0.01	0.00
10.203	Sub-station Building	13.17	0.28
10.205	Residential Colony for Staff	0.21	0.00
10.207	Other Building	0.83	0.01
	<b>Plant and Machinery</b>		
10.301	Sub-station	305.12	8.37
10.302	Lines	329.49	6.98
10.305	Tools and Tackles	0.24	0.01
10.327	Office Plant and Machinery	0.19	0.01
10.350	Other Plant and Machinery	0.00	0.00
10.601	Computer & Accessories	0.00	0.00
	<b>Furniture and Fixtures</b>		
10.501	Furniture and Fittings including fan - Guest House	0.10	0.00
10.502	Furniture and Fittings including fan - Others	0.00	0.00
	<b>TOTAL</b>	<b>649.60</b>	<b>15.66</b>



- 4.22 In addition, the audited accounts calculated depreciation on the opening balance of Rs. 2407 Crore at 3.10% amounting to Rs. 62.18 Crore for the ten month period. Thus the total depreciation for the ten month period as per audited accounts amounts to Rs. 77.84 Crore.
- 4.23 The Commission accepts the full amount of depreciation as per audited accounts i.e. Rs. 77.84 Crore for the time being. However, the Petitioner is directed to be ready with full calculation for verification of the claim in future.
- 4.24 It is observed from the Depreciation Table annexed to the audited accounts that the petitioner has adopted a new structure of accounting codes. The Petitioner is directed to furnish full list of such new accounting code structure with a write up on changes made for verification of the Commission.

**Table-28: Trued Up Depreciation for FY06 (Rs. Crore)**

<b>Particular</b>	<b>As per FY06 Order</b>	<b>As per Audited Accounts</b>	<b>As approved after Truing Up</b>	<b>True Up Allowed</b>
<b>Depreciation</b>	<b>62.38</b>	<b>77.84</b>	<b>77.84</b>	<b>15.47</b>

- 4.25 As stated earlier, the Petitioner had requested for providing advance against depreciation to meet their repayment of Rs. 132.61 Crore during the year. However, in the absence of identification of loans with fixed assets, it would be very difficult for the Commission to consider the request of the Petitioner. The National Tariff Policy also states that there is no need for any advance against depreciation. The Commission had allowed the depreciation for the year based on the audited balance sheet without going into the details of calculation whether it is as per CERC rates or the ESAAR rates. Hence the Commission is not allowing the request of the petitioner for advance against depreciation.

**(d) Interest and Finance Charges**

**(i) Interest on Loans**

- 4.26 The net interest for FY06 for project specific loans as allowed is given in the table below:

**Table-29: Net interest allowed by the Commission (Rs. Cr.)**

<b>Sl. No.</b>	<b>Details</b>	<b>FY06</b>
1	PFC	28.70
2.	ADB	16.80
3.	SADA	0.60
4.	MPSEB	0.00
5.	REC	0.00
6.	State Govt.	0.00
<b>Total</b>		<b>46.10</b>

- 4.27 The Commission in its Transmission Tariff Orders for FY06 estimated the Source and Application of Fund from the Provisional Opening Balance Sheet as given by GoMP in the following manner:

**Table-30: Source wise Deployment of Fund in Commission’s Orders for FY06**

Sl. No.	Source	Amount in Rs. Crore			
		Amount as per notified Balance Sheet	Fixed Assets	Capital Works In Progress (CWIP)	Working Capital
1.	Equity	845.00	722.00	123.00	
2.	Project Specific Loans	531.00	519.00	12.00	
3.	MPSEB Loan	835.00		712.00	123.00

While determining the interest and finance charges for FY06, the Commission had considered the MPSEB loan of Rs.835.00 Crore as loans for Capital Works in Progress (Rs. 712.00 Crore) and Working Capital (Rs.123.00 Crore).

- 4.28 In the present Petition the Transmission Licensee has submitted that the working capital loan has been shown as zero in the provisional Opening balance Sheet notified by the GoMP. The Licensee by referring to the Energy Department, GoMP letter of January 18, 2006 has further submitted that MPSEB loan is a non-project specific loan and the GoMP has given a detailed phasing for servicing this MPSEB loan to all the successor Companies. The allocation of this MPSEB loan among the successor Companies of MPSEB is given below:

**Table-31: Company-wise Allocation of MPSEB Loan**

Name of the Company	Loan amount (Rs. Crore)
MP Genco	259.00
MP Transco	835.00
Eastern Discom	252.00
Central Discom	316.00
Western Discom	494.00
<b>Total</b>	<b>2156.00</b>

- 4.29 The MPSEB loan of Rs.835.00 Crore is to be repaid in 10 years along with the interest of 12% per annum (which is based on Weightage Average of interest payable by MPSEB to its various lenders) by the Transmission Licensee. The Petitioner has requested the Commission to reconsider its decision in this regard as MPPTCL has no control over the past liabilities passed on to it. The Petitioner has further submitted that the out of MPSEB loan of Rs. 835.00 Crore, Rs. 712.00 Crore may be considered as used in CWIP as considered by the Commission in its previous Transmission Tariff Orders and the balance amount of Rs. 123.00 Crore may be considered as having funded the Fixed Assets instead of Working Capital Loan.
- 4.30 The Petitioner has submitted that out of Opening Balance of Capital Works in Progress of Rs.847.00 Crore as on June 01, 2005, the works of Rs. 649.52 Crore have been capitalised i.e. transferred from CWIP to Fixed Assets in FY06 as against the capitalisation of Rs.621.00 Crore provisionally considered by the Commission for FY06. The Transmission Licensee has submitted the following details of CWIP for consideration of the Commission:

**Table-32: Details of CWIP as submitted by MPPTCL (Rs. Cr.)**

S. No	Agency	Funding of CWIP at Beginning of Year	Funds received during the Year	Assets Capitalization	Chargeable to construction		CWIP at the end of year
					Overhead	Interest	
1	PFC	6.50	61.69	6.50	0.13	0.78	62.60
2	ADB	5.50	52.16	5.50	0.11	0.66	52.93
3	SADA	-	-	-	-	-	-
4	REC	-	-	-	-	-	-
5	MPSEB	712.00	11.01	467.52	7.47	51.37	314.33
6	State Govt	-	16.29	-	-	-	16.29
7	Equity	123.00	50.96	170.00	-	-	3.96
	<b>Total</b>	<b>847.00</b>	<b>192.10</b>	<b>649.52</b>	<b>7.72</b>	<b>52.80</b>	<b>450.11</b>

- 4.31 The Petitioner had submitted the above statement when their Statements of Accounts for FY06 were not ready. This statement has now been revised by the Petitioner following the audit of their accounts by statutory auditors and AG. The revised statement as submitted by the Petitioner vide its letter of January 19, 2007 is given below:

**Table-33: Details of CWIP (Revised) as submitted by MPPTCL (Rs. Cr.)**

S. No	Agency	Funding of CWIP at Beginning of Year	Funds received during the Year	Assets Capitalization	Chargeable to Construction *		CWIP at the end of year
					Overhead	Interest	
		(1)	(2)	(3)	(4)	(5)	(1+2-3)
1	PFC	6.50	62.87	6.50	-	-	62.87
2	ADB	5.50	85.82	5.50	-	-	85.82
3	SADA	-	-	-	-	-	-
4	REC	-	-	-	-	-	-
5(a)	MPSEB	712.00	15.49	467.52	-	-	259.97
5(b)	MPSEB – Short Term	-	10.86	-	-	-	10.86
6	State Govt.	-	20.86	-	-	-	20.86
7	Equity	123.00	56.78	170.00	7.72	22.68	9.78
	<b>Total</b>	<b>847.00</b>	<b>252.63</b>	<b>649.52</b>	<b>7.72</b>	<b>22.68</b>	<b>450.11</b>

\* Overhead and IDC is funded from Equity addition during the year

- 4.32 The Transmission Licensee has claimed that against the MPSEB loan of Rs.835.00 Crore, out of which Rs. 712 Crore was utilised for CWIP at the beginning of the year, the Licensee has capitalised Rs. 467.52 Crore in FY06. Taking into consideration the date of the capitalisation of the assets, the total interest liability has been reworked between the revenue expense and the interest during construction (IDC) by the Licensee. Accordingly, the Licensee has requested for truing up of Rs.71.96 Crore against the Interest Charges. The revised claim of the Licensee is given below:

**Table-34: Interest as approved vis-à-vis as per Audited Accounts (FY06) (Rs. Cr.)**

S. No.	Particulars of Loan	Approved by Commission	As per FY06 Audited Accounts
1	PFC	28.70	32.24
2	ADB	16.80	20.30
3	SADA Gwalior	0.60	0.60
4	(i) MPSEB	-	84.57
	(ii). MPSEB against NABARD	-	00.30
	<b>Total -</b>	<b>46.10</b>	<b>138.01</b>
<b>Less</b>	Interest Capitalized	-	22.69
	<b>Total -</b>	<b>46.10</b>	<b>115.32</b>
	Other Interest & Finance Charges and Bank Charges	-	2.72
	<b>Total Interest Expenses -</b>	<b>46.10</b>	<b>118.04</b>

**(ii) Interest on Working Capital**

4.33 MPPTCL has reworked the interest on working capital on the basis of the norms prescribed in the regulations. The norms for computing the working capital are given below:

- O&M Expense of 1 month
- Maintenance spares @ 1% of historical cost
- Receivable of 2 month of transmission charges
- The interest rate as 11%. (SBI PLR)

4.34 The Transmission licensee for FY06 has recomputed the working capital requirement as given below:

**Table-35: Working Capital and Interest claimed by the Licensee (Rs. Cr.)**

Sl. No.	Details	Amount
1	Working Capital required	116.17
2.	Interest on working capital	12.78

4.35 For FY06 the Commission had allocated MPSEB loan (Rs.835.00 Crore) for CWIP (Rs.712.00 Crore) and Working Capital (Rs.123.00 Crore). Accordingly the Commission had allowed the interest on working capital of Rs.123.00 Crore @ 12.75% i.e. Rs. 13.07 Crore for 10 months of operation of the Company.

4.36 MPPTCL had requested to allow the working capital on normative basis and accordingly allow the interest on it. The Licensee in the present Petition has again requested to treat the MPSEB loan for funding fixed assets and not the working capital requirement. Further, the Transmission Licensee has not separately claimed the truing up of the Interest on the Working Capital; instead the Transmission Licensee has requested for review of the total interest liability i.e. the truing up of the interest liability towards the long-term loans and working capital. The interest expense claimed is as given below:

**Table-36: Interest Liability Proposed by MPPTCL (Rs. Cr.)**

S. No.	Year	As Allowed in Transmission Tariff Orders			As per Present Proposal (Considering Audited Accounts for FY06)			Net True Up
		Interest on Loans	Interest on Working Capital	TOTAL	Interest on Loans	Interest on Working Capital	TOTAL	
1	2005-06	46.10	13.10	59.20	118.05	0.00	118.05	58.85

**(iii) Commission's Analysis:**

- 4.37 The Commission has gone through the submissions filed by the Licensee with regard to the Interest Liabilities incurred by it during FY06. In the absence of Final Opening Balance Sheet and the audited Statement of Accounts of the Licensee, the Commission had earlier allocated Equity and MPSEB Loan among Fixed Assets, CWIP and Working Capital as per the available information at that time. The Final Opening Balance Sheet is yet to be issued by the GoMP. Meanwhile, the Licensee got audited its accounts for FY06 by its statutory auditors and subsequently by the AG. The audited figures have now been submitted to the Commission. The Commission has pondered over the issue. As the Opening Balance Sheet of the Company has not been finalised by the Government yet, therefore, the Commission has done the truing up of the interest and Return on Equity on the basis of allocation of Loans and equity to GFA as reflected in the audited balance sheet.
- 4.38 The Audited Statement of Accounts indicate that as on 31/03/2006 the amount of unsecured loan is Rs. 1424.10 Crore and the Capital Works in Progress is Rs. 450.12 Crore. Considering that all the capital works in progress have been funded through loan the balance amount of loan (after reducing the amount allocated to Capital Works in Progress) which is eligible for pass through of interest expenses is Rs. 973.99 Crore (i.e. 1424.10 – 450.12).
- 4.39 The Licensee has added assets of Rs. 649.52 Crore during FY06. Considering the normative 70:30 ratio of Loan and Equity, the addition should have been funded as Rs. 454.66 Crore from loans and Rs. 194.86 Crore from equity. However, taking into consideration that out of the opening equity of Rs. 845 Crore as per the provisional opening balance sheet notified by the Government Rs. 722 Crore had been allocated to the fixed assets funding by the Commission in the tariff order of 7.02.2006 having a balance of Rs. 123 Crore towards CWIP. During the year, as per the audited balance sheet, Rs. 56.83 Crore had been received as share application money from GoMP and thus the total equity that could be allocated to fixed assets as on 31.03.2006 is Rs. 179.83 Crore. The balance amount of additional capitalization during the year funded by loan funds workout to Rs. 469.69 Crore. The Opening amount of Project Specific Loan was Rs. 519.00 Crore. During FY06, as per the above, this amount has increased by Rs. 469.69 Crore, thus making the total amount of loan to Rs. 988.69 Crore (519.00 + 469.69). The Company has indicated a repayment of the principal amount of the loan of the order of Rs.132.61 Crore during FY06. Hence, the amount of the Loan that is eligible for interest is Rs. 856.08 Crore (988.69 – 132.61). The Licensee had received the loans from Asian Development Bank (ADB) (interest @ 10.50% p.a.), Power Finance Corporation (PFC) (interest @ 10.75% p.a.) and MPSEB (interest @12.00% p.a.) Considering the weighted average rate of interest of 11.38% the interest expenses for the ten months period of FY06 will be 81.16 Crore (856.08 x 9.48%).

- 4.40 Out of total loan amount of Rs. 973.99 Crore (as indicated in paragraph 4.38 ) an amount of Rs. 856.08 Crore qualifies for the interest expenses to be changed as these loans have been utilised for creation of the assets. The balance amount of Rs. 117.91 Crore has been considered to have funded the working capital requirement. Considering the amount of interest of 11% (at SBI PLR), the interest on the working capital for 10 months period works out to Rs. 10.81 Crore.
- 4.41 Although the Licensee has not requested for truing up of the interest on the Working Capital and claimed that the MPSEB loan for funding fixed assets and not the working capital requirement but the allocated of the funds indicates the funding of working capital requirement of Rs. 117.71 Crore. The Commission as discussed in paragraph 4.40 has determined the Loans used for funding working capital requirement. The Commission accepts the interest cost on loans for funding working capital as indicated in paragraph 4.40. This figure is likely to change when the final numbers of the opening balance sheet are modified by the State Government.
- 4.42 The true up of the interest expenses is summarised below:

**Table-37: Trued Up Interest Liability for FY06 (Rs. Crore)**

S. No.	As Allowed in Transmission Tariff Orders			As per Present Proposal (Considering Audited Accounts for FY06)			As Allowed by the Commission after Truing up			Net True Up
	Interest on Loans	Interest on Working Capital	Total	Interest on Loans	Interest on Working Capital	Total	Interest on Loans	Interest on Working Capital	Total	
1	46.10	13.07	59.17	118.05	0	118.05	81.16	10.81	91.97	<b>32.80</b>

- 4.43 Thus the total interest for the FY 06 works out to Rs. 91.97 Crore and is allowed as a result of the truing up exercise.

**(e) Return on Equity**

4.44 In the Transmission Tariff Order for FY06 the Commission had, after taking into cognizance the provisional Opening Balance Sheet as notified by the GoMP for the Transmission Licensee, considered the normative debt equity ratio of 70:30 for determining the equity amount invested on the Fixed Assets. Accordingly, out of Gross Assets of Rs. 2407.00 Crore, the equity amount invested on the Fixed Assets was considered at Rs. 722.10 Crore. Rounding it off to Rs. 722.00 Crore, the Commission had allowed 14% Return on this Equity and accordingly Rs. 84.23 Crore was allowed for the period of 10 months. The Licensee has not requested for truing up for return on equity for FY06 in its present Petition. The equity allowed by the Commission and the equity requested by MPPTCL through this truing up Petition is given in the table below:

**Table-38: Return on equity (Rs. Crore)**

Sl. No.	Details	FY06
1	Return on Equity allowed	84.23
2	Return on Equity Requested	84.23

4.45 The Commission had noticed from the audited accounts that the Licensee had billed Rs. 384.97 Crore as transmission charges and had also billed Rs. 24.62 Crore as incentive charges. As the system availability during the ten months period was higher than 95%, the Petitioner is entitled to the incentive as per the formula given by the Commission in its Transmission Tariff Order for FY06. It has been noticed from the calculation of ROE submitted by the Petitioner that it is applied only on the opening Gross Block of Fixed Assets (Rs. 2407.00 Crore). During the ten months period of FY06 i.e. the period under consideration, the addition to Fixed Assets is Rs.649.52 Crore as per the audited accounts on which no ROE has been claimed. The Commission holds the view that the Petitioner is also entitled to ROE on any equity addition during the year which is however restricted to that part of the year during which consumer gets benefits from the newly commissioned project.

4.46 The Petitioner has submitted at the page 14 of the True Up petition that they have capitalized Rs.649.52 Crore. The audited Statements of Accounts show the equity of Rs. 901.83 Crore as at 31.03.06. The Commission had allocated Rs. 722 Crore as on 01.06.05 as equity utilised for creating assets and the closing balance of Rs. 901.83 Crore is less than 30% of the fixed assets as on 31.03.06. Hence, the Commission allows Rs. 94.72 Crore as Return on equity based on the average of opening and closing balances of equity at 14% ROE for 10 months.



**Table-39: Trued Up Return on Equity for FY06 (Rs. Crore)**

Particular	As per FY06 Order	As approved after Truing Up	True Up Allowed
Return On Equity	84.23	94.72	10.49

**(f) Taxes, Duties and Others**

- 4.47 In the Transmission Tariff Order for FY06 the Transmission Licensee was allowed to recover the actual tax liability from the Long-Term users subject to maximum of Rs. 31.98 Crore. The amount billed is a pass through item and shall be payable by long term beneficiaries monthly subject to truing up at the end of the financial year.
- 4.48 For FY06 the Transmission Licensee has submitted in the Petition that MPPTCL has not earned any profit, hence there no tax liability is incident on it. The Licensee has paid a Fringe Benefit Tax of Rs. 27.73 Lakh which would be required to be passed on to the long-term users.

**(g) Non-Tariff Income**

- 4.49 The Transmission Licensee had not projected any income in its Petitions under this head for FY06. The Commission had therefore not considered any income under this head. MPPTCL was also directed that if any income would accrue under this head MPPTCL should reduce the allowable Annual Transmission Charges (TSC) of long-term beneficiaries by that amount.
- 4.50 In the petition filed for truing up of the Transmission Tariff for FY06, the Transmission Licensee has indicated that it had earned Rs.110.43 Lakh against the Non-Tariff Income. Following the submission of the audited accounts for FY06, it has been observed that the non-tariff income of the Transmission Licensee has gone up to Rs. 441.35 Lakh. The details are given as under:

**Table-40: Non-Tariff Income as per Audited Accounts for FY06 (Rs. Lakh)**

Sl.No.	Particulars	Amount
i.	Delayed payment surcharges	94.97
ii.	Reactive Energy Charges	11.21
iii.	Interest Income	25.08
iv.	Miscellaneous Receipts	310.09
<b>TOTAL -</b>		<b>441.35</b>

- 4.51 As the Commission has not been considering the penal interest or the cost incurred by the Licensee in the form of penalty for delayed servicing of its liabilities, the delayed payment surcharge has also not been considered as income of the Licensee. The non-tariff income has been reduced to the extent of delayed payment surcharge. The balance amount of Rs. 346.38 Lakh has been considered as non-tariff income and this has been reduced from the total income of the Transmission Licensee.

**(h) Incentives and Penalties**

- 4.52 The Transmission Licensee has been entitled to receive incentive on achieving weighted annual availability beyond the target availability as per the regulations. For FY06 the Transmission Licensee was entitled to receive the incentive on achieving weighted annual availability beyond 95%. The incentive should be paid by all long term beneficiaries who are liable to pay annual transmission charges in the ratio of their average allotted capacity for the year and the recovery of the transmission charges below the level of target availability should be on pro rata basis i.e. at zero availability no transmission charges are recoverable. The formula for calculation of incentive is given below:

$$\text{Incentive} = 722 (\text{Equity employed in completed assets}) * \frac{(\text{Annual availability achieved} - 95\%)}{100}$$

- 4.53 In its Petition filed by the Transmission Licensee for truing up the Transmission Licensee has indicated that it had achieved the annual availability of 98.41% and this has been certified by the SLDC. Accordingly, the Licensee has earned an incentive of Rs. 24.62 Crore. The Commission approves the same for FY06.

**(i) Annual Transmission Charges**

- 4.54 For FY 06, the Commission has trued up the Transmission Tariff on the basis of the actual expenditure as has been qualified under the audited Statement of Account for FY06. The summary of the expenses as trued up is given in the following table:

**Table-41: True Up of Transmission Tariff for FY06 (Rs. Crore)**

Sl. No.	Particulars	As per ARR Approved	As filed in the True Up Petition	As per Audited Accounts	As Accepted by the Commission	True Up Amount
1	O&M Expenses					
a	Employee Expenses	53.03	69.50	69.46	69.46	16.43
b	R&M Expenses	11.63	12.15	11.56	11.56	-0.07
c	A&G Expenses	8.40	14.03	13.80	9.20	0.80
	Total O&M Expenses	73.06	95.68	94.82	90.22	17.16
2	Terminal Benefit Liabilities	106.35	128.19	128.19	128.19	21.84
3	Depreciation	62.38	132.61	77.84	77.84	15.46
4	Interest Expenses					
a	Interest On Loans	46.10	87.64	118.04	81.16	35.06
b	Interest on Working Capital	13.07	0.00	0.00	10.81	-2.26
	Total Interest Expenses	59.17	87.64	118.04	91.97	32.80
5	Return On Equity	84.23	84.23	84.23	94.72	10.49
6	Total	385.19	528.35	503.12	482.97	97.75
7	Less Non-Tariff Income	0.00	1.10	3.46	3.46	3.46
<b>8</b>	<b>Grand Total</b>	<b>385.19</b>	<b>527.25</b>	<b>499.66</b>	<b>479.51</b>	<b>94.29</b>

4.55 The True up amount for FY06 of Rs. 94.29 Crore is to be recovered by the Transmission Licensee in 12 equal instalments during FY08 along with the Transmission Charges as determined by the Commission for FY08. The recovery of Rs. 94.29 Crore shall be done from the long term beneficiaries as per the table given below:

**Table-42: Recovery of Trued-up of Transmission Charges (FY06) (Rs. Crore)**

Sl. No.	Details	Amount
1	Trued Up Transmission Charges for FY 06	94.29
2	Transmission System Capacity during FY 06 (MW)	5563.00
3	Transmission Charges to be paid by long term beneficiaries per MW per annum ((Sl. No.3)/(Sl. No.4)) <b>(Rs. Lakh)</b>	1.695
4	Charges to be recovered from long term beneficiaries during FY 08 based on the capacity allocated to them (True-up FY 06)	94.29
(a)	M.P. Poorv Kshetra Vidyut Vitaran Co. Ltd., Jabalpur- 1650 MW	27.97
(b)	M.P. Madhya Kshetra Vidyut Vitaran Co. Ltd., Bhopal- 1812 MW	30.71
(c)	M.P. Paschim Kshetra Vidyut Vitaran Co. Ltd., Indore- 2091 MW	35.44
(d)	SEZ – 10 MW	0.17
	<b>Total – 5563 MW</b>	<b>94.29</b>

**(j) Revision in Transmission Tariff and Norms for FY07 to FY09**

4.56 In the present Petition filed by the Transmission Licensee, it has also requested to revise the O&M norms for prescribed in its regulation namely “MPERC (Terms and Conditions for Determination of Transmission Charges) Regulations, 2005”, and consequently re-determine the tariff for FY 07 to FY 09. According to the Licensee at the time of framing the aforementioned regulations and the issuance of the Transmission Tariff Order for FY07 to FY09 the Commission had considered the provisional Opening balance Sheet as notified by the GoMP and the estimates for FY06. The Transmission Licensee has now got audited its Statements of Accounts for FY06. On the basis of the audited accounts for FY06 the Transmission Licensee is seeking the revision in the norms notified by the Commission and also the Tariff determined for FY08.

**Table-43: Approved ARR for FY07 to FY09 (Rs. Crore)**

Sl. No.	Details	FY07	FY08	FY09
1	O&M Expenses	92.66	98.21	104.11
2	Depreciation	99.74	110.31	117.56
3	Interest on Loans	54.94	71.50	82.93
4	Interest on working capital	67.13	70.45	61.06
5	Return on Equity	122.78	127.26	127.26
6	Provision for terminal liabilities	160.00	167.48	177.52
7	Taxes and fee paid to MPERC+others	1.43	1.73	2.02
8	<b>Total *</b>	<b>598.69</b>	<b>646.95</b>	<b>672.45</b>

\* The total may not tally due to rounding of.

4.57 The Transmission Licensee for FY08 has filed the revised estimates as given in the following table:

**Table-44: Revised ARR for FY08 as filed by Licensee (Rs. Crore)**

Sl. No.	Details	FY08	
		Amount	% change
1	O&M Expenses	161.09	64%
2	Depreciation	143.90	30%
3	Interest on Loans	213.19	198%
4	Interest on working capital	21.90	-69%
5	Return on Equity	140.40	10%
6	Provision for terminal liabilities	192.53	15%
7	Taxes and fee paid to MPERC+others	1.44	-17%
8	Total	874.46	35%

- 4.58 The Commission has gone through the submission of the Licensee. It has been noted by the Commission that the Commission had already allowed the Transmission Charges of 646.95 Crore. It has already been settled that the truing up of the tariff determined by the Commission can be done on the availability of the audited accounts. In the regulations itself, it has been stipulated that truing up of the Transmission Tariff during the tariff period of FY07 to FY09 will be considered on the basis of audited Statement of Accounts for the uncontrollable factors subject to cost being prudent. Further, the Final Opening Balance Sheet of the Company is still to be issued by GoMP, which definitely bring in the variation in the status of the assets, depreciation, loans, interest etc. from the provisional one.
- 4.59 In view of this the Commission has decided to continue with the Transmission Tariff as determined by it vide its order of 13/03/2006 for FY07 to FY09. The Commission directs that same order shall prevail till the Commission true it up on the basis of the Final Opening Balance Sheet to be notified by the GoMP and filing of the audited Statements of Account for that particular year by the Transmission Licensee. The Transmission Tariff which the Petitioner will recover during the FY07 to FY09 are given in the table below:

**Table-45: Annual Transmission Charges (Rs. Crore)**

Sl. No.	Details	FY07	FY08	FY09
1.	O&M	92.66	98.21	104.11
2.	Depreciation	99.74	110.31	117.56
3.	Interest on Loans	54.94	71.50	82.93
4.	Interest on working capital	67.13	70.45	61.06
5.	Return on Equity	122.78	127.26	127.26
6.	Provision for terminal liabilities	160.00	167.48	177.52
7.	Taxes and fee paid to MPERC	1.43	1.73	2.02
	<b>Total *</b>	<b>598.69</b>	<b>646.95</b>	<b>672.45</b>

\* The total may not tally due to rounding of.

**(k) Charges to be paid by long term and Short term beneficiaries**

- 4.60 Consequent to the allocation of the Generating Capacity, which was earlier held by the MPSEB, through the GoMP notification of 18/10/2006 among the three Distribution Licensees of the State, apportionment of the Transmission Charges has been revised. The Transmission Charges to be paid by the long term beneficiaries of the Transmission Licensee and the short term users who are required to pay 25% of the charges payable by the long term users computed for different period of supply availed as given in the table below:

**Table-46: Transmission Charges Applicable for FY08**

Sl. No.	Details	FY08
1	Allowed Transmission Charges as per Commission's Transmission Tariff Order of 13/03/2006(Rs. Crore)	646.95
2	Transmission System Capacity (MW)	7220.00
3	Transmission Charges to be paid by long term beneficiaries per MW per annum ((Sl. No.3)/(Sl. No.4)) (Rs. Lakh)	8.96
4	Transmission Charges to be paid by long term beneficiaries per MW per day(Rs.)	2448.23
5	Short term beneficiaries ( 0.25* (Sl. No.6)) (Rs./MW/Day)	612.06
(a)	Upto 6 Hours In One Block (0.25* (Sl. No.7))(Rs./Mw/)	153.02
(b)	More than 6 hours and upto 12 hours in one block (0.5*(Sl. No.7)) (Rs./MW)	306.04
(c)	More than 12 hours and upto 24 hours (Sl. No.7) (Rs/MW)	612.06
6	Charges to be removed from long term beneficiaries during FY 08	646.95
(a)	M.P. Poorv Kshetra Vidyut Vitaran Co. Ltd., Jabalpur- 2130 MW	190.86
(b)	M.P. Madhya Kshetra Vidyut Vitaran Co. Ltd., Bhopal- 2338 MW	209.50
(c)	M.P. Paschim Kshetra Vidyut Vitaran Co. Ltd., Indore- 2727 MW	244.35
(d)	SEZ – 25 MW	2.24
	<b>Total – 7220 MW</b>	<b>646.95</b>

4.61 Thus, during FY08 the Transmission Licensee is entitled to recover the total transmission charges from the long term beneficiaries as per the table given below:

**Table-47: Total Transmission Charges to be recovered during FY08 (Rs. Crore)**

Sl. No.	Name of the Beneficiary	True – up Amount of Transmission Charges for FY06	Transmission Charges for FY08	Total Transmission Charges to be recovered during FY08
1	M.P. Poorv Kshetra Vidyut Vitaran Co. Ltd., Jabalpur	27.97	190.86	218.83
2	M.P. Madhya Kshetra Vidyut Vitaran Co. Ltd., Bhopal	30.71	209.50	240.21
3	M.P. Paschim Kshetra Vidyut Vitaran Co. Ltd., Indore	35.44	244.35	279.79
4	SEZ	0.17	2.24	2.41
5	Total	94.29	646.95	741.24

## **CHAPTER 5**

### **Section A - Status of Compliance of directives given by the Commission**

5.1 In the Transmission Tariff Orders for FY06 and for FY07 to FY09, the Commission had taken a comprehensive review over the status of the compliance of the directives given by the Commission to the Board with regard to the transmission function in the past orders. The present status of compliance of those directives is described in further paragraphs.

#### **5.1.1 Settlement of Bills raised by Transmission Licensee**

##### **5.1.1.1 Directive:**

MPSEB should make payments to Transmission Licensee in settlement of bills for transmission capacity used by the Distribution Licensees operating under agreement with MPSEB, as long as the revenue stream is controlled by MPSEB.

##### **5.1.1.2 MPPTCL Compliance Reported**

MPPTCL has reported that for the period from 01<sup>st</sup> June 2005 to 31<sup>st</sup> March 2006 MPPTCL has billed an amount of Rs.408.85 Crore and in return the MPSEB has reimbursed the amount of Rs.420.46 Crore.

##### **5.1.1.3 Commission's Observations:**

The Petition indicates that the Transmission Licensee has billed an amount of Rs.410.64 Crore including the incentive to the Distribution Companies of the State through the MPSEB and return the MPPTCL has received the payment of Rs. 420.46 Crore from MPSEB, which means the MPPTCL has received Rs. 9.82 Crore in excess from MPSEB for the payment due for the period from 01/06/2005 to 31/03/2006. For FY07 up to the month of October 2006 MPPTCL has billed an amount of Rs.350.36 Crore and has received Rs. 256.07 Crore from MPSEB on behalf of the Distribution Companies. The Commission has observed that MPPTCL has received excess amount for FY06. Accordingly the effect will be given in the future.

#### **5.1.2 Implementation of Intra-State ABT**

##### **5.1.2.1 Directive:**

Transmission Licensee being the Nodal Agency should implement the ABT regime in the State as per the programme given in the Policy i.e. by 01/04/2006 and report compliance to the Commission.

##### **5.1.2.2 MPPTCL Compliance Reported**

It has been informed by the Transmission Licensee that due to delay in procurement of the ABT compliant meters the intra-State ABT regime could not be implemented as

envisaged in the National Electricity Policy i.e. by 01/04/2006 but now the meters have been procured and installed. The SLDC has already imparted a training programme for the Generating Company, Transmission Company and the Distribution Licensees of the State. It is envisaged that the intra-State ABT shall now be implemented by 31/12/2006.

**5.1.2.3 Commission's Observations:**

The Commission has observed that the implementation of intra-State ABT has been delayed due to the reasons beyond control of the Transmission Licensee. The Commission shall not allow any further delay in this regard and the intra-State ABT shall now be implemented by 31/12/2006 positively.

**5.1.3 Capitalisation of Works**

**5.1.3.1 Directive:**

The Transmission Licensee should file the completion report for the works executed during FY06 while submitting the Petition for true up. The Transmission Licensee should also provide the actual amount capitalized for FY06 for true up in the next order. The Licensee in future must accurately capture all costs incurred on capital works and should separately account for it. The Licensee should also submit work completion report for all schemes/assets that are added during the year for which the Licensee wishes to claim depreciation. The Licensee is directed to properly account the expenses incurred on ongoing projects for capitalization purposes.

**5.1.3.2 MPPTCL Compliance Reported**

MPPTCL has filed the list of the works capitalized during FY06 in the petition. Accordingly, the Transmission Licensee has capitalized the works of about Rs. 649.52 Crore. The Transmission Licensee has also attached a certificate from their Joint Director Accounts regarding completion of works.

**5.1.3.3 Commission's Observations:**

The audited Statements of Account submitted by the Licensee show that the Licensee has capitalized the works of the amount of Rs.649.52 Crore against the works of Rs.621 Crore as envisaged in the Transmission Tariff Order for FY06. The Commission has accordingly considered the asset capitalization while determining the asset value, depreciation and interest on loans.

**5.1.4 Capital Expenditure Plan**

**5.1.4.1 Directive:**

The Transmission Licensee to file its Capital Expenditure Plan strictly in accordance with the guide lines issued by the Commission on capital expenditure. The Capital Expenditure plan for FY07 should be filed by 30<sup>th</sup> April 2006 and for the remaining



years of the tariff period it should be filed as per the time table envisaged in the guidelines i.e. by 31st July.

**5.1.4.2 MPPTCL Compliance Reported**

The Transmission Licensee filed its Capital Expenditure Plan for FY07 and for onward years in accordance with the guide lines issued by the Commission.

**5.1.4.3 Commission’s Observations:**

The Transmission Licensee has filed the Capital Expenditure Plan as directed by the Commission. The gist of Plan was published in the Newspapers but the Office of the Commission had not received any feedback/suggestion/objection from any of the stakeholders. The Commission has provisionally approved the investment plan with certain conditions. The same has already been included in this order at paragraph 3.25.

**5.1.5 Capitalisation of Expense**

**5.1.5.1 Directive:**

The Licensee is directed to keep the cost incurred on Employees, Administration and General Expenses and Repair and Maintenance for construction works separately for inclusion in incidental expenses during constructions (IEDC). The Transmission Licensee is also directed to properly account for A&G expenses incurred by it on capital works.

**5.1.5.2 MPPTCL Compliance Reported**

It has been informed that MPPTCL has initiated the arrangements to keep the record of expenses against Employee Cost, A&G and R&M incurred against the construction works. The expenses on these heads have been shown at appropriate places in the Statements of Account for FY06.

**5.1.5.3 Commission’s Observations:**

The Direction of the Commission has been complied. The audited Statements of Accounts show the capitalization against Employee Cost, A&G and R&M.

**5.1.6 Terminal Benefit**

**5.1.6.1 Directive:**

MPPTCL should exclude any payment made either towards leave encashment or for funding this liability while projecting terminal benefits for the ensuing year.

**5.1.6.2 MPPTCL Compliance Reported**

The Leave Encashment amount has not been considered in the expenditure of Terminal Benefit in the Trial Balance of FY06 and also in the expenses of FY07 and further years.

**5.1.6.3 Commission’s Observations:**

The Direction of the Commission has been complied.

**5.1.7 Proposal on Transmission Pricing sensitive to Voltage, Distance, Direction & Quantum of Power Flow**

**5.1.7.1 Directive :**

The Transmission Licensee to prepare a discussion paper conforming to the provisions of National Tariff Policy on the Transmission pricing considering the voltage, distance, direction and quantum of power flow.

**5.1.7.2 MPPTCL Compliance Reported**

The Transmission Licensee has submitted the discussion paper on the Transmission Pricing considering the voltage, distance, directions and quantum of flow.

**5.1.7.3 Commission’s Observations:**

As per the National Tariff Policy, the CERC would be required to develop the frame work for such transmission pricing which is sensitive to distance, direction and related to quantum of power flow with the help of CEA. This would be developed for inter-State transmission first and then would be followed by the State Commissions for respective States. Hence the Commission decided to wait till CERC issues the draft in this regard.

**5.1.8 Filing of Compliance Report**

**5.1.8.1 Directive:**

The Transmission Licensee to file a consolidated and comprehensive report on the compliance of various directions given in Commission’s Transmission Tariff Order for FY06 and included in this order by 30.06.2006.

**5.1.8.2 MPPTCL Compliance Reported**

The Transmission Licensee has filed a consolidated and comprehensive report on the compliance of various directions given in the Commission’s Transmission Tariff Orders for FY06 and for FY07 to FY09.

**5.1.8.3 Commission’s Observations:**

The Commission has observed that the Transmission Licensee was not able to comply with regard to the implementation of intra-State ABT, maintenance of asset register and execution of bulk power transmission agreement. Out of these, the Transmission Licensee has recently executed the bulk power transmission agreement executed by it with the distribution licensees of the State and the intra-State ABT has been envisaged

to be implemented very shortly. The opening value of the asset register would be finalized when the GoMP will issue the final Opening Balance Sheet.

#### **5.1.9 Filing of the Petition in soft copies**

##### **5.1.9.1 Directive:**

The Transmission Licensee is directed that from the next filing onwards it should submit a self explanatory working model in excel sheets wherein all calculations and assumptions are clearly indicated and is backed up by relevant records.

##### **5.1.9.2 MPPTCL Compliance Reported**

The True-up petition for FY07 to FY09 (subject Petition) has been prepared in Excel Sheets with self explanatory working model.

##### **5.1.9.3 Commission's Observations:**

The present Petition filed by the Transmission Licensee has also been submitted in soft copy wherein the links have been provided. The Commission appreciates the effort.

#### **5.1.10 Report on Capital Expenditure**

##### **5.1.10.1 Directive:**

The MPPTCL should submit the detailed report on progress of the implementation of capital expenditure plan matched with the assets created as part of the capital expenditure plan to be submitted on 31st July every year.

##### **5.1.10.2 MPPTCL Compliance Reported**

The Transmission Licensee has submitted a report on progress of Capital Expenditure Plan for FY07 Up to July '06.

##### **5.1.10.3 Commission's Observations:**

The Commission has directed that the Transmission Licensee to file the detailed implementation report of its plan in the paragraph 3.25 of this order.

#### **5.1.11 Building Up of Data Base**

##### **5.1.11.1 Directive:**

The MPPTCL should build up a strong database of technical, operational and financial information /data. A time bound programme should be prepared and appraised to the Commission by 30.4.2006 so that the task could be completed by 30.9.2006.

##### **5.1.11.2 MPPTCL Compliance Reported**

The MPPTCL has a MIS with sufficient data base. For further strengthening the MIS/IT System, a task has been given to M/s KPMG Consultants under DFID Phase-II

programme. Under this assistance, the permanent solution to this issue is being addressed which intends implementation of ERP solutions. ERP includes the models like Finance & Accounts, Assets Accounting, Material Management, Controls and Maintenance Management, Project System, HR etc. Presently, the specifications are being worked out by M/s KPMG & Consultant DFID support, jointly. It is likely to take some time being a major project.

**5.1.11.3 Commission’s Observations:**

The Transmission Licensee has not submitted any time bound programme as directed by the Commission. The Licensee should file a detailed time table to the Commission by 30/04/2007.

**5.1.12 Execution of Long Term Transmission Service Agreements**

**5.1.12.1 Directive:**

The Transmission Licensee to enter into proper agreement with the long-term users for the determined transmission system capacity.

The Distribution Licensees are directed to urgently take steps to finalize their long-term transmission capacity agreement with the Transmission Licensee failing which the Distribution Licensees will have to face the difficulty of being left high and dry without any long-term agreement. They may also be not in position to recover the transmission expenses unless they have a proper agreement with the Transmission Licensee. Compliance of this direction must be reported to the Commission well before the finalization of Tariff determination exercise for retail tariff for FY07 to FY09

**5.1.12.2 MPPTCL Compliance Reported**

On unbundling of the MPSEB, a Transmission Service Agreement (TSA) was executed between Transco, Discoms, Genco and MPSEB on 17/06/05 which was not accepted by the Commission. MPPTCL evolved a draft of agreement to be executed between Transco, Tradeco and Discom and submitted for approval of Commission. The Commission did not accept the tripartite agreement. The Transmission Licensee has now executed the Long Term Transmission Service Agreements with individual Distribution Licensee separately.

**5.1.12.3 Commission’s Observations:**

The Transmission Licensee, even though has taken a long time to execute the long term transmission service agreements with the Distribution Licensees of the State, they have complied with the directions.

### **5.1.13 Action Taken on Poor Voltage Profile**

#### **5.1.13.1 Directive:**

The Transmission Licensee to report the action taken in regard to the voltage variation at different places where variation over and above prescribed limits has been more than 50% of time in FY-05.

#### **5.1.13.2 MPPTCL Compliance Reported**

MPPTCL has reported that in the investment plan prepared by the Company, the more emphasis has been given so as to achieve the grid code conditions i.e. the improvement of the voltage profile to bring it with in the specified voltage limits and the improvement in the loading on the elements of the transmission system. The Gwalior and Indore area where the voltage profile has been bad, the Company has taken up a number of 220kV and 132kV works.

#### **5.1.13.3 Commission's Observations:**

The studies carried out by the Transmission Licensee for the works included in its Capital expansion Plan indicate a fair amount of improvement in the voltage profile particularly in the areas where the voltage profile was poor such as Indore and Gwalior areas. The Transmission Licensee should file the actual voltage profile on implementation of the plan to the Commission.

### **5.1.14 Asset Registers**

#### **5.1.14.1 Directive:**

The Licensee should update its fixed asset registers in accordance with the requirement of the accounting principles applicable to Companies registered under Companies Act and further it should codify all its assets. The Licensee shall submit its report in this regard within three months of this order. The detailed status report will be submitted by 31.5.06. The Codification of assets shall be completed by October 2006 and failure to comply with this direction may result in non-allowance of depreciation for FY08. The Licensee should also confirm that no depreciation has been charged on any asset, which has depreciated to 90% of its historical cost.

#### **5.1.14.2 MPPTCL Compliance Reported**

The MPPTCL has initiated the process of Codification and is making all the endeavors to bring the asset registers in shape at the earliest. As a result of unbundling of MPSEB, the MPPTCL has come into existence, which is now governed by Company Act 1956. The change in the governing laws has necessitated certain changes in the chart of accounts to ensure compliance as per Generally Accepted Accounting Principles (GAAP) and Cost Accounts Rules. The chart of accounts for various activities under taken by the MPPTCL has therefore been redrawn. A copy of new chart of account is submitted in the Petition. Further, voltage-wise codifications of EHV Lines and Sub-

stations have also been done. MPPTCL has developed the asset register with inbuilt condition that the depreciation of asset can not be claimed above 90%. However, as the Opening Gross Block of Rs. 2407.00 Crore as on 31.5.06 is still provisional, the asset details will be submitted after reconciliation on the basis of the Final Opening Balance Sheet.

**5.1.14.3 Commission’s Observations:**

As the opening Gross Block has not been finalized by the Government of MP, the Company was not in a position to reconcile its asset base. However, MPPTCL has informed that it has redrawn its chart of accounts and also voltage wise codification of EHV lines and substations. The Transmission Licensee should submit the actual details of its assets as soon as the GoMP finalizes the Opening Balance Sheet.

**5.1.15 Financing of Transmission Works**

**5.1.15.1 Directive:**

The Transmission Licensee to provide details of the schemes funded by ADB loan and these schemes must be linked to various phases to loan received from ADB.

**5.1.15.2 MPPTCL Compliance Reported**

The MPPTCL has submitted details of the works funded from various financial institutions such as ADB, PFC and REC in its Investment Plan and also in the subject Petition.

**5.1.15.3 Commission’s Observations:**

The Transmission Licensee has provided the details of works included in the Plan along with the funding arrangement.

**5.1.16 Utilisation of Funds**

**5.1.16.1 Directive:**

The Transmission Licensee should keep accurate details of utilization of all sources of funds for the purpose of creation of fixed assets and meeting working capital requirement.

**5.1.16.2 MPPTCL Compliance Reported**

The MPPTCL after taking over an independent Company is keeping the record of Assets created by the various resources. The details have been furnished in the true up petition.

**5.1.16.3 Commission’s Observations:**

The True up Petition has been filed on the basis of the Trial Balances. The Company has also submitted its audited Statements of Accounts. The Commission has

accordingly taken into cognizance the utilization of all sources of funds and determined the transmission tariff for FY08.

#### **5.1.17 Penalty on Over Utilisation of Transmission Capacity**

##### **5.1.17.1 Directive:**

The Licensee has requested to consider a proposal for levy of penalty on an open access customer for utilizing capacity more than that had been allocated to it. The Commission is in agreement with the proposal but will like this matter to be addressed to the State Grid Code and would recommend Transmission Licensee a suitable provision for being included in the Grid Code.

##### **5.1.17.2 MPPTCL Compliance Reported**

This matter was discussed in the Grid Code Review Committee held on 11.7.06 wherein the Committee agreed upon imposing penal charges at a rate of 25% of the transmission charges when the open access customer over utilizes the transmission system capacity allocated to it.

##### **5.1.17.3 Commission's Observations:**

The formal proposal has not been received in the Commission. The Commission shall consider the issue when proposed on its merit.

#### **5.1.18 Penalty on Excessive Trippings**

##### **5.1.18.1 Directive:**

The Transmission Licensee to identify all such feeders, which are experiencing more than the average number of trippings. The concerned Distribution Licensees must be informed of such happenings and must be asked to take preventive measures. The Transmission Licensee must take up this issue in the Grid Code Review Committee along with its proposal to levy penalty for trippings in excess of the agreed number.

##### **5.1.18.2 MPPTCL Compliance Reported**

The matter was discussed in the Grid Code Review Committee held on 11.7.06 wherein the Committee agreed upon imposing a penalty of Rs.2000 per tripping over and above a certain number of trippings in a month.

##### **5.1.18.3 Commission's Observations:**

The formal proposal has not been received in the Commission. The Commission shall consider the issue when proposed on its merit.

### **5.1.19 Strengthening of Accounting Wing**

#### **5.1.19.1 Directive:**

MPPTCL to pay attention to strengthening its accounting function by coding its accounting policies and inducting trained accounting professionals. The Transmission Licensee is also directed to formulate its accounting code in such a fashion so that transmission charges can be determined voltage wise and for each voltage level the cost of operation of sub-station and line can be separately computed.

#### **5.1.19.2 MPPTCL Compliance Reported**

The strengthening of accounts function has been taken up by the Consultant M/s KPMG under DFID Phase-II programme. M/s KPMG under their TOR have studied the present accounting system and proposed requisite suitable strengthening, which is under study and review.

Under this assistance, the permanent solution to this issue is being implemented which includes ERP & Groupware solution. ERP includes the Model Finance & Accounts. This may take some time being a major project.

The Board of Directors of the Company in 20th meeting held on 19.6.06 held at Bhopal has decided to recruit 25 officers for Finance & Accounts Wing in the following phased manner;

In FY-07 - 10 Officers.

In FY-08 - 10 Officers.

In FY-09 - 5 Officers.

The request to permit recruitment has been pending with the State Government.

#### **5.1.19.3 Commission's Observations:**

It is better for MPPTCL to hasten the strengthening of its Accounts Wing so as to enable the Company to timely complete the formalities with regard to audit of its Annual Statement of Accounts.

### **5.1.20 Filling up of Vacant Posts**

#### **5.1.20.1 Directive :**

The Licensee is advised to fill up the post of Directors as required under its Memorandum and Articles of Association and also advised to appoint fulltime Director (Finance) to have better operational control, transparency and professional governance of the Transmission Licensee. The Commission feels Licensee given the importance of the transmission function should have benefit and support of the full time services of professional managers in the field of finance. The Licensee should also explore the possibility of utilizing opportunity of the third party audit of technical process and efficiency.



**5.1.20.2 MPPTCL Compliance Reported**

The MPPTCL has informed that it has finalized the organizational set up of the Company and will take action to fill up the post of Directors. A full time Chief Financial Officer is already working in the Company to look after financial matters. Efforts are being made to keep Professional Manager in the field of finance. The possibility of utilizing opportunity of third party audit of technical process and efficiency is also being explored.

**5.1.20.3 Commission's Observations:**

The MPPTCL has to speed up the process of filling the vacant posts of directors. The recruitment of professional accounts personnel in to the account wing has also been delayed. The Transmission Licensee has also not come up with a proposal of third party audit of technical process and efficiency.

**5.1.21 Codification of Various Practices**

**5.1.21.1 Directive:**

The Licensee is directed to codify its planning, construction, maintenance and operation practices for substations and lines for all voltage levels. The Licensee shall submit all the relevant documents in this behalf latest by October 2006.

**5.1.21.2 MPPTCL Compliance Reported**

MPSEB had got prepared manual for construction of lines and Sub-stations at various voltages from Consultants in the past. The transmission maintenance practices in the country are more or less same. Therefore, MPSEB had adopted manuals prepared by CEA and CBIP on various issues. These manuals are being examined and the manuals for MPPTCL will be developed. A report on this issue is being submitted separately.

**5.1.21.3 Commission's Observations:**

MPPTCL has not submitted the relevant documents as envisaged to the Commission. It is directed that the Transmission Licensee should file the report latest by 30/04/2007.

**Section B - Directives given by the Commission in this order**

5.2 The Commission has given some new directives in this order. These are listed below:

5.2.1 The Commission directs the Transmission Licensee to file the details of the amount recovered from the Distribution Licensees during FY07.

*(Paragraph 3.8)*

5.2.2 The Commission has given the provisional approval on the plan filed by the Transmission Licensee on 23/11/2006 subject to the following conditions:

**(a)** The impact of investment on Return on Equity, the interest cost and depreciation shall be considered while truing up when the licensee submits its audited financial accounts for FY 06-07.

**(b)** The licensee shall inform the Commission after every six months (by 20<sup>th</sup> October and 20<sup>th</sup> April of each financial year) about the physical and financial progress in respect of each work executed under various schemes.

**(c)** The licensee shall also be required to justify by 20<sup>th</sup> April of every financial year the investment made during last financial year by indicating the improvement in transmission system in respect of improvement of voltage profile and loading conditions of the State Transmission System.

**(d)** The Licensee shall examine the economic, technical, system and environmental aspects of all viable alternatives to the proposal for investing in or acquiring new assets to meet such needs.

**(e)** The Licensee shall make investment in the said financial year in accordance with the said investment plan. However, if any unforeseen contingencies require reallocation of funds within the schemes listed in the annual investment plan, the licensee shall inform the following to the Commission in its half yearly report:

- (i)** Physical and financial achievement of all works covered under annual investment plan.
- (ii)** Re-allocation of fund, if any required within the schemes listed in annual investment plan.
- (iii)** The details of works, which have not been taken up by the licensee during the period under report.

**(f)** The Licensee shall submit complete work-wise and scheme wise detail of the annual investment plan for next financial year by 1st July 2007 as prescribed by the Commission in the Capex Guidelines.

*(Paragraph 3.25)*

5.2.3 The Transmission Licensee is directed to file the details / variations as soon as the Government of MP finalises the Opening Balance Sheet for incorporating the revisions in the tariff determined, subject to the cost being prudent.

*(Paragraph 4.7)*

5.2.4 The Commission accepts the full amount of depreciation as per audited accounts i.e. Rs. 77.84 Crore for the time being. However, the Petitioner is directed to be ready with full calculation to verify the claim in future.

*(Paragraph 4.23)*

5.2.5 It is observed from the Depreciation Table annexed to the audited accounts that the petitioner has adopted a new structure of accounting codes. The Petitioner is directed to furnish full list of such new accounting code structure with a write up on changes made for verification of the Commission.

*(Paragraph 4.24)*

5.2.6 The fees for determination of the Transmission Charges for a Transmission Licensee by the Commission is specified as Rs.300/MU of energy proposed to be handled by the Transmission Licensee in the ensuing year. Accordingly the Transmission Licensee has computed the fees as below:

**Units to be handled as envisaged by the Licensee during FY08 – 33186 MUs.**

Accordingly, the fees is calculated as Rs. 300 X 33186 = Rs. 99,55,800.00 which has been deposited with the Commission.

In the subject Petition the Transmission Licensee has envisaged that in FY08 it would be able to handle 41808 (Table-10: Annual Transmission losses:). Accordingly the Transmission Licensee should have deposited the fees of Rs. 1,25,42,400.00. Therefore, the Transmission Licensee is directed to deposit the balance fees of Rs. 25,86,600.00.

### **Section C - Objections and Comments on MPPTCL's Petition**

5.3 The Commission had given wide publicity to the proposal received from MPPTCL and invited stakeholders to offer comments/objections. In response to the Commission's public notice of 16th November 2006, MP Electricity Consumer Society, Indore has submitted its comments/objections/Suggestions. The objections of the Respondent, the reply given by the Petitioner and the Commission's view are given below:

#### **5.3.1 Objection/Comments:**

There is no single audited account. After the formation of the Company, Chartered Accountants should get appointed and audit the account. The State Govt. of MP has still not provided the final opening balance sheet to the company and both the company and consumers are suffering. The Company is not able to charge legitimate charges whereas the consumer is unsure of what additional tariff charges will have to be paid.

#### **MPPTCL Comments:**

For the period from 01/06/2005 to 31/03/2006 i.e. for the first year of Company's independent working, the accounts have been prepared and are under audit. The audit certificate will be submitted to the Commission as soon as the Company will receive the same. With regard to the Opening balance Sheet, MPPTCL has submitted that the State Govt. is in the process of issuing the Final Opening Balance Sheet. The tariffs and accounts may be finally settled after the Final Opening Balance Sheet is notified by GoMP.

#### **Commission's View:**

The Truing up exercise depends upon the audited Statements of Account. The Transmission Licensee has now submitted the audited Statements of Accounts. The Commission has taken into cognizance the audited Statements of Accounts and accordingly has trued up the transmission tariff for FY06 and has given the effect in the transmission tariff for FY08. The opening balance sheet given by the GoMP is still provisional, hence the Transmission Licensee is required to file the revised projection when the opening balance sheet is finalised.

#### **5.3.2 Objection/Comments:**

The tariff petition can not be an exercise to refix the norms prescribed in tariff determination regulations, and the Commission may decide a method through which modification in the regulations can be sought.

**MPPTCL Comments:**

MPPTCL has replied that it has not requested for change in the methodology of fixing the O&M norms as mentioned in the regulations. It has only submitted the calculations for fixing the values of the O&M norms based on the immediately preceding years of the tariff period and taking into account the Wage Revision already made applicable in all the Companies formed on unbundling of MPSEB. The applicant has been requesting the Commission since beginning that the O&M norms may not be based on the earlier years i.e. 2001 onwards, as the expenditure during those years are nowhere comparable to O&M requirements of the MPPTCL in the present years. It is also to mention that the O&M norms fixed for MPPTCL are about 1/3rd of that prescribed by the Hon'ble CERC for similar lines and number of bays.

**Commission's View:**

The Transmission Licensee has requested the revision in the base used for determining the O&M norms as the figures of O&M are available in the Trial Balance and also in the audited Statements of Accounts. The Commission had already fixed the O&M norms for the tariff period FY 07 to FY 09 and accordingly determined O&M expenses. The Commission will consider truing up in the O&M expenses on the basis of the audited Statements of Accounts when filed before the Commission in future for any uncontrollable expenses.

**5.3.3 Objection/Comments:**

The major problem as could be seen from the petition is the linking of loans to assets. The quantum of load, debited to the companies and unlinked to assets is large.

**MPPTCL Comments:**

The State Govt. has transferred the loans and other liabilities equal to the value of the assets transferred to the Companies. These assets physically exist. The Regulators in many States have taken a pragmatic view and accepted loans as appeared in Opening Balance Sheet, and have not insisted for their linkage to particular assets, on account of the practical difficulty. A newly formed Company such as MPPTCL should be concerned that there should be balance in assets and liabilities transferred to it. This has been ensured by MPPTCL.

**Commission's View:**

The Commission has made its stand clear in its Transmission Tariff Orders of FY06 and FY07 to FY09 and has not considered the loans for servicing for which the assets have not been identified.

**5.3.4 Objection / Comment:**

The repayment of loans has to be settled through higher depreciation being allowed or by getting additional loans for repayment.

**MPPTCL Comments:**

The MPPTCL agrees to the suggestions made by the Association. Presently, the Depreciation rates are linked to the useful life of the assets, which is 25 to 35 years in case of transmission assets. The loan payment period is of the order of 10-15 years. This necessitates the need of providing advance against depreciation for timely repayment of the principle amount of the loan or, alternatively, a higher Depreciation rate as suggested by the Association.

**Commission's View:**

The repayment of loans through advance against depreciation has not been appreciated in the National Tariff Policy. The Commission will consider the provision of advance against depreciation when complete details of loans utilised for assets creation and repayment schedule of these loans are made available by the licensee.

**5.3.5 Objection / Comment:**

The Commission should issue the regulations, guidelines in respect a completion report, capitalization of interest, and capitalization of O&M expenditure. This will resolve uncertainties.

**MPPTCL Comments:**

The guidelines have already been framed by the Commission in this regard. The Transmission Licensee has accordingly filed its long term investment plan before the Commission.

**Commission's View:**

The Commission has already issued the guidelines in respect of capital expenditure done by the Licensee.

**5.3.6 Objection / Comment:**

The transmission loss figure of 5.23% is on higher side. The MPERC have allowed only 4.85%. With M.P. lines, lesser loaded than Maharashtra this figures ought to be around 4%. More especially as considerable strengthening has been done under ADB programme. Comparative figures of other States need to be made available..

**MPPTCL Comment:**

MPPTCL has taken measures to reduce its transmission losses since its inception i.e. when the Company started functioning as agent of MPSEB. The losses have been reduced at a steady pace from around 7% to 5.23% in year FY-06. The losses in FY-06 are comparable to the norms fixed by the Commission as 5.22%. The Company has proposed to reduce the losses further as mentioned hereunder;

i.	2002-03 -	7.93%
ii.	2003-04 -	6.12%
iii.	2004-05 -	5.62%
iv.	2005-06 -	5.23%
v.	2006-07 -	5.00%
vi.	2007-08 -	4.9%
vii.	2008-09 -	4.9%.

While comparing loss figures of MPPTCL with other utilities, the following factors may be considered;

- (i). Geographical area of Madhya Pradesh and configuration of load as compared to other States.
- (ii). Methodology of indicating transformation losses separately of transmission losses. Transmission loss figures of MPPTCL include transformation losses too.

**Commission’s View:**

The Commission is also concerned over the transmission loss level of MPPTCL. The Commission also appreciates that further reduction in the transmission losses would require a huge investment. The primary concern is to achieve the grid code conditions, for which the Transmission Licensee has tied up the funds from various financial institutions.

**5.3.7 Objection / Comment :**

The annual fixed cost Rs./MW/day of Rs. 2602.4 as indicated on page 49 is on higher side. Comparative figures for other States and Power Grid Corporation of India need to be made available. It is also to be explained how the figure in 2008-09 drops drastically.

**MPPTCL Comment:**

The transmission charges in Madhya Pradesh are on higher side as compared to other States because of the special factors in computation of the Annual Fixed Cost and transmission charges of MPPTCL which is the “Terminal Benefits of all the Companies” are chargeable to transmission tariff. This requirement is about 1/3rd of the total transmission cost, that too only to meet current requirements. Even then the transmission charges of MPPTCL are less than many of the prominent transmission utilities as mentioned hereunder;

S. No.	State	2005-06	2006-07
1	KPTCL	2964	2664
2	GETCO	2762	2832
3	AP Transco	2055	1744
4	RVPN	2835	NA
5	MPPTCL	2276*	2729*
* As per MPERC’s Tariff orders.			

It may be seen from the above that if Pension amount of Discoms & Genco is excluded, the transmission charges of MPPTCL are much lower than other States. The transmission charges for FY-06 in True up petition are proposed as Rs. 2602.40/MW/Day, which is also comparable with other States if Terminal Benefit expenses are given weightage. With regard to the reason for drastic drop in transmission charges in year 08-09, it is to mention that the transmission charges are worked out by dividing the Annual Fixed Cost by the transmission capacity. The transmission capacity is determined as per CERC's definition as adopted by the MPERC also.

The figures mentioned on Page 49 of True up petition do not indicate a drastic drop. Figures are reproduced hereunder;

S. No.	Year	Transmission Charges Rs./MW/Day
i.	2005-06	2602.04
ii.	2006-07	3424.27
iii.	2007-08	3318.24
iv.	2008-09	3401.02

Figures in 2007-08 are slightly less than 2006-07, on account of greater increase in transmission capacity.

**Commission's View:**

The Commission has determined the Transmission Tariff after taking into cognizance all the legitimate expenses of the Transmission Licensee as per terms and conditions for determination of transmission tariff regulations.

**5.3.8 Objection / Comment:**

The annual petition as is submitted by the Transmission Licensee should contain a perspective for the consumers. This perspective may contain besides other, the following points.

- (i) The proposals for technology absorption and Research & Development.

**MPPTCL Comment:**

Since it is a true up petition, it has not been mentioned the details in the aforementioned fields. These are narrated in the Business Plan of the Company for FY-06 to FY-09, which has been submitted to the Commission. Few of areas are mentioned hereunder;

- i. Replacement of old relays by Numerical Relays.
- ii. Use of portable Digital three phase off line overhead transmission line fault analyzer system.
- iii. Use of punctured Insulator Detectors.



- iv. Use of precision wide lens thermo vision equipments for scanning weak joints and other defects.
- v. Monitoring of leakage current in surge arrestors by using Leakage Current Monitors.
- vi. Using Hot Line Tools and 'Bare Hand' Technique of maintenance of EHV Lines.
- vii. Use of precision Transformer Winding Resistance Measuring Kit to detect internal problems in EHV Transformers.

**Commission's View:**

The Commission agrees with the views of the Petitioner.

**5.3.9 Objection / Comment:**

Steps being taken to take the Company to reach Global standards (National Electricity Policy)

**MPPTCL Comment:**

The MPPTCL is making all out efforts to complete the ambitious Transmission Plan in coming years. On completion of the works included in the Transmission Plan, the Company is expected to reach to the Global Standards. However, the performance of the Company is quite comparable to the other similar utilities. The Company's performance has received international acclaim also. The "Asian Power", which is the official journal of Association of Electricity Supply Industries of East Asia & Western Pacific (AESIEPA), has conferred its two coveted awards to this Company viz. (i) Utility of the Year, 2006 and (ii) T&D Project of the Year.

**Commission's View:**

The Commission agrees with the views of the Petitioner.

**5.3.10 Objection / Comment:**

The Transmission Licensee to bring out the steps being taken to introduce privatization.

**MPPTCL Comment:**

Private participation is encouraged by;

- (i). Providing Open Access in Transmission System.
- (ii). Outsourcing Operation & Maintenance in EHV Sub-stations.

**Commission's View:**

The Commission agrees with the comment of MPPTCL.

**5.3.11 Objection / Comment:**

Why the Transmission Licensee has not availed the opportunity for erection of evacuation system for SUSAN super thermal power stations, which is at present is allotted to PGCIL.

**MPPTCL Comment:**

Since SASUN project is an Inter-State project, the evacuation system is being taken up by the PGCIL. There is a clear cut demarcation that the Inter-State project shall be taken up by the CTU whereas the Intra-State by the STU.

**Commission's View:**

The Commission agrees with the comments of the Transco but should explore possibility of bidding for such projects.

**5.3.12 Objection / Comment:**

The Transmission Licensee to introduce the automation in substations and paperless working in offices.

**MPPTCL Comments:**

MPPTCL has already taken up the work of automation in Sub-stations and pilot project has been completed in Mansakra Sub-station which can be operated by the remote control. As regards the paper less working, the MPPTCL is developing an E.R.P. system with the help of Consultants of DFID Phase-II which is a step in the direction of paper less working in the offices

**Commission's View:**

The Transmission Licensee to file the formal report in this regard to the Commission by 30/04/2007.

**5.3.13 Objection / Comment:**

The Transmission Licensee is to plan the HRD long term policies.

**MPPTCL Comments:**

The MPPTCL has taken the assistance of the Consultants in DFID Phase-II to chalk out the HRD policies and plans to be implemented in the future years

**Commission's View:**

The Transmission Licensee to file the formal report in this regard to the Commission by 30/04/2007.

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