

MADHYA PRADESH ELECTRICITY REGULATORY COMMISSION

4th and 5th Floor, Metro Plaza, Bittan Market, Bhopal - 462 016



**ORDER ON TRUE-UP OF ARR FOR THE
PERIOD – April 06 to March 07**

Petition Nos. 22/08 (East Discom),
13/08- (West Discom)
and
15/08- (Central Discom)

PRESENT:

Dr. J. L. Bose, Chairman

K. K. Garg, Member

C. S. Sharma, Member

IN THE MATTER OF:

Determination of True-up amount of Aggregate Revenue Requirement determined by MPERC for FY 2006-07 based on the true-up application filed by Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Ltd., Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Ltd., Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Ltd. under Multi Year Tariff Principles.

(Petitioner) represented amongst others by –

East Discom
Shri R.K Dubey,
Addl.CE(Commercial)

West Discom
Shri Gopal Murthy,
Dy. Director (Finance)

Central Discom
Shri M. K Gupta
CE(Commercial)

ORDER

(Passed on this 16th Day of June 2009)

This order relates to the petition numbers 22/08, 15/08 and 13/08 filed by Madhya Pradesh Poorva Kshetra Vidyut Vitaran Company Ltd., Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Ltd. and Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Ltd. respectively (to be referred hereinafter as East, Central and West Discom respectively and collectively described as distribution Licensees) before Madhya Pradesh Electricity Regulatory Commission (hereinafter referred to as MPERC or the Commission). These petitions have been filed by the Distribution Licensees seeking the true-up of Aggregate Revenue Requirement (ARR) determined by the Commission for the period Apr 06 to Mar 07 vide its Tariff Order issued on 31st March 2006.

- 1.1 Government of Madhya Pradesh (GoMP) notified the Madhya Pradesh Electricity Reforms First Transfer Scheme Rules, 2003 (Scheme Rules in short) on 30th September 2003. As per clause 5(1) of the said Rules, on and from the date of transfer to be notified by the State Government, the properties and all interests, rights and liabilities of the MPSEB as specified in Schedules 'A' to 'E' shall stand transferred to and vested in the State Government. As per clauses 6(3), 6(4) and 6(5) of the Scheme Rules, the undertakings forming part of Distribution Undertakings as set out in Schedules –C, D and E shall stand transferred to and vested in Discom-1, Discom-2 and Discom-3 respectively on and from the date of the transfer to be notified by the State Government. Vide Order No. 3679/FRS/18/13-2002 dated 31st May 2005, GoMP effected the reorganization of the MPSEB by notifying the Opening Balance Sheets of MPGenco, MPTransco, East Discom, Central Discom, West Discom and the residual MPSEB after restructuring as on 31st May 2005. Thus the Discoms are the owners of their respective distribution assets previously owned by MPSEB. The Discoms had started functioning independently from 1st June 2005 based on the order of GoMP dated 31st May 2005. The order of the Government of Madhya Pradesh also provided that the successor entities of MPSEB shall, immediately on the issue of the order, sign the Inter-se Agreements viz (i) the Power Purchase Agreement, (ii) the Transmission Service Agreement and (iii) Bulk Supply Agreement and file applications before the Madhya Pradesh Electricity Regulatory Commission for approval of inter-se agreements, for the determination of tariff and terms and conditions for the operation of the inter-se agreements. The details of the status of these agreements are discussed subsequently.
- 1.2 Meanwhile, the Govt. of M.P. notified the final opening balance sheet for all the five companies vide order No. 4068-FRS-18-2002-XIII on 12th June, 2008. However, The Discoms have apprised the Commission that they have not taken into consideration any effect on account of the final opening balance sheets in their audited account of FY2006-07 and hence this is also not reflected in their true-up petition.
- 1.3 The Commission has reviewed the operational and financial performance of the Discoms for FY 07. The Commission has finalised this order based on the review and has done analysis of the past records, information submissions, necessary clarifications submitted by the distribution licensees and views expressed by stakeholders.

Procedural history

Submission of petitions by Licensees

1.4 The Commission has issued Tariff Order for FY 2006-07 for the Discoms, as per terms and condition for determination of tariff for distribution and retail supply, Regulation notified on 5th December 2005. The Licensees, after having completed the audit of their Accounts for the period April 06 to Mar 07, filed petitions for truing-up of their ARR for the said period, vide petition No. 22/08 – of East Discom, No. 15/08 – of Central Discom and No. 13/08 – of West Discom.

Gist of petitions

1.5 The gist of the true-up petitions submitted by the Licensees is given below:

Table 1 : Snapshot of the True-up petitions of Discoms for the period Apr 06 to Mar 07 – as submitted by the Licensees (Rs. Crores)

S. No.	Particulars	East Discom		West Discom		Central Discom	
		FY 06-07 (As per Tariff Order)	FY06-07 (As per True-up petition)	FY 06-07 (As per Tariff Order)	FY06-07 (As per True-up petition)	FY 06-07 (As per Tariff Order)	FY06-07 (As per True-up petition)
1	Purchase of Power from MP Genco and Other sources	1,468.95	1,687.48	1,850.53	2,116.31	1,624.80	1,867.34
2	Transmission (MP Transco) Charges	177.61	183.2	225.03	226.55	195.05	204.53
3	O&M cost (as per norms)	389.1	430.15	420.03	478.96	321.29	462.53
4	Bad and Doubtful debts written off + Provisions	16.52	111.70	26.35	42.81	10	134.31
5	Other expenses (net of Prior Period Adjustments)	2.67	0.61	-1.58	-0.53		
7	Depreciation and Related debits	50.7	110.78	60.75	66.94	50.49	114.77
8	Interest and Finance Charges	22.18	69.26	35.76	121.42	22.38	74.19
9	Tax		0.77	0	0	0	0.32
10	Return on Equity (as per norms)	50.72	58.73	71.95	94.16	50.56	56.97
11	Total Expenses	2,178.46	2,652.68	2,688.82	3,146.62	2,274.57	2,914.96
12	Less Other income	37.02	49.45	58.73	93.43	43.47	31.22
13	Net ARR	2,141.44	2,603.23	2,630.09	3,053.19	2,231.10	2,883.74
14	Income from Sale of Power	2,179.87	1,946.81	2615.48	2306.66	2,197.76	1871
15	Revenue subsidies and grants	-	88.51	0	115.84	0	214.25
16	Delayed payment surcharge	-	127.01	0	113.06	0	156.68
17	Unmet Revenue Surplus / (Gap)	38.43	-440.90	-14.60	-517.63	-33.33	-641.81

- 1.6 The petitions submitted by the Distribution Licensees had several inconsistencies between the text filings, the excel formats submitted and the audited accounts. The Commission had directed the Licensees to reconcile the differences, particularly in sales, power purchase quantum, power purchase expenses and revenues. The Licensees could reconcile some information and re-submitted to the Commission that wherever there is a difference of figures between the petition filed by the licensees and the audited accounts, the data contained in the audited accounts may be considered by the Commission.

Notification of true-up proposals for public information

- 1.7 While scrutinizing the petitions filed by the petitioners, a number of information gaps were to be filled and supporting documents were required and the details of all such documents and additional information were sought from the licensees through a number of discussions and written communications by the Commission. Subsequent to the filing of balance information by the licensees to complete the data for proper scrutiny of the Annual Revenue Requirement, the Commission admitted the petitions and a public notice was issued on 14th October, 2008 by West Discom, on 18th October by East Discom and on 22nd October 2008 by the Central Discom for inviting comments/objections from various stakeholders by 12th November 2008.
- 1.8 In response to the public notice, comments/suggestions from Madhya Pradesh Electricity Consumer Society and MPSEB Pensioners' Association, Jabalpur had been received in the office of the Commission.

Hearings

- 1.9 The Commission declared a date for public hearing in the newspapers on the true-up petitions filed by the Licensees. The public hearing was held on 29th December 2008 in the Commission's office at Bhopal wherein the Licensees were asked to respond to the queries raised by the objectors on their respective petitions. Based on the comments/suggestions received during the course of public hearing, the Commission had sought detailed information regarding power purchase requirement of the petitioners in the light of the figures regarding sale of energy during the true-up period. To understand the issues and conclude the related portion in this true-up Order, formal hearings on 9th April 2009 and 12th May 2009 were further conducted in the Office of the Commission. The comments/objections/suggestions given by the objector and the responses of the licensees thereon have been appropriately considered by the Commission while finalizing this order, .

State Advisory Committee

- 1.10 The Commission convened a meeting of the State Advisory Committee (SAC) on 24th January, 2009 and 3rd June 2009 for the purpose of discussing these petitions and the suggestions/comments received during the public hearing. A presentation on the main features of the tariff petition covering major items of expenditure and revenue was made before the SAC. The Members have given various valuable suggestions and these have also been kept in view while finalizing this Order.

ORDER ON TRUING-UP OF DISCOMS ARR FOR FY 2006-07

1.11 The Commission has analyzed the petitions of the Distribution Licensee for truing-up of Annual Revenue Requirement (ARR) approved by the Commission dated 31st March 2006. After hearing the response of Licensees' representatives on the above issues raised by the consumer associations or individual consumers/objectors and the members of the SAC and considering the methodology and process of determination of expenditure and revenues as elaborated above, the Commission has determined the allowable revenue deficit / surplus, as detailed in the subsequent sections. These amounts of revenue deficit and surplus, as the case may be, shall be adjusted in the approved Annual Revenue Requirement of FY 2009-10. Gist of the true-up of ARR for FY 2006-07 is given below:

	East	West	Central	Total
INCOME				
Revenue from Sale of Power	1,982.66	2,382.50	1,892.25	6,257.42
Tariff Income	1,946.81	2,306.66	1,871.00	6,124.47
Non-tariff income (meter rent, recoveries for theft of power, wheeling/U.I. charges recovery, Misc. charges from consumers)	35.85	75.84	21.25	132.94
Other Income	13.60	17.59	9.97	41.16
Delayed Payment Surcharge	-	-	-	-
Subsidy / Grants	88.51	214.25	115.84	418.60
Total Income	2,084.77	2,614.34	2,018.06	6,717.17
EXPENSES				
Power Purchase				
Power Purchase Cost	1,354.76	1,607.13	1,568.46	4,530.35
MP Transco Charges	183.20	226.55	204.53	614.28
O&M Expenses				
Employee Expenses	250.94	233.34	225.92	710.20
A&G Expenses	30.50	28.56	29.82	88.88
R&M Expenses	21.42	24.26	11.36	57.04
Less: Expense Capitalised	(8.41)	(11.19)	(7.36)	(26.96)
Total O&M	294.46	274.97	259.74	829.16
Other Expenses				
Depreciation	29.40	33.87	27.48	90.75
Interest & Financing Charges on Project Loans	12.09	24.19	11.19	47.47
Interest and Finance Charges on working capital loans	-	4.78	-	4.78
Interest on Consumer Security Deposit	8.89	15.84	8.71	33.44
Return on Equity	55.91	76.92	52.18	185.01
Bad & Doubtful Debts	19.83	6.90	-	26.73
Any Other Expense	(3.39)	1.67	0.85	(0.87)
Tax	0.77	0.52	0.32	1.61
Total Expenses	1955.91	2273.34	2133.46	6362.71
Revenue Surplus / (Deficit)	128.86	341.00	(115.40)	354.46

1.12 Ordered as above, read with attached detailed reasons, grounds and conditions,

Sd/-
(C.S.Sharma)
Member (Econ.)

Sd/-
(K.K.Garg)
Member (Engg.)

Sd/-
(Dr.J.L.Bose)
Chairman

Dated: 16th June,2009

Place: Bhopal

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A1: LICENSEES’ SUBMISSIONS AND COMMISSION’S ANALYSIS

Analysis of Expenses during the period April’ 06 to March’ 07

Sale of Energy approved in Tariff Order and filed in True-up Petitions

1.1 The petitioners i.e., the three Distribution Companies in their tariff petitions no. 141/05, 142/05 and 144/05 filed with the Commission on 21st November, 2005 for determination of distribution and retail supply tariff for the FY 06-07 had projected the following sales:-

Table 2 : Sales filed by petitioners in Petitions 141/05,142/05 and 144/05

Category			Sales in MU – FY’07			
			East Discom	West Discom	Central Discom	Total Discoms
L T CONSUMERS	LV 1	Domestic Light Fan and Power	1386	1539	1546	4472
	LV 2	Non-Domestic Light Fan and Power	251	362	440	1053
	LV 3	Water Works and Street Lights	100	120	132	352
	LV 4	LT Industrial	176	365	208	749
	LV 5	Agricultural Consumers	1376	3064	1896	6337
		TOTAL (LT)	3290	5450	4222	12962
H T CONSUMERS	HV 1	Railway Traction	458	338	695	1491
	HV 2	Coal Mines	514	0	41	555
	HV 3	Industrial and Non Industrial	1054	1683	1172	3908
	HV 4	Seasonal	3	0		3
	HV 5	HT Irrigation and Public Water Works	60	203	100	363
	HV 6	Township and Residential Colony	639	0		639
	HV 7	Bulk Supply to Exemptees		186	2	188
		TOTAL (HT)	2726	2410	2010	7146
TOTAL LT + HT			6017	7860	6232	20109

1.2 The Commission in its Tariff order issued on 31st March, 2006 for determination of ARR and retail tariff of FY 06-07, had approved the sale of energy as filed by the Distribution Licensees in their petition (except quantum of 21.06 MUs forecasted for free agricultural supply by central Discom). Hence, the Commission had approved the following sale of energy to all the three Distribution Licensees.

Sales as approved by the Commission for FY06-07:

Table 3 : Sales approved in Tariff Order dated 30.03.2006

DISCOM	EAST	WEST	CENTRAL	TOTAL
Sale (MUs)	6017	7860	6211	20088

- 1.3 Based on the above sales and grossing it up with normative distribution loss level specified by the Commission in its Regulations (Terms and condition for determination of tariff for distribution and retail supply of electricity, 2005) notified on 5th December, 2005, the Commission had recomputed the net energy requirement of the Discoms adopting the approach proposed by the Distribution Licensees.
- 1.4 The Commission, while scrutinizing this true-up petition filed by the Distribution Companies had gone into audited accounts of all the three Distribution Companies for FY06-07 as also into R-15 statements and noted that the quantum of sale of energy as indicated in the “auditors note” of the respective audited accounts as also in their respective R-15 statements is as given below:

Table 4 : Sales in Tariff Order (as allowed) , audited accounts and R-15 (MUs)

Particulars	East	West	Central	Total
Allowed in FY07 Tariff Order	6,016.58	7,860.14	6,210.94*	20,087.66
Audited Balance sheet (Energy Sale)	5,817.00	8,051.29	5,810.31	19,678.60
Final R-15 Sales	5,638.00	8,311.00	5,860.00	19,809.00

- Sales of 21 MUs forecasted for Free agriculture had not been considered.

- 1.5 From the above, it is evident that the sale of energy as approved by the Commission in the tariff order issued on 31st March, 2006 for FY 06-07 is more than the figures recorded in the audited accounts and R-15. Further, it can be seen that the sale of energy as filed in this true-up petition and recorded in the audit accounts is same for East and West Distribution Companies while there is difference of 95 MUs (recorded more in the audited accounts) in case of central Distribution Company, Bhopal. The Commission asked the explanation for this difference as well as the basis of recording sale of energy in “Note to accounts” in audited accounts from the Distribution Licensee. It was informed to the Commission by the three Distribution Companies through a written submission during the course of hearing held on 9th April, 2009 that “the units sold are not recorded in the annual accounts through any accounting procedure/financial accounting system. The numbers of units sold are mentioned in the books of account under the head “notes to accounts”. The figures of units sold for the year 2006-07 are based on energy audit studies. The energy audit studies were not completed for FY 06-07 at the time of finalization of annual accounts. Therefore, the figures as collected from the field units were included in the “notes to accounts”.
- 1.6 The Commission had further observed from the true-up petition filed by the Distribution Companies that they have also indicated the figures of total (HT+LT) sales as per R-15 (billing database statement) as given below.

Table 5 : Sales and Revenue as filed in petition

Particular	EAST		WEST		CENTRAL		TOTAL	
	Sale (MUs)	Revenue (Rs. Crores)	Sale (MUs)	Revenue (Rs. Crores)	Sale (MUs)	Revenue (Rs. Crores)	Sale (MUs)	Revenue (Rs. Crores)
Sale as per R-15 (including ED, CESS, Meter Rent, Surcharge, Misc charges etc).	5816.53	1998.73	8051.29	2479.10	5714.83	1983.01	19582.65	6460.84

1.7 In view of the above, the Commission had further analyzed the sales figures filed in petitions with respect to the figures recorded in the R-15 statement (the basic billing data statement) of the Distribution Companies for FY 06-07 and observed the following.

- (i) The figures regarding sale of energy in the audited financial accounts of FY 2006-07 were neither matching with the figures filed by the Licensees in the petition nor with the R-15 billing database statement of the petitioners.
- (ii) There was a difference between “sum of monthly data” and the consolidated annual data for the year and this difference was mainly on account of the sale of energy in agricultural un-metered category.
- (iii) There was a difference between the total sale of energy recorded in R-15 statement for un-metered categories of consumers and the sale of energy on the basis of benchmarks prescribed by the Commission.
- (iv) It was not clear whether the billing demand of consumers in R-15 included the tariff subsidy from the Government or not.

1.8 In order to ascertain the factual position, the Commission through an Order-sheet conveyed its observations and sought clarifications from Discoms in a formal hearing which was held on 9th April, 2009.

1.9 The concerned officers of the petitioner, who were associated in compilation and finalization of the R-15 billing database statements, appeared before the Commission and made a detailed presentation informing the following:-

- a) The bills are generated and billing ledger is prepared through software. However, manual billing is also done for the consumers who are not covered under computerized billing system at distribution centre level. The R-15 statement is finally derived from the abstract of the computerized and manual ledger.
- b) The monthly sale of unmetered category of consumers is recorded in the consumer’s ledger on the basis of bills issued to respective consumers using the benchmark consumption of energy approved by the Commission. However, monthly adjustment of unmetered sale is done on the basis of sample meters provided for realistic estimation. Since the unmetered sale is recorded in the R-15 on the basis of the realistic estimation of sample meters provided on distribution transformers, the unmetered sales recorded in R-15 statement do not tally with the sum of actual units billed to the consumers in accordance with the benchmarks specified in the tariff order for unmetered category of consumers. The billing of unmetered consumption is always made on the basis of benchmarks fixed by the Commission for the respective year.

- c) In addition to the monthly adjustment on sales as mentioned above, the necessary changes taking into account the estimated figures of T&D losses are incorporated in the consumption of unmetered category of consumers after the closing of the year and the final R-15 is prepared.
- d) The billing of unmetered domestic and agricultural consumers was done on the basis of following assessed units during FY 2006-07 :-

Table 6 : Basis of billing to un-metered consumers

Assessed units for un-metered domestic connections (units per connection per month)		Assessed units for un-metered agricultural connections (units per HP per month)	
Urban	Rural	Permanent	Temporary
77	38	100	130

- e) Since the bills are raised to the unmetered category of consumers as per the provisions in the tariff order, the billing demand as shown in the R-15 statements is based on these billed units only. No revenue is taken into account in the R-15 against the adjustment of units in case of unmetered consumers during finalization of the R-15 statements.
- f) The billing demand in R-15 statement includes the subsidy amount. In view of this, the subsidy received from GoMP is not relevant as all the accounting entries are made on the basis of accrual.
- 1.10 From the submissions made by the Discom Representatives, it has emerged that the sale of energy as recorded in R-15 statement (as also included in the Annual Financial statement) is at variance with the units actually billed to unmetered consumers. The Commission vide its Order dated 21st April, 2009 directed the petitioners to disaggregate units recorded in R-15 statements (for all unmetered consumers for domestic and agricultural categories, both for urban and rural areas) in following two parts:
- (a) The units actually billed for which revenue was recognized.
- (b) The units which were included based on assessment (monthly as well as year-end) for which no revenue was recognized.
- 1.11 The Distribution Licensee during the course of hearing held on 12th May, 2009 submitted the following information to the Commission:-

Table 7 : Energy units actually sold and units incorporated/adjusted in R-15 statement

Name of Discom	Tariff Category	Units sold as actually billed to consumers (MUs)	Units incorporated or adjusted as per sample meters or other reason (MU)	Units sold as per final R-15 statement (MU)	Actual demand raised to consumer against the Units sold in column 3 (Rs. Crore)	Demand actually indicated in final R-15 statement (Rs. Crore)
East Discom	Low Voltage	2725.58	415.88	3141.46	881.03	881.03
	High Voltage	2496.66	0.00	2496.66	1117.65	1117.65
	Total	5222.25	415.88	5638.13	1998.68	1998.68
West Discom	Low Voltage	4819.27	785.56	5603.06	1204.75	1371.18
	High Voltage	2707.60	0.00	2707.60	1107.90	1107.90
	Total	7526.91	785.56	8310.70	2312.67	2479.10
Central Discom	Low Voltage	3296.08	618.40	3914.48	1004.24	1004.24
	High Voltage	1945.10	0.00	1945.10	872.60	872.60
	Total	5241.18	618.40	5859.58	1876.84	1876.84

- 1.12 The West Discom has submitted that it has not taken into account the 8MUs in Domestic unmetered category which were billed less than the prescribed benchmarks of the Commission. If those units are taken on account then the total units incorporated or adjusted in R-15 statement beyond the prescribed benchmark for billing unmetered domestic consumer comes to 778 MUs. The Discoms have submitted during the course of hearing that they have in fact supplied three phase power to unmetered agricultural consumers for more than six hours. Hence, the consumption assessed by the licensee beyond prescribed benchmarks for billing of unmetered agricultural consumers need be considered as realistic consumption and therefore units sold as indicated in “Notes of Account” of the audited balance sheet for FY 2006-07 be considered for the purpose of working out energy requirement. The Discoms have further submitted that the demand raised (Rs. Crore) as indicated in R-15 statement is same as billed to the consumers while the units actually billed to the consumers are based on the billing benchmarks fixed by the Commission.
- 1.13 The Commission is unable to concede the petitioner’s plea regarding incorporation of additional units other than those actually billed to consumers on the ground of extra hours of supply made to agricultural consumers or on the basis of consumption recorded in sample meters. The Distribution Licensees should have approached the Commission at appropriate time for revision in benchmarks for unmetered agricultural consumers if such benchmarks were deemed less than actual. The Regulation 3.7 of MPERC (Terms and Conditions of Tariff for Distribution and retail supply of electricity) 2005 notified on 5th December’2005 provided that “If for any abnormal situation like drought, supply to any category of consumer is to be varied, the licensee shall obtain prior approval of the Commission”. The Commission has noted petitioner’s contention that they have supplied some additional quantum of power to unmetered consumers without raising bills to them. The petitioners can not supply free power to any category of consumers ..Supply of power to any consumer without recovering its cost has direct bearing on power purchase cost since this extra energy is required to be purchased from the long term / short term sources and such additional power purchase cost becomes an unavoidable burden on consumers of other categories. The Commission therefore, rejects the plea of the petitioners to include such units not actually billed in sales.
- 1.14 In view of the above facts, the Commission allows the actual metered sales as per R-15 and un-metered sales as per the benchmark set by the Commission. Based on the above, the allowed sales workout to 17996 MUs, which is 1812 MUs lesser than the final R-15 sales figure as detailed in the table below.

Table 8 : Sales allowed by the Commission in MU

Particulars	East	West	Central	Total
Final R-15 Sales	5,638.00	8,311.00	5,860.00	19,809.00
Excess Sales incorporated/adjusted by the petitioners in R-15 and not allowed by the Commission	415.88	778.39	618.40	1,812.67
Sales allowed in this true-up (MUs)	5,222.12	7,532.61	5,241.60	17,996.33

Analysis of Power Purchase Costs

Licensees' Submission

- 1.15 Licensees in their true up petition have submitted that they have exceeded the allowed power purchased quantum to the tune of 206.28 MU, 637.07 MU and 221.54 MU in respect of East Discom, West Discom, and Central Discom respectively., Consequently, all the three Discoms have incurred an additional expenditure of Rs. 218.53 Cr., 265.78 Cr. and 242.54 Cr. respectively due to the additional purchase of power.
- 1.16 Further, Licensees' have submitted that they have not been able to curb losses due to which sales have been less than the estimated sales approved in the Tariff Order for the period FY07. Furthermore, demand for power was more than the forecast done by licensee, for which Licensees had to resort to short term power purchase. This short-term power purchase has resulted in higher power purchase cost.

Power Purchased by MP Tradeco

- 1.17 On scrutiny of the actual quantum of power purchased by MP Tradeco on behalf of Discoms from different generators (including central and state generators), it has been observed that MP Tradeco has procured only 33,207.53 MU including short-term and bilateral in FY 2006-07.

Table 9 : MP Tradeco's Power Purchase from Generators in FY 2006-07

Generating Stations	MU
NHDC+ Sardar Sarovar+ Bargi + CPP / Wind	4661.56
MPPGCL	15072.96
Central Sector (Eastern Region)	334.52
Central Sector (Western Region)	11744.63
Bilateral	448.66
Short Term Purchases	1191.00
Total Purchase from Generators	33207.53

- 1.18 A meeting with the concerned representatives of the three Petitioners and MP Tradeco was convened in the office of the Commission on 31st May 2008, wherein the queries on sales, Power Purchase cost, Depreciation and other items of true-up was communicated to the petitioners and their response supported with all relevant documents was sought by the Commission. Based on their responses, it was further observed that the MP Tradeco had raised invoices to all three Discom for a cumulative quantum of **33277.10** MUs, which is in excess of 69.57 MU to its own power procurement. This difference was brought to the notice of MP Tradeco/Petitioners for clarification during the course of another meeting with them on 9th and 10th September 2008 at their headquarters in Jabalpur. No convincing clarification was received from them, however, officers informed that this 69.57 MU might actually have been billed in excess by MP Tradeco to the Discoms.

1.19 Hence, for the purpose of True up, the Commission has considered the overall power purchase of **33207.53 MU**. Subsequently, the Commission has lowered the power procurement of all Discoms by a cumulative quantum of **69.57 MU** in equal proportions to their overall procurement from MP Tradeco.

1.20 The Commission has therefore modified the overall power purchase quantum by 69.57 MU as given in the table below:

Table 10 : Total Power Purchase Quantum (MUs)

	East	West	Central	Total
Claimed Power Purchase Quantum	9776.58	12693.27	10807.24	33277.10
Modified Power Purchase Quantum	9756.15	12666.73	10784.64	33207.53

Energy Balance

1.21 The Licensees have not submitted the energy balance for the year FY 2006-07. Thus, it is difficult to ascertain the bifurcation of Distribution, Transmission and external losses. The transmission losses considered by the petitioners have not been filled up in the true-up formats filed with the petition and these losses are varying significantly from the actuals. Furthermore, the Central Discom has not filed any loss levels and only indicated the quantum of power purchased from the MPTradeco and the quantum of energy sold to the consumers.

1.22 In order to compute the energy balance for Discoms, it is necessary to know the loss levels at each stage. Hence, inter-state transmission, intra-state transmission and distribution losses need to be identified correctly.

1.23 The state transmission loss as allowed in the true-up tariff of MPPTCL for the corresponding year FY2006-07 is 5.0 %. This loss level has been considered for this true-up exercise.

Revised Loss Reduction Trajectory

1.24 The Commission in its order dated 31st March 2006 had considered the distribution loss levels for each Discom as specified in the regulations notified by the Commission dated 5th December, 2005. Meanwhile, pursuant to National Electricity Policy and the Tariff Policy GoMP vide order dated 28th December 2006 (Table 11) had notified the annual milestones for Distribution Losses to be adhered by each Distribution Company from FY 2006-07 to 2010-11.

Table 11 : GoMP specified Loss reduction trajectory for Discoms (%)

Year	East Discom	Central Discom	West Discom
FY 07	34.5	43.0	30.0
FY 08	32.5	40.0	28.5
FY 09	29.5	37.0	27.0
FY 10	26.5	34.0	25.5
FY 11	23.5	31.0	24.0

1.25 The distribution loss for FY 2006-07 as specified by Govt. of MP has been considered for calculation of energy requirement for each Discom.

Commission's Analysis for Power Purchase Costs

1.26 The Commission made a detailed scrutiny of the power purchase details vis-à-vis the revenue as per the audited account. The comparative claim of all the three Discoms is provided below, which is the base data for calculation of allowable power purchase quantum for all three Discoms.

Table 12 : Power Purchase Quantum and Cost claimed in True-up

Discom	Particulars	Allowed in the Tariff Order (B)	Actuals as per Audited Accounts (A)	Difference Claimed in True-up (A-B)
East Discom	Power Purchase Requirement (MUs)	9,570.30	9062.00	(-)508.30
	Power Purchase Cost (Rs. Crs.)	1,469.95	1,687.48	218.53
West Discom	Power Purchase Requirement (MUs)	12,056.20	12,693.27	637.07
	Power Purchase Cost (Rs. Crs.)	1,850.53	2,116.31	265.78
Central Discom	Power Purchase Requirement (MUs)	10,585.70	10,807.24	221.54
	Power Purchase Cost (Rs. Crs.)	1,624.80	1,867.34	242.54

Power Purchase by Discoms

1.27 The Power purchased by all three Discoms from MP Tradeco and recorded in the audited accounts of FY 2006-07 of Discoms is given in the table below;

Table 13 : Power purchase quantum as per audited accounts (MUs)

Particular of Data	East	West	Central	Total
Energy supplied to Discoms by MP Tradeco as filed	9776.58	12693.27	10807.24	33277.10
Power purchase as per audited accounts	9062.00	12693.27	10807.24	32562.51
Power Purchase Quantum as modified	9756.15	12666.73	10784.64	33207.53

1.28 It is evident from the audited accounts of East Discom that it has procured less power as compared to the bills raised by MP Tradeco to East Discom. The Commission vide order 19th March 2008 asked the petitioner to clarify this issue. The petitioner vide letter no. 645 dated 30th April 2008 has submitted that.

“.....as per the billing details from MP Tradeco, the East Discom has procured 9776.58 MUs during year 2006-07. The quantum of power (9062 MUs) as indicated in the audited accounts is excluding the transmission and external losses. In view of the above facts, the power purchase cost as claimed by East Discom for 9777 MU may please be allowed”.

1.29 The Commission has considered the above justification of the East Discom, of non-inclusion of transmission loss. However, as discussed in para 1.19, the final power purchase of East Discom has been considered as 9756.15 MU.

Evaluation of Required Power Purchase Quantum

1.30 While estimating the power purchase quantum the Commission has followed the approach as narrated below;

- (i) The actual sales (say X) made by the Licensees have been grossed up by the normative Loss levels (say Y) to arrive at the power required at the Discom periphery i.e. T-D boundary (say $Z=X/(1-Y)$).
- (ii) The quantum (Z) thus arrived has further been grossed up by the STU losses (MP Transco) (A) to arrive at the quantum of power required at the State boundary (Say $B=Z/(1-A)$);
- (iii) Finally, external losses in MUs (say C) actually incurred have been added to (B) to arrive at the total energy requirement i.e. $D=B+C$

1.31 The calculations as described above for the three Discoms is given in the table below:

Table 14 : Analysis of Power purchase Quantum (MU)

Energy Quantum in Million Units (MU)	East	West	Central	Total
Sales allowed for True- up purpose (MUs) (X)	5,222.12	7,532.61	5,241.60	17,996.33
Dist. Loss levels allowed for True-up purpose (%) (Y)	34.50%	30.00%	43.00%	
Power Requirement at T-D periphery ($Z = X/(1-Y/100)$)	7,972.70	10,760.87	9,195.79	27,929.36
Intra-state Transmission Loss (MUs) (C1)	407.46	564.22	483.99	1455.67
Inter-state Transmission (PGCIL) losses (MUs) (C 2)	139.55	200.30	172.15	512.00
Energy Requirement Approved (MUs) $D= (C1+C2)+Z$	8,519.71	11,525.39	9,851.93	29,897.03

1.32 Accordingly for East, West and Central Discom, the power purchase requirement of 8,519.71MUs, 11525.39 MUs and 9851.93 MUs respectively is approved for the purpose of this true up.

Power purchase through long-term sources

1.33 Based on the submissions made by the petitioners and subsequent discussions held with the MP Tradeco and the Distribution companies on 12th February, 2009 on the issues of power procurement from different sources, the Commission has analyzed the power procured through long-term sources by MP Tradeco on behalf of the three Discoms.

- 1.34 The petitioners in their filing have not provided the complete information regarding quantum and cost of power purchased from the long term sources. The Commission in order to retrieve the actual quantum and cost of power consumed by each petitioner has sought the month wise billing documents from the MP Tradeco, who actually purchased power on behalf of the petitioners. During the course of meeting with the officers of the MP Tradeco on 12th February 2009 at their Jabalpur headquarter, it was observed that the status of Information available with the MP Tradeco is different from the submissions made by the petitioners on the station wise quantum and cost of the long term power.
- 1.35 The Commission vide Tariff Order dated 31st March 2006 for FY 2006-07 had allowed power purchase cost of Rs 4944.27 crore for all three Discoms at the average rate of Rs 1.57 per unit with no short-term power purchase cost. On analyzing the actual power purchase quantum and the power purchase cost incurred by the petitioners (as mentioned in their audited accounts), the average per unit cost of power is worked out as given below:

Table 15 : Power Purchase Quantum and Cost Claimed by Licensees

Particular	East	West	Central	State
Power Purchase Quantum as per Bills raised by MP Tradeco (MU)	9776.58	12693.26	10807.24	33277.09
Power Purchase Cost as per Audited Account (Rs. Crore)	1687.48	2116.31*	1867.34	5671.13
Per Unit Cost (Rs./ kWh)	1.73	1.67	1.73	1.71

* The power purchase cost in the audited balance sheet of West Discom is lower as compared to other two Discoms because the West Discom has not taken into account the supplementary bill of FY 07 raised by MP Tradeco.

- 1.36 The above table indicates that the per-unit power purchase cost thus arrived from the annual audited account of West Discom is different from that of other two Discoms. It is pertinent to mention that the MPTradeco had provisionally raised monthly bills to all three Discoms at the BST rate of FY 2006-07. MP Tradeco had also raised supplementary bills to all three Discoms, claiming the difference between actual power purchase cost and the BST rate already applied in its monthly provisional bills including its own operational cost. However, the West Discom has not taken into account this supplementary bill in its audited account for FY 2006-07.
- 1.37 On further analysis of the power purchase cost, it is found that the power purchase cost as mentioned in the audited accounts of West Discom for FY 2006-07 and claimed in its true-up petition is not matching with the sum of the power purchase bill raised by MPTradeco to West Discom. This issue was raised to the petitioner, whereupon the West Discom has clarified vide letter no. CMD/WZ/TRAC/ Q-1 dated 24/02/2009 that an amount of Rs. 164.42 crores as the difference of the cost of short term power not claimed by the petitioner in FY 2005-06 has been taken in the audited accounts for FY 2006-07. The West Discom has informed that this amount is the difference of the rate of short term power procured during FY 2005-06 at the actual net off rate (i.e. Rs. 3.46 per unit) and the differential bulk supply tariff rate (Rs. 1.55 per unit).

- 1.38 The quantum of above short-term power had been actually claimed and allowed by the Commission in the true-up tariff order for FY 2005-06. In fact, the West Discom had not claimed the cost of short term power procured during FY 2005-06 at Rs. 3.46 per unit, since the cost of power purchase at this rate had not been accounted in its audited financial statement of FY 2005-06. The above difference of Rs 164.42 Crores has been incorporated in the audited accounts of FY 2006-07.
- 1.39 **In-depth analysis of the annual accounts of three Distribution Companies also revealed that there are variances in methodology of capturing costs. This is more prominent in method of capturing cost of power procurement. The Commission directs that the three Companies should evolve a common acceptable methodology of capturing cost and ensure that in all future accounts this methodology is consistently applied by all the three Companies. The Companies should also evolve a common accounting policy.**
- 1.40 It is worthwhile to mention here that the Commission in its True-up order FY 2005-06 issued on 16th January 2008 had considered the differential BST rate on the quantum of short term power purchased by all the three Distribution Companies. On the same principles, the cost as shown in the audited account of FY 2006-07 on account of difference in the rate of short term power allowed in True-up Order for FY 2005-06 and claimed in this true-up petition by West Discom can not be allowed in this true-up order. It is worthwhile to mention the Commission has issued orders on the review petition filed by the Central and East Discoms regarding the actual cost of short term power purchased in FY 2005-06 under petition nos. 29/08 and 32/08. The West Discom had not filed any review petition in this regard till date. In view of the above, the above amount of Rs 164.42 crore spent on short term power purchase in FY 2005-06 is not being considered for this true-up..
- 1.41 The average power purchase cost as claimed and mentioned in the audited accounts of the East and Central Discoms and revised figures of the audited accounts of West Discom is as given in the table below;

Table 16 : Average per unit power purchase cost

Sl No.	Particular	East	West	Central	State
A	Energy Supplied (MU)	9776.58	12693.27	10807.24	33277.10
B	Modified Power Purchase quantum (MU) (as per Table 10)	9756.15	12666.73	10784.65	33207.53
G	Power Purchase Cost Claimed as per audited accounts (Rs. Crore)	1687.48	1951.89*	1867.34	5506.71
H	Per Unit Cost as per quantum of power supplied by MPTradeco and the power purchase cost as per audited accounts (Rs./ Unit)	1.73	1.54	1.73	1.66

* Rs. 1951.89 Crores (Audited accounts 2,116.31 (-) Rs.164.42 crore of short-term power purchase cost of FY 2005-06).

Allowed Power Purchase Cost

1.42 Since the energy requirement of all three Discoms is 29,897.03 MUs which is completely met from the long term power purchases only and no power from short term sources is required. Thus, the Commission has calculated the average power purchase cost by deducting the short-term power purchase cost from the total cost. The average per unit power purchase cost thus arrived and allowed in this true-up is given in the table below;

Table 17 : Average Per-unit power purchase Cost allowed

	East	West	Central	State
Power Purchase Quantum as per Audited Account (MU).	9,756.15	12,666.73	10,784.65	33,207.53
Power Purchase Cost Claimed as per Audited Account (Rs. Crore). Refer Table 16	1,687.48	1,951.89	1,867.34	5,506.71
Per Unit Cost as per audited account (Rs./ kWh)	1.73	1.54	1.73	1.66
Actual Short-term Energy Quantum Procured (MU)	350.00	454.42	386.90	1,191.32
Actual Short-term Energy Cost (Rs. In Crore)	191.76	248.97	211.98	652.72
Energy From Long-term Source (MU)	9,406.14	12,212.31	10,397.75	32,016.20
Cost of Energy From Long-term Source (Rs. Crore)	1,495.72	1,702.92	1,655.36	4,854.00
Average long-term Power Purchase Rate (Rs./kWh)	1.59	1.39	1.59	1.52

1.43 The Commission allows the total power purchase cost at the above calculated average long-term power purchase rate as shown in table below;

Table 18 : Power Purchase Quantum and Cost Allowed

Sl	Particulars	East	West	Central	State
A	Total Power Purchase Quantum Allowed in true-up (MU) (Refer Table 14)	8,519.71	11,525.39	9,851.93	29,897.03
B	Average long-tem Power Purchase Cost (Rs./kWh).	1.59	1.39	1.59	1.52
C	Power Purchase cost allowed in Rs. Crore	1,354.76	1,607.13	1,568.46	4,530.36

1.44 The power purchase cost allowed in Tariff Order dated 31.03.2006 for FY 2006-07 vis-à-vis cost allowed by the Commission in this true-up Order is summarised in the table below;

Table 19 : Total Power Purchase Cost allowed

Particulars	East Discom	West Discom	Central Discom	State
Power Purchase Cost allowed in Tariff Order dated 31.03.2006 (Rs. in Cr.)	1468.95	1850.53	1624.80	4944.27
Power Purchase Cost allowed in this true-up Order (Rs. in Cr.)	1,354.76	1,607.13	1,568.46	4,530.35
True-up difference	(114.19)	(243.40)	(56.34)	(413.92)

Transmission Charges

- 1.45 The transmission charges as claimed by the three Discoms in their petitions are given below. There is no explanation in the petitions as to how these charges were billed by the MP Transco to the Discoms.
- 1.46 The Commission has compared this vis-à-vis the wheeling charges allowed to MPTransco by the Commission as per the MYT tariff order dated 13 March 2006.

Table 20 : Comparison of Allowed and Actual Transmission charges

Discoms	Allowed as per Tariff Order (Rs. In Cr.)	Actual Cost incurred & Claimed as per Audited Account (Rs. In Cr.)	Additional Amount Claimed (Rs. In Cr.)
East Discom	177.59	183.20	5.61
West Discom	224.69	226.55	1.86
Central Discom	195.41	204.53	9.12
Total for all Discoms	597.69	614.28	16.59

- 1.47 The transmission charge as approved by the Commission were Rs. 2728.73 per MW per day for the MW Capacity of 1783 MW, 2259 MW and 1958 MW allocated to East Discom, West Discom and Central Discom respectively.
- 1.48 The amount claimed by the petitioner based on their audited annual accounts is inclusive of incentives and taxes charged by the transmission company proportionately from the Discoms and a proportionate credit given to the Discoms on account of short term open-access transactions. Incidentally, the transmission charges allowed as per MYT Order for FY2006-07 were subsequently trued-up. The true-up amount for this year on transmission charges has already been allowed to Discoms in retail tariff Order for FY 2008-09 issued on 29th March 2008. The Commission allows the amount claimed by the petitioner based on their audited accounts as mentioned in the table below.

Table 21 : Allowed Transmission Charges for FY07

	East Discom	West Discom	Central Discom	Total
Allowed Transmission Cost (Rs. In Cr.)	183.20	226.55	204.53	614.28

A2: REVENUE FROM SALE OF POWER

Sale of Power

Licensees' Submissions

The petitioners in their true-up petitions have submitted the following:

East Discom

2.1 Though the Sales approved in the Tariff Order for the period FY 2006-07 were same as that filed in the ARR petition by the Licensee for the same period, the Licensee on a best effort basis couldn't meet the projected sales. The actual sales were 200.05 MUs less than the approved Sales for the period FY 2006-07. As a result revenue from sales also decreased by Rs. 197.21 Crs.

West Discom

2.2 Although the Sales approved in the Tariff Order for the period FY 2006-07 were same as that filed in the ARR Petition by the Licensee for the same period, the Licensee on a best effort basis couldn't meet the projected Sales. The actual sales were 191.15 MUs less than the approved Sales for the period FY 2006-07. As a result revenue from sales also decreased by Rs. 232.98 Crs.

Central Discom

2.3 The Sales approved in the Tariff Order for the period FY 2006-07 were same as that filed in the ARR Petition by the Licensee for the same period (except for 21.06 MUs for Free Agriculture which was disallowed in the Tariff Order), the Licensee on a best effort basis couldn't meet the projected Sales. The actual sales were 496.11 MUs less than the approved Sales for the period FY 2006-07. As a result revenue from sales also decreased by Rs. 305.51 Crs.

Commission's Analysis

2.4 The Licensees in their petitions have filed the revenue from sale of power to the tune of Rs. 1946.81 Crore, Rs. 2306.66 Crore and Rs. 1871.00 Crore for East, West and Central Discoms respectively. The above revenue figures are matching with annual audited account

2.5 The Commission understands the Licensees had implemented retail tariffs as per the Tariff Order issued on 31st March 2006. The Commission also recognizes that the petitioners have received tariff subsidy from State Government other than the revenue from sale of power as reported in the audited balance sheets..The Commission has thus accepted the following revenue for this true-up exercise:

- Revenue from sale of power as reported in audited accounts
- Non-Tariff income

- Subsidy received from State Govt.
- Other income

Table 22 : Revenue from sale of power as per Audited accounts

Particulars		East	West	Central	Total
D	Revenue from sale of power (Rs. Crs.)	1,946.81	2,306.66	1,871.00	6124.47

Non Tariff income

2.6 The non-tariff income which is part of overall income from sale of power is separately stated below for all the three Discoms as per their respective audited accounts:.

Table 23 : Break up of non tariff income (Rs. Crs.)

Sr. No.	Particulars	East Discom	West Discom	Central Discom	Total
1	Misc. charges from consumers	21.78	29.27	5.08	56.13
2	Income from wheeling charges	0.05	0.63	-	0.68
3	Meter rent	13.01	15.06	12.07	40.14
4	Recoveries for theft of Power/Malpractice	1	30.88	4.09	35.97
	Total non tariff income	35.84	75.84	21.24	132.92

Subsidy and Grants

2.7 The Licensees' Accounts for the financial year 2007 reveal the revenue subsidy received from the Government of MP to the tune of Rs. 88.51 Crore, Rs. 214.25 Crore and Rs. 115.84 Crore for East, West and Central Discoms respectively. The Commission has considered this amount in the income of the petitioners being a part of the revenue from sale of power to the subsidized consumers in this true-up Order.

Table 24 : Subsidy and Grants

Particulars	East Discom	West Discom	Central Discom	Total
Subsidy and Grants received from GoMP in Rs. Crore	88.51	214.25	115.84	418.6

Other Income**Licensees' Submission**

2.8 All the three Licensees have claimed other income as per their audited accounts as mentioned in the table below.

Table 25 : Other Income Claimed (as per audited accounts) by Discoms (Rs. Crs.)

Sr. No.	Particulars	East Discom	West Discom	Central Discom
A	Income from Investment, Fixed & Call Deposits			
1	Interest Income from Investments	-	0.74	0.01
2	Interest on fixed deposits	-	-	-
3	Interest from Banks other than Fixed Deposits	2.29	0	0.01
4	Interest on (any other items)	-	-	-
	Sub-Total	2.29	0.74	0.02
B	Other Non Tariff Income			
1	Interest on loans and Advances to staff	0.43	0.27	0.12
2	Interest on Loans and Advances to other Licensee	-	-	-
3	Interest on Loans and Advances to Lessors	-	-	-
4	Interest on Advances to Suppliers / Contractors	-	-	0.71
5	Income from trading (Other than electricity)	-	2.13	5.81
6	Gain on Sale of Fixed Assets	-	-	-
7	Income/Fee/Collection against staff welfare activities	0.02	0	-
8	Miscellaneous receipts	10.86	11.13	4
9	Incentive due to Securitization of CPSU Dues	-	-	-
10	Misc. charges from consumers *	21.78	29.27	5.08
11	Income from wheeling charges *	0.05	0.63	-
12	Meter rent *	13.01	15.06	12.07
13	Delayed payment surcharge (DPS) from consumers	127.01	113.06	156.68
14	Any other subsidies / grants other than those u/s 65	-	-	
15	Recoveries for theft of Power/Malpractice*	1	30.88	4.09
I	Any other (Profit from sale of stores)			-0.68
ii	Any other		3.32	
16	Sub-Total	174.16	205.75	187.88
17	Total Other Income (A+B)	176.45	206.49	187.9
	Total Other Income (excluding DPS and items marked with *) allowed in true-up	13.60	17.59	9.97
	Allowed in Tariff Order dated 31.03.06 for FY 2006-07	37.02	58.73	43.47
	True-up difference	(23.42)	(41.14)	(33.50)

* These heads have already been considered as non-tariff income in Table 23 : Break up of

- 2.9 The other income as claimed in the above table includes the non-tariff income from sale of power and net-off Delayed Payment Surcharge (DPS). As per clause 2.42 of the MPERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Supply of Electricity) Regulations, 2005, “The late payment surcharge shall not be considered as income for the purpose of determination of gap between Annual Revenue Requirement and Tariff and Other Income.” Following the regulation, the Commission is not taking delayed payment surcharge as part of income of the Discoms. The Commission accepts the actual other income as per audited balance sheet, as mentioned in the table below:

Table 26 : Other income allowed (Rs. Crs.)

Particulars	East Discom	West Discom	Central Discom	Total
Other Income allowed	13.60	17.59	9.97	41.16

Revenue Summary as approved in this true-up order

- 2.10 Based on above discussion, the total revenue earned by the Licensees during the period April 06 to Mar 07 and allowed by the Commission are as follows:

Table 27 : Total Revenue, Non-tariff Income and Subsidy allowed (Rs. Crs.)

Particulars	Revenue from sale of power	Non-Tariff Income	Revenue Subsidies from GoMP	Other income (excluding DPS)	Total Revenue income allowed in true-up
East	1,946.81	35.85	88.51	13.60	2084.77
West	2,306.66	75.84	214.25	17.59	2614.34
Central	1,871.00	21.25	115.84	9.97	2018.06
Total	6,124.47	132.94	418.60	41.16	6717.17

- 2.11 It is worthwhile to mention here that the Commission vide Tariff Order dated 31.03.2006 for FY 2006-07 had considered expected revenue of Rs 6993.12 crore at revised tariff and approved ARR for Rs 7002.61 crore leaving a revenue gap of Rs 9.50 crore against the revenue gap of Rs 1656.52 crore as filed by the petitioners in their petitions at that time. Based on the above approved revenue income and the allowable expenses which shall be discussed in the following paragraphs, the revenue surpluses/defecits for each Discom to be allowed in this true-up Order are given in the final consolidated Table 55 of this Order.

Operation and Maintenance Costs**Licensees' submission:**

2.12 Licensees, in their petition have claimed operation and maintenance expenses based on norms as given in 'The Madhya Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for distribution and retail supply of electricity) Regulations, 2005. These norms are based on the number of metered consumers, metered sales, total network length of 11&33kv, voltage levels and allowable multipliers for each parameter for the year under consideration. Also, in their submission, Discoms have referred Clause 3.28 of the Terms and Conditions of Determination of Tariff Regulation, 2005 stating "these norms exclude terminal benefits to be paid to employees, taxes to be paid to the Government or Local Authorities and fees to be paid to MPERC."

2.13 Thus the total expenses under operation and maintenance costs claimed by the licensees are Rs. 430.16 Crores, Rs. 478.95 Crores and Rs. 409.48 Crores (this figure has been corrected by the Commission, as there was calculation mistake in the amount claimed by the Central Discom) against Rs. 389.10 Crores, Rs. 420.03 Crores and Rs. 321.29 Crores for the East, West and Central Discoms respectively as allowed in its tariff order for FY 2006-07. The detailed break-up of the claims by Discoms has been given in the table below:

Table 28 : Operation and Maintenance Expenses Claimed by the Licensees on Normative Basis

Sl. No.	Particulars	East	West	Central	Total
i	Metered consumers (nos.) – opening	1,718,460	2,274,808	1,501,327	5,494,595
ii	Metered consumers (nos.) – closing	1,771,450	1,924,584	1,743,593	5,439,626
I	Average Metered consumers (nos.) - (average of i and ii above)	1,744,955	2,099,696	1,622,460	5,467,111
II	O&M expenses Rs. Lakhs per '000 metered consumers as per Regulation	6.10	6.10	6.10	6.10
A	Sub-total O&M expenses (I*II/1000) (Rs. Lakhs)	10,644	12,808	9,897	33,349
i	Metered sales (MU) – previous year	4,143	5,606	4,084	13,833
ii	Metered sales (MU) - year in question (for which true-up is sought)	4,323	5,684	4,851	14,858
I	Average sales (MU) - average of i and ii above	4,233	5,645	4,468	14,345
II	O&M expenses Rs. Lakhs per MU metered sales as per Regulation	2.21	2.21	2.21	2.21
B	Sub-total O&M expenses (I*II) (Rs. Lakhs)	9,355	12,475	9,873	31,703
i	Ckt-kms of HT (33kV and 11kV) lines - as at end of previous year	70,928	62,999	64,323	198,250
ii	Ckt-kms of HT (33kV and 11kV) lines - as at end of year in question	72,101	64,214	69,378	205,694
I	Average ckt-kms of HT lines - (average of i and ii above)	71,515	63,607	66,851	201,972

Sl. No.	Particulars	East	West	Central	Total
II	O&M expenses Rs. Lakhs per 100 ckt-km of HT lines as per Regulation	15.10	15.10	15.10	15.10
C	Sub-total O&M expenses (I*II/100) (Rs. Lakhs)	10,799	9,605	10,094	30,498
i	Cumulative transformation capacity of 33/11kV transformers in MVA - end of previous year	3,884	4,876	3,550	12,310
ii	Cumulative transformation capacity of 33/11kV transformers in MVA - end of year in question	3,884	5,121	3,819	12,824
I	Average transformation capacity - (average of i and ii above)	3,884	4,998	3,684	12,567
II	O&M expenses Rs. Lakhs per MVA as per Regulation	1.44	1.44	1.44	1.44
D	Sub-total O&M expenses (I*II) (Rs. Lakhs)	5,593	7,198	5,305	18,096
	Total O&M expenses in Rs. Lakhs (A+B+C+D)	36,391	42,085	35,170	113,647
	Total O&M expenses in Rs. Crores (as per norms)	363.91	420.85	351.70	1,136.47

Table 29 : Operation and Maintenance Expenses Claimed by the Licensees Adding Expenses not Covered under Norms

Particulars	East	West	Central	Total
Total O&M expenses in Rs. Crores (as per norms)	363.91	420.85	351.70	1,136.47
Total of other expenses not covered under norms (MPERC License fees, taxes to Govt. or local authorities, etc.)	66.25	58.10	57.78	182.13
Total O&M expenses in Rs. Crores	430.16	478.95	409.48	1,318.60

Commission's View and Analysis on Operation and Maintenance Costs:

- 2.14 In the true-up petition, all the three petitioners have claimed O&M expenses on normative basis.
- 2.15 The terms and conditions for determination of generation tariff applicable for the tariff period 2006-07 to 2008-09 provides for payment of O&M expenses on normative basis. Similar provisions exist in the terms and conditions of Transmission and Distribution tariff also. However, the Commission, while issuing the order dated 19th March, 2008 on True-up of Transmission Tariff for FY 2006-07 had approved the actual O&M expenses mentioning the following in paragraph 5.13,

“The Commission understands that the increase in the employee expenses during FY 2006-07 was due to the wage revision and revision in the Dearness Allowances as declared by the State Government. The petitioner has no control over such decisions. This is an uncontrollable factor for the Transmission Licensee. Hence, the Commission approves the revised employee expenses of Rs.98.58 Crores. But at the same time, the Commission has to safeguard the interest of the consumers. The MPPTCL should, therefore, ensure that rise in the employee cost is compensated by increased productivity of the employees”.

- 2.16 Thus, the Commission had consciously allowed O&M expenses based on actuals in the petition for true-up of transmission and Generation tariffs for the year 2006-07. Further, it has been observed that actual O&M expenses of the Distribution Companies in FY 2006-07 are lower than the expenses worked out on normative basis.
- 2.17 Taking a comprehensive view of the actual O&M expenses vis-à-vis normative expenses of MP Power Transmission Co. Ltd., MP Power Generating Co. Ltd and the three Distribution Companies and also keeping in view that these O&M expenses have employee expenses as the major component and further that employee wages are decided common for all Companies., it is seen that the actual expenses are more than the normative expenses in the cases of Generation and Transmission Companies, while these are less than the normative in the case of Distribution Companies. The Commission is of the view that the norms prescribed by the Commission for O&M expenditure while framing the Regulations on terms and conditions of tariff for Generation, Transmission and Distribution Companies might have been understated for the Generation and Transmission Companies and overstated for the Distribution Companies. This could be due to the fact that the Regulations on terms and conditions of tariff were framed just after unbundling of power utilities from erstwhile MPSEB and the actual break up of total O&M expenses for generation, transmission and distribution segments was not available. Therefore, the base figures for computation of norms for O&M expenditure were taken from the common base of erstwhile MPSEB and apportioned among generation/transmission/distribution segments on the basis of information made available at that time. The Commission has decided to follow a consistent approach of allowing actual O&M expenditure incurred during FY 2006-07 after exercising the prudent check.

Analysis of the O&M Expenses:

- 2.18 The implication of the increase in network parameters, metered sales and consumers on the O&M expenses as allowed by the Commission and the true-up filed by the petitioners is clearly visible in the table below.

Table 30 : O&M expenditure Allowed in Tariff Order vis-a-vis claimed in true-up petition and audited accounts (Rs. Crs.)

Particulars	East	West	Central	Total
Allowed in Tariff Order for FY 2006-07 (Based on norms)	389.10	420.03	321.29	1,130.42
Amount Claimed in True-up (Based on norms)	430.16	478.95	409.48	1,318.60
Actual as per Audited Accounts	375.87	348.26	335.50	1,059.63

- 2.19 Though the Commission had allowed an O&M expenditure of Rs. 389.10 Crores, Rs. 420.03 Crores and Rs. 321.29 Crores for the East, West and Central Discoms respectively in its Tariff Order for FY 2006-07, but the East and West Discom have actually spent Rs. 375.86 Crores and Rs. 348.26 Crores which is lower than normative O&M expenses by Rs. (13.24) Crores and Rs. (71.77) Crores respectively. The Central Discom has spent Rs. 14.21 Crores more than allowed in the Tariff Order.
- 2.20 Looking into the above situation, the Commission vide its letter no. 114 dated 15th January 2009 had sought detailed information related to the major part of the O&M expenditure. The Commission has noted from the response filed by all the three petitioners that the reduction/saving in O&M expenses as a difference between actually incurred and the normative is not established on account of any efficiency gains/ other special efforts.
- 2.21 It may be seen from the following illustrations that the O&M expenses incurred by the three Discoms as per their audited annual financial statements have increased from 2005-06 to 2006-07 and further in 2007-08, which indicates that there is no reduction / savings in O&M expenses on account of efficiency gains.

Chart 1: O&M Expenses of East Discom during FY 2005-06 to 2007-08

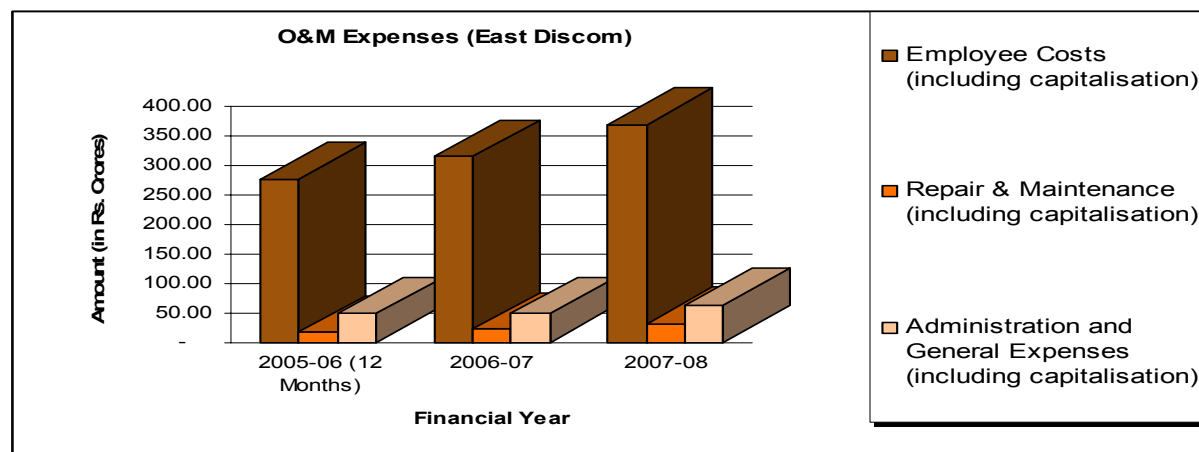


Chart 2: O&M Expenses of West Discom during FY 2005-06 to 2007-08

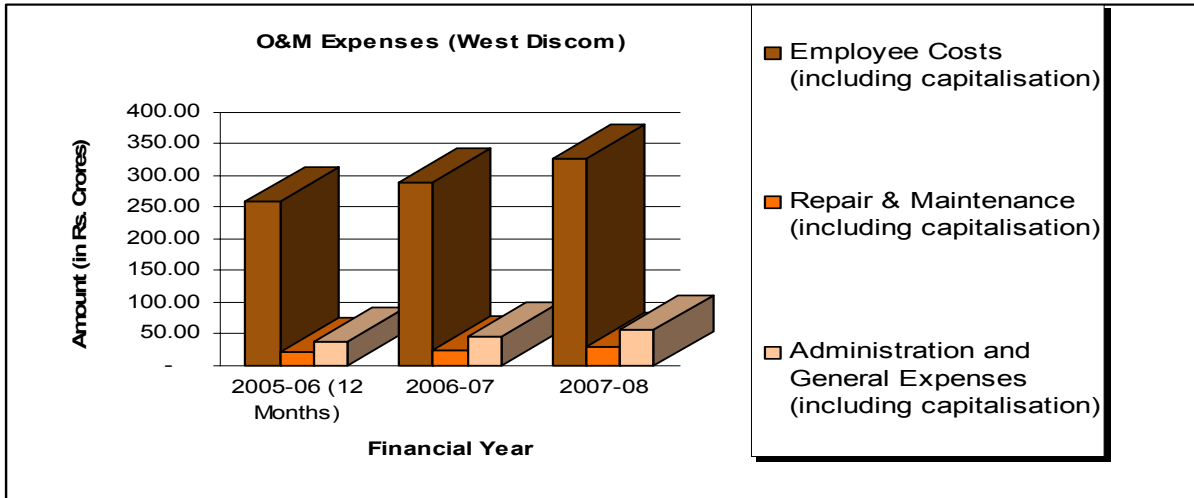
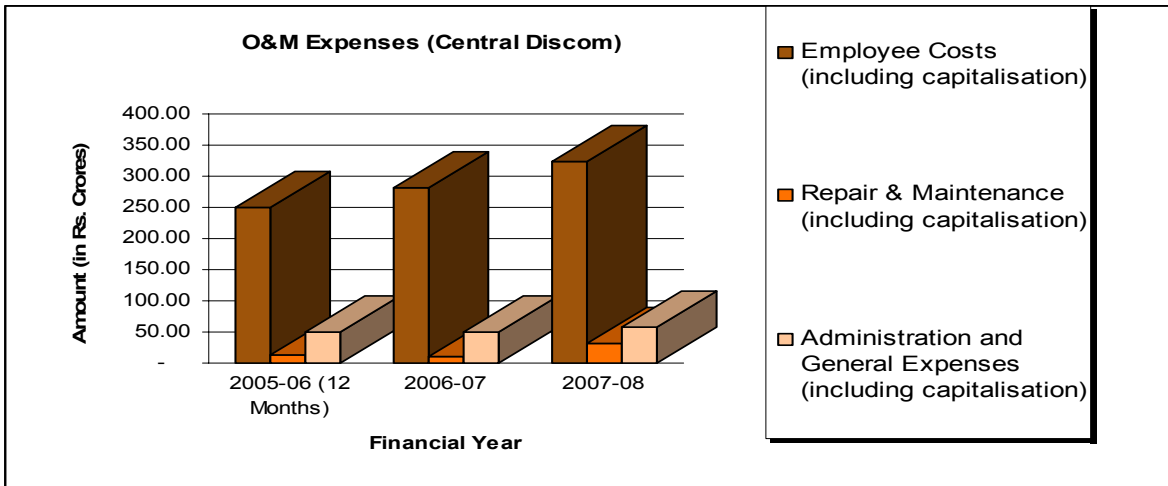


Chart 3: O&M Expenses of Central Discom during FY 2005-06 to 2007-08



2.22 This may further be seen from the following data in respect of the working employees' strengths of Discoms as provided by East Discom vide letter no. EZ/TRAC/True-up/FY06-07/108 dated 27/01/2009, West Discom vide letter no. CMD/WZ/TRAC/945 dated 20/01/2009 and Central Discom vide letter no. CMD/CZ/TRAC/173 dated 03/02/2009 that there is an increase in the number of working employees in Class – I. In case of class – II employees, there is decrease in 2006-07 from 2005-06 in East and Central Discoms and in the case of West Discom there is no change. Only in the case of Class – III and Class – IV employees there is decrease in employee's strength. These numbers do not reflect any special efforts for minimising O&M expenses.

Table 31 : Working Employees Strength of East Discom

Working Employees Strength (Nos.)	As on 31 st March 2006	As on 31 st March 2007	As on 31 st March 2008
Class – I	112	138	156
Class – II	311	209	234
Class – III	5363	5259	5285
Class – IV	9366	9112	8598

Table 32 : Working Employees Strength of West Discom

Working Employees Strength (Nos.)	As on 31 st March 2006	As on 31 st March 2007	As on 31 st March 2008
Class – I	142	152	166
Class – II	221	210	217
Class – III	4725	4510	4395
Class – IV	8267	8077	8111

Table 33 : Working Employees Strength of Central Discom

Working Employees Strength (Nos.)	As on 31 st March 2006	As on 31 st March 2007	As on 31 st March 2008
Class – I	124	126	147
Class – II	225	226	226
Class – III	4915	4756	4586
Class – IV	8189	7881	7699

2.23 Audited annual accounts of East, West and Central Discoms have shown expenses under the “terminal benefits to employees” in “Employees’ costs” schedule to the tune of Rs. 64.23 Crores, Rs. 56.69 Crores and Rs. 55.23 Crores respectively. While seeking clarification from the petitioners, West Discom has clarified that out of total amount of Rs. 56.69 Crores, actual payment is Rs. 1.06 Crores only and rest amount of Rs. 55.63 Crores is provided as provision. Hence Rs. 1.06 Crores is allowed to West Discom. East and Central Discoms have clarified that no actual payment has been made out of their respective amounts and whole amount is provision. The State Government of MP through the notification on Transfer Scheme of 13/06/2005 provides for setting up a Fund for meeting the terminal liabilities of:

- (a) Existing Pensioners (including family pensioners) of MPSEB who are eligible for pension as on date of transfer.
- (b) 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.
- (c) Prospective pensioners working in the companies who retire after the date of transfer for total pension and other terminal benefits.

- 2.24 The Commission observes that the actual payments made for pension and terminal benefits to all pensioners/retirees of erstwhile MPSEB have already been allowed to MPPTCL. Further, no funds were transferred to terminal benefit trust by these Companies. The provisions made are therefore disallowed.
- 2.25 Audited annual accounts of East, West and Central Discoms have shown “insurance” expenses under the “Administrative and General Expenses” schedule to the tune of Rs. 8.15 Crores, Rs. 8.80 Crores and Rs. 9.55 Crores respectively. While seeking clarification from the petitioners, all the East, West and Central Discoms have clarified that these amount are provisions and no amount has actually been incurred from this amount. The Commission has not considered this amount to be allowed in their ARR.
- 2.26 Audited annual accounts of East, West and Central Discoms have shown “Allocation of Common Expenses from MPSEB” under the “Administrative and General Expenses” schedule of Rs. 9.03 Crores, Rs. 10.27 Crores and Rs. 7.46 Crores respectively. The Commission had already made it clear to the successor Companies of the erstwhile Board that it will not allow any expenses incurred by them for meeting the expenses of the Board as the latter has already been disintegrated into five Companies and the Board had been entrusted with the responsibility of a Trading Licensee. In fact, this responsibility has been given to a trading company MPPTCL. Therefore, in the present case the expense claimed by the Distribution Licensees for meeting MPSEB expenses has not been allowed.
- 2.27 The Commission allows the amount (net of capitalization) which has been actually incurred by the Discoms (as per their audited accounts except the terminal benefits to employees, insurance, allocation of common expenses from MPSEB), of Rs. 294.46 Crores for East Discom, Rs. 274.97 Crores for West Discom and Rs. 259.74 Crores for Central Discom.

Table 34 : O&M expenditure Allowed (Rs. Crs.)

Particulars	East	West	Central	Total
Repair & Maintenance Expenses (As per Audited Balance Sheet)	21.42	24.26	11.36	57.04
Employees expenses (As per Audited Balance Sheet)	315.17	289.62	282.61	887.41
Less: Terminal Benefits Expenses	64.23	56.28	56.69	177.21
Total Employees Expenses	250.94	233.34	225.92	710.20
A&G Expenses (As per Audited Balance Sheet)	47.68	45.56	48.89	142.13
Less: Insurance	8.15	9.55	8.80	26.49
Less: Common Expenses of MPSEB	9.03	7.46	10.27	26.76
Total A&G Expenses	30.50	28.56	29.82	88.88
Grand Total	302.86	286.16	267.10	856.13
Less: Expenses Capitalised (As per Audited balance Sheet)	8.41	11.19	7.36	26.96
Amount Allowed by Commission in this true-up	294.46	274.97	259.74	829.16
Amount Allowed in Tariff Order for 2006-07	389.10	420.03	321.29	1,130.42
Amount of True-up difference	(94.64)	(145.06)	(61.55)	(301.26)

Interest & Finance Charges and Return on Equity

2.28 The interest and finance charges comprise of interest on project specific loans, the interest charges on Consumer Security Deposits, the interest charges on working capital loans and the cost of raising finance and other charges from the lending agencies.

2.29 As per the audited annual financial statement, details of Interest & Finance Charges are as follows:

Table 35 : Interest and finance charges as per Audited Annual Financial Statements (Rs. Cr.)

Interest & Finance Charges	East	West	Central	Total
Interest on Loan				
MPSEB Generic Loans	27.22	55.57	34.13	116.92
Interest on State Govt. Loans		14.81		
REC loans under RGGVY Scheme	0.16			
NABARD	0.06		0.03	0.09
APDRP	2.47		4.52	6.99
ADB	5.25		5.25	10.50
PFC-RTL	10.87	13.33	7.56	31.76
PFC-STL	1.16			
Penal Interest in respect of Capital Liabilities		0.53		
Total	47.19	84.24	51.49	182.92
Interest on Consumers Deposits	8.89	15.84	8.71	33.44
Total	56.08	100.08	60.20	216.36
Interest on Borrowings for Working Capital	11.34	17.70	12.77	41.82
Total	67.42	117.78	72.97	258.17
Cost of Raising Finance			-	-
Other Charges	1.84	3.29	1.22	6.34
Less- Rebate in Interest on Timely Repayment			-	-
Total	69.26	121.07	74.19	264.51
Less: Interest & Finance Charges Capitalised	23.46	42.93	33.34	99.72
Net Total	45.80	78.14	40.85	164.79

Interest on Project Loans**Licensees' submission:**

2.30 In its true-up filing East Discom, West Discom and Central Discom have claimed Rs. 46.03 Crores, 84.59 Crores and 51.49 Crores as against Rs. 3.93 Crores, 11.46 Crores and 5.70 Crores allowed in Tariff Order. The details of interest on project loans claimed by petitioners are as follows:

Table 36 : Interest on Project Loans Claimed by East Discom (Amount in Rs. Crores)

Sr. No.	Source	As filed in the true-up petition as audited figures* (B)	Allowed in the Tariff Order (C)	Variance (B-C)
1	PFC	10.87	1.45	9.42
2	ADB	5.25	1.13	4.12
3	REC	-	-	0.16
4	NABARD	2.53	-	2.53
5	APDRP		-	
6	RGGVY	0.16	-	-
7	JBIC	-	-	-
8	MPSEB	27.22	-	27.22
9	OTHERS (Short term loans)	-	-	-
10	Additional Equity (Not Eligible for RoE)	-	-	-
11	Total	46.03	2.58	43.45
12	Less: Interest Capitalized	-	-	-
13	Net Interest	46.03	2.58	43.45
14	Add: Other finance charges	-	1.35	1.35
15	Total Interest	46.03	3.93	42.10

*The total amount claimed does not match with the audited accounts

Table 37 : Interest on Project Loans Claimed by West Discom (Rs. Cr.)

Sr. No.	Source	As filed in the true-up petition as audited figures* (B)	Allowed in the Tariff Order (C)	Variance (B-C)
1	PFC	14.21	6.14	8.07
2	ADB	6.30	3.35	2.95
3	REC	-	-	-
4	NABARD	8.51	-	8.51
5	APDRP		-	
6	RGGVY	-	-	-
7	JBIC	-	-	-
8	MPSEB	55.57	-	55.57
9	OTHERS (Short term loans)	-	-	-
10	Additional Equity (Not Eligible for RoE)	-	-	-
11	Total	84.59	9.49	75.10
12	Less: Interest Capitalized	-	-	-
13	Net Interest	84.59	9.49	75.10
14	Add: Other finance charges	-	1.97	1.97
15	Total Interest	84.59	11.46	73.13

*The total amount claimed does not match with the audited accounts

Table 38 : Interest on Project Loans Claimed by Central Discom (Rs. Cr)

Sr. No.	Source	As filed in the true-up petition as audited figures (B)	Allowed in the Tariff Order (C)	Allowed in the Tariff Order (C)
1	PFC	7.56	2.82	4.74
2	ADB	5.25	2.88	2.37
3	REC	-	-	-
4	NABARD	0.03	-	0.03
5	APDRP	4.52	-	4.52
6	RGGVY	-	-	-
7	JBIC	-	-	-
8	MPSEB	34.13	-	34.13
9	OTHERS (Short term loans)	-	-	-
10	Additional Equity (Not Eligible for RoE)	-	-	-
11	Total	51.49	5.70	45.79
12	Less: Interest Capitalized	-	-	-
13	Net Interest	51.49	5.70	45.79
14	Add: Other finance charges	-	-	-
15	Total Interest	51.49	5.70	45.79

Commission's Analysis on Interest on Project Loans:

2.31 The Commission has examined the claims of the Discoms from its filing and its audited annual financial statements. As per Regulation 2.12 of the Terms and Conditions of Determination of Tariff Regulation 2005, for allowing interest all loans shall be identified with the assets created. It further states that interest and finance charges on works in progress shall be excluded and be considered as part of the capital cost. In the absence of information related to loans mapping with particular assets, it can not be ascertained as to how much loan is related to completed fixed assets and how much is related to capital work in progress. Regulation 2.6 of the Terms and Conditions of Determination of Tariff Regulation 2005, states that debt-equity ratio shall be 70:30 for calculation of interest on loan and for return on equity. However, the Commission has adopted the following principles for working interest on project loans

Principles adopted for calculation of interest on project loans

2.32 In the tariff order 2008-09, interest on project loans were allowed on the fixed asset created till 31st March 2007 on the basis of audited balance sheet for FY 2006-07. The Commission in the same order had adopted the following process for allocating the gross fixed assets (GFA) into debt and equity:

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- (a) Allocation of fixed assets as on 31st March 2006 into debt and equity was taken as per the tariff order 2007-08.
- (b) Net addition to GFA during FY 2006-07 was worked out after subtracting the consumer contribution amount from total addition to GFA, as available from the Balance Sheet.
- (c) 30% of the net addition to GFA during FY 2006-07 had been considered as funded through equity and added to the total Equity in GFA (considered at the end of FY 2005-06), as per the FY 2007-08 Tariff Order.
- (d) Balance of net addition to GFA is considered as having been funded through debt and added to the total debt in GFA considered at the end of FY 2005-06 as per the FY 2007-08 Tariff Order. In absence of the actual dates of capitalization of individual assets, 50% of the net addition to GFA is considered for allowing Interest on project loans, so that the principle of pro-rata basis can be followed.
- (e) Debt repayments had been subtracted from the total debt identified with completed assets as computed from above. Repayments have been worked out as pro-rata to total scheduled repayments during FY 2006-07. Actual repayments had not been considered since there had been defaults in repayment of principal by the Licensee during FY 2006-07.

2.33 Also in the tariff order for FY 2008-09, the weighted average interest rate of all loans as on 31st March 2007 was taken. On that basis, the weighted average interest rate as 9.89% p.a., 11.66% p.a. and 12.10% p.a. for East Discom, West Discom and Central Discom respectively had been worked out for FY 2006-07.

2.34 Same principles and process are being adopted for allowing the interest on project loans for true-up of FY 2006-07. Other Charges related to interest and finance charges (as appearing in the audited annual financial statements of the Discoms in interest and finance charges schedule) of Rs. 1.84 Crores of East Discom, 3.29 Crores of West Discom and Rs. 1.22 Crores of Central Discom have been claimed by the Discoms with interest on working capital. The Commission allows the same with interest on project loans. Thus the interest on project loans to be allowed in true-up 2006-07 comes out to be Rs. 12.09 crores, Rs. 24.19 crores and Rs. 11.19 crores for East, West and Central Discom respectively. The allocation and calculation of interest on project loans is presented in the table below:

Table 39 : Interest on Project Loans Allowed by Commission (Rs. Cr.)

S. No.	Particulars	East	West	Central	Total
1	Addition to GFA during FY 2006-07 (as per audited balance sheet)	156.66	124.42	39.63	320.7
2	Consumer Contribution during FY 2006-07 (as per audited balance sheet)	5.38	19.02	5.29	29.69
3	Net addition to GFA during FY 2006-07 (3 =	151.28	105.4	34.34	291.01

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	1-2)				
4	30% of addition to net GFA considered as funded through equity (4 = 3*30%)	45.38	31.62	10.3	87.3
5	Balance addition to net GFA: funded through debt (5 = 3-4)	105.9	73.78	24.04	203.71
6	50% of the Balance addition to net GFA: funded through debt (6=5*50%)	52.95	36.89	12.02	101.86
7	Debt identified with GFA as on 31st March 2006 (Allocation of debt and equity to GFA as per the FY 2007-08 Tariff Order)	56.07	160.82	80.62	297.51
8	Debt repayment (as per Tariff Order FY 2008-09)	5.42	18.48	10.26	34.16
9	Total debt associated with GFA as on 31 st Mar 07 (9 = 6+7-8)	103.60	179.23	82.38	365.21
10	Weighted average rate of interest (%) (as per Tariff Order 2008-09)	9.89%	11.66%	12.10%	
11	Interest on Project Loans (11 = 9*10)	10.25	20.90	9.97	41.12
12	Other Charges	1.84	3.29	1.22	6.35
13	Interest cost allowed in True-Up FY 2006-07 (13=11+12)	12.09	24.19	11.19	47.47
14	Interest and Finance charges on project loans allowed in Tariff Order dated 31.03.06	3.93	11.46	5.70	21.09
15	True-up difference	8.16	12.73	5.49	26.38

Interest on Working capital

Licensees' submission:

- 2.35 East Discom has claimed interest on working capital of Rs. 14.34 Crores on actual basis. As per tariff order for FY 2006-07 Rs. 1.87 Crores had been calculated on normative basis.
- 2.36 Similarly, West Discom has claimed interest on working capital of Rs. 20.99 crores as against nil allowed in tariff order FY 2006-07 based on norms.
- 2.37 Central Discom has claimed 13.99 Crores against nil allowed in tariff order for FY 2006-07 based on norms.
- 2.38 As per audited annual financial statements, the interest on working capital is shown as Rs. 11.34 Crores, 17.70 Crores, and 12.77 Crores for East, West and Central Discom respectively.

Commission's Analysis on Interest on working capital:

- 2.39 As per regulation 2.28 of the Terms and Conditions of Determination of Tariff Regulation 2005, interest on working capital shall be payable on normative basis notwithstanding that the licensee has not taken working capital loan from any outside agency or has exceeded the working capital loan based on normative figures. For the purpose of interest rate on working capital, interest at the rate of short-term prime lending rate of State Bank of India as on 1st April of relevant year plus 2% shall be taken.
- 2.40 The petitioners in their true-up filing (formats) have provided the details related to calculation of working capital requirements based on norms. The East Discom, West Discom and Central Discom have shown working capital requirement of Rs. (25.77) Crores, Rs. (22.37) Crores and Rs. 212.97 Crores respectively. The Commission finds some discrepancies in the calculation of working capital requirements. Based on analysis done by the Commission on normative basis, the working capital requirements of East Discom, West Discom and Central Discom work out as Rs. (34.64) Crores, 39.04 Crores and Rs. (81.12) Crores respectively. Since, figures are negative for East and Central Discoms; the petitioners (East Discom and Central Discom) are not eligible for any interest on working capital. However, West Discom is allowed for a working capital requirement for Rs. 39.04 Crore and subsequently interest on working capital of Rs. 4.78 Crore. The following table gives the detailed calculation of working capital by the Commission:

Table 40 : Interest on Working Capital Requirements (Amount in Rs. Crores)

Sl. No.	Particulars	East	West	Central	Total
A	1/6th of annual requirement of inventory for previous year (as Allowed in the Tariff Order 2008-09 on the basis of details of FY 2006-07)	2.00	2.24	1.88	6.12
B	O&M expenses allowed by the Commission in this true up	294.46	274.97	259.74	829.17
B i)	1/12th of above O& M expenses	24.54	22.91	21.65	69.10
C	Receivables				
C i)	Annual Revenue (from wheeling charges and retail tariffs and charges) (Taken as per Audited accounts)	2,071.18	2,596.75	2,008.10	6,676.03
C ii)	Receivables equivalent to 2 months average billing	345.20	432.79	334.68	1,112.67
D	Power Purchase expenses (As calculated by the Commission)	1,354.76	1,607.13	1,568.46	4,530.36
D i)	1/12th of power purchase expenses	112.90	133.93	130.71	377.53
E	Consumer Security Deposit (Average of Opening and Closing)	293.48	284.98	308.62	887.08
F	Total Working capital [A + B i) + C ii) - D i) - E]	(34.64)	39.04	(81.12)	(76.72)
G	Rate of Interest (12.25%)	12.25%	12.25%	12.25%	
H	Interest on Working capital allowed in true-up	-	4.78	-	4.78
I	Interest on working capital allowed in Tariff Order dated 31.03.06	1.87	Nil	nil	1.87
J	True-up difference	(1.87)	4.78	-	2.91

Interest on Consumer Security Deposits

Licensees' submission:

- 2.41 East Discom has claimed Rs. 8.89 Crores as interest on consumer security deposits as per audited annual financial statement. While in the tariff order for FY 2006-07, Rs. 16.38 Crores was allowed on provisional opening balance sheet figure.
- 2.42 West Discom has claimed Rs. 15.84 Crores as against Rs. 24.30 allowed in tariff order FY 2006-07.
- 2.43 Central Discom has claimed 8.71 Crores against Rs. 16.68 Crores, as allowed in tariff order for FY 2006-07.

Commission's Analysis on Consumer Security Deposit:

- 2.44 As per the Commission's Terms and Conditions of Determination of Tariff Regulation 2005, interest on consumer security deposit shall be considered at the rate specified by the Commission. In the tariff order 2006-07 the Commission has allowed the interest on consumer security deposit @ 6% on the basis of consumer security deposit balance as on 31.05.2005 as per provisional opening balance sheets of the Discoms.
- 2.45 As per true-up filing for FY 2006-07 done by petitioner, the calculation for interest on security deposit was not clear. The Commission vide its order sheet dated 19th March 2008 has asked the clarification regarding the calculation of security deposit.
- 2.46 East Discom vide its letter no. 645 dated 30th April 2008, has submitted that *interest on security deposit amounting Rs. 17.61 Crores was passed on to the consumers. Out of which Rs. 8.89 crores was debited to the account, and mistakenly Rs. 8.72 crores could not be debited to interest account. On finding the clerical mistake, adjustment entry has been passed during FY 2007-08.* The Commission therefore accepts Rs. 8.89 crores (as per audited accounts) as interest on consumer security deposit.

- 2.47 West Discom vide its letter no. 11909 dated 23rd June 2008, has submitted that as per Govt. policy to waive off the dues of agricultural consumers in the year 2004-05, the amount already deposited by the consumers was parked by erstwhile MPSEB under a separate code "advance deposits from consumers" within major account head "Security deposits from Consumers" for adjustment of the same against the future bills of the respective consumers. Till the time of notifying the provisional opening balance sheet vide notification dated 31st May, 2005 by GoMP, the subject amount was remaining unadjusted in books of account of erstwhile MPSEB and as such was included under the major head Consumer Security Deposits in the provisional opening balance sheet of the successor companies as the advantage of adjustment has already been given to the consumers, the amount equivalent to the adjustment made so far against this liability has been properly accounted for in the accounts of the company in the year FY 07. The hon'ble Commission may kindly appreciate that actual amount of security deposit as at the year end of FY07 is Rs. 284.98 Crores only. It is kindly requested to consider the same." The interest on consumer security deposit @ 6% on Rs. 284.98 crores works out to Rs. 17.10 crore, but audited annual statements is showing interest on consumer security deposits of Rs. 15.84 Crores. Same is allowed by the Commission.
- 2.48 Central Discom vide its letter no. 849 dated 30th April 2008, the interest of Rs. 8.71 cores has been paid as interest on consumer security deposit. The petitioner has requested Commission to consider the audited statement number. Thus the Commission therefore accepts Rs. 8.71 crores (as per audited accounts) as interest on consumer security deposit.
- 2.49 The summary of interest on consumer security deposits allowed by the Commission is given in table below:.

Table 41 : Interest on Consumer Security Deposit Allowed (Amount in Rs. Crores)

Calculation of Interest on Consumer Security Deposit	East (Audited Balance Sheet)	West (vide its letter no.11909 dated 23rd June 2008)	Central (Audited Balance sheet)	Total
Allowed in this true-up Order as per Audited Balance Sheet	8.89	15.84	8.71	33.44
Allowed in Tariff Order dated 31.03.06	16.38	24.30	16.68	57.36
True-up difference	(7.49)	(8.46)	(7.97)	(23.92)

Return on Equity

Licensees' submission:

- 2.50 The licensees have claimed return on equity @ 16% on the eligible equity in their true-up petitions. The East, West and Central Discoms have claimed Rs. 58.73 Crores, Rs. 94.16 Crores and Rs. 56.97 Crores as against Rs. 50.72 Crores, Rs.71.95 Crores and Rs. 50.56 Crores respectively allowed in the tariff order for FY 2006-07.

Commission's Analysis on Return on Equity:

2.51 The Commission has explained in para 2.32, the process of identification of debt and equity on fixed assets. This process has resulted in total equity identified with GFA as at the end of FY 2006-07 as shown in the table below. The Return on Equity as allowed for FY 2006-07 true-up is then determined by applying the rate of 16% as specified in Commission's regulation.

Table 42 : Return on Equity (Amount in Rs. Crores)

S. No.	Particulars	East	West	Central	Total
1	Equity identified with GFA (as on 31.03.2006) in the Tariff Order 2007-08	326.75	464.96	320.96	1,112.67
2	30% of addition to net GFA considered as funded through equity (As per Table 39)	45.38	31.62	10.30	87.30
3	50% of the 30% of addition to net GFA considered as funded through equity (3=2*50%)	22.69	15.81	5.15	43.65
4	Total Equity identified with GFA as on 31st March 07 (4=1+3)	349.44	480.77	326.11	1156.32
5	RoE @16% allowed in True-up of FY 2006-07	55.91	76.92	52.18	185.01
6	RoE allowed in Tariff Order	50.72	71.95	50.56	173.23
7	True-up difference	5.19	4.97	1.62	11.78

2.52 The Commission allows return on equity of Rs. 55.91 Crores, Rs. 76.92 Crores and Rs. 52.18 Crores for East, West and Central Discoms respectively.

Depreciation**Licensees' Submission:****East Discom:**

2.53 In the truing-up petition, the East Discom has claimed depreciation on fixed assets based on a straight line method provided in the Central Government's circular No. S. O. 266 (E) dated 29th March, 1994. Wherever, rates of depreciation as per circular above are lower than the rates of depreciation specified under Schedule XIV of the Companies Act, 1956, the Companies Act rates have been adopted. As per the accounting policy of the Licensee for the assets added during the year, the depreciation is provided on proportionate basis from the date the assets are available for use. The cases in which the date of Commissioning is not known, depreciation is provided for six months.

- 2.54 Licensee has claimed (based on audited annual financial statement for FY 2006-07) opening balance of the fixed assets as on 01.04.2006 as Rs. 1288.05 Crores, addition during the year of Rs. 156.66 Crores thus closing balance of the fixed assets coming to Rs. 1444.71 Crores. Depreciation claimed by the East Discom in true-up petition is Rs. 114.78 Crores as against the depreciation allowed in the tariff order for FY 2006-07 of **Rs. 50.70 Crores**. Thus the actual depreciation claim for the period FY 2006-07 is more by Rs. 64.08 Crores.
- 2.55 In addition East Discom has claimed a credit of Rs. 4.00 Crores on account of extraordinary items which includes subsidies against losses on account of flood, fire, cyclone, etc. Thus after reducing Rs. 4.00 Crores from the depreciation claimed during the year net depreciation claimed is coming Rs. 110.78 Crores leaving the difference of Rs. 60.08 Crores for depreciation between the Tariff order and true-up petition.
- 2.56 The submission of the East Discom is given as under:

Table 43 : Opening GFA, Additions and Closing GFA for FY 2006-07 (Rs. Crs.)

Sl. No.	Particulars	Opening balance of GFA as on 01.04.2006	Change during the year (additions / deductions)	Closing Balance of GFA as on 31.03.2007
1	Land & Land rights	2.02	0.0005	2.02
2	Building and Civil Works	15.35	0.23	15.58
3	Hydraulic Works	9.67	-	9.67
4	Other Civil Works	2.75	0.09	2.83
5	Plant & Machinery	290.14	33.68	323.82
6	Line Cable Networks etc.	958.47	121.40	1,079.88
7	Communication equipment	-	-	-
8	Meters, including metering equipment	-	-	-
9	Vehicles	2.89	0.06	2.95
10	Furniture & fixtures	1.63	0.05	1.68
11	Office Equipments	5.13	1.14	6.27
12	Total (1 to 11)	1,288.05	156.66	1,444.71

- 2.57 Details of opening accumulated depreciation, addition during the year, withdrawal during the year and closing balance of the accumulated depreciation are as follows:

Table 44 : Opening Accumulated Depreciation, Additions/Withdrawal during the Year and Closing Accumulated Depreciation of East Discom (Rs. Crores)

Sr. No.	Particulars	Opening balance of Depreciation as on 01.04.2006	Additions during the year	Withdrawals during the year	Closing balance of Depreciation as on 31.03.07
1	Land & Land rights	0.11	0.01	-	0.12
2	Building and Civil Works	11.29	0.38	-	11.68
3	Hydraulic Works	6.53	0.60	-	7.13
4	Other Civil Works	1.30	0.08	-	1.38
5	Plant & Machinery	197.39	22.31	-	219.70
6	Line Cable Networks etc.	619.49	90.46	-	709.95
7	Communication equipment	-	-	-	-
8	Meters, including metering equipment	-	-	-	-
9	Vehicles	2.60	0.11	-	2.71
10	Furniture & fixtures	1.34	0.17	-	1.51
11	Office Equipments	2.15	0.65	-	2.80
12	Total (1 to 11)	842.21	114.78	-	956.98
13	Depreciation capitalized	-	-	-	-
14	Net Depreciation (12-13)	842.21	114.78	-	956.98

West Discom:

- 2.58 In the truing –up petition, the West Discom has claimed depreciation on fixed assets based on straight line method provided in the Central Government’s circular No. S. O. 266 (E) dated 29th March, 1994. Wherever, rates of depreciation as per circular above are lower than the rates of depreciation specified under Schedule XIV of the Companies Act, 1956, the Companies Act rates have been adopted. As per the accounting policy of the Licensee for the assets added during the year no depreciation is provided during the year.
- 2.59 License has claimed (based on audited annual financial statement for FY 2006-07) opening balance of the fixed assets as on 01.04.2006 as Rs. 1,553.36 Crores, addition during the year of Rs. 124.41 Crores thus closing balance of the fixed assets coming to Rs. 1,677.77 Crores. Depreciation claimed by the West Discom in true-up petition is coming Rs. 66.94 Crores as against the deprecation allowed in the tariff order for FY 2006-07 of **Rs. 60.75 Crores**. Thus the actual depreciation claim for the period FY 2006-07 is more by Rs. 6.20 Crores.
- 2.60 The submission of the West Discom is given as under:

Table 45 : Opening GFA, Additions and Closing GFA for FY 2006-07(Rs. Crores)

Sr. No.	Particulars	Opening balance of GFA as on 01.04.2006	Change during the year (additions / deductions)	Closing Balance of GFA as on 31.03.2007
1	Land & Land rights	4.66	0.29	4.96
2	Building and Civil Works	28.80	2.10	30.90
3	Hydraulic Works	6.55	-	6.55
4	Other Civil Works	2.93	0.02	2.95
5	Plant & Machinery	481.16	56.07	537.23
6	Line Cable Networks etc.	1,018.37	65.01	1,083.38
7	Communication equipment	-	-	-
8	Meters, including metering equipment	-	-	-
9	Vehicles	5.19	(0.00)	5.19
10	Furniture & fixtures	1.91	0.04	1.95
11	Office Equipments	3.78	0.89	4.67
12	Total (1 to 11)	1,553.36	124.41	1,677.77

2.61 Details of opening accumulated depreciation, addition during the year, withdrawal during the year and closing balance of the accumulated depreciation are as follows:

Table 46 : Opening Accumulated Depreciation, Additions/Withdrawal during the Year and Closing Accumulated Depreciation of West Discom(Rs. Crores)

Sr. No.	Particulars	Opening balance of Depreciation as on 01.04.2006	Additions during the year	Withdrawals during the year	Closing balance of Depreciation as in 31.03.07
1	Land & Land rights	0.06	0.004	-	0.06
2	Building and Civil Works	10.63	0.86	-	11.49
3	Hydraulic Works	2.94	0.11	-	3.05
4	Other Civil Works	1.46	0.08	-	1.53
5	Plant & Machinery	272.35	17.21	-	289.56
6	Line Cable Networks etc.	628.05	48.28	-	676.33
7	Communication equipment	-	-	-	-
8	Meters, including metering equipment	-	-	-	-
9	Vehicles	4.67	-	0.003	4.67
10	Furniture & fixtures	1.40	0.06	-	1.46
11	Office Equipments	1.29	0.34	-	1.64
12	Total (1 to 11)	922.86	66.94	0.003	989.80
13	Depreciation capitalized	-	-	-	-
14	Net Depreciation (12-13)	922.86	66.94	0.003	989.80

Central Discom:

2.62 In the truing –up petition, the Central Discom has claimed depreciation on fixed assets based on straight line method provided in the Central Government’s circular No. S. O. 266 (E) dated 29th March, 1994. Wherever, rates of depreciation as per circular above are lower than the rates of depreciation specified under Schedule XIV of the Companies Act, 1956, the Companies Act rates have been adopted. In the accounting policy of the Licensee no treatment has been provided for the assets added during the year.

2.63 License has claimed (based on audited annual financial statement for FY 2006-07) opening balance of the fixed assets as on 01.04.2006 as Rs. 1,303.07 Crores, addition during the year of Rs. 39.62 Crores thus closing balance of the fixed assets coming to Rs. 1,342.70 Crores. Depreciation claimed by the Central Discom in true-up petition is coming Rs. 114.77 Crores as against the deprecation allowed in the tariff order for FY 2006-07 of Rs. 50.49 Crores. Thus the actual depreciation claim for the period FY 2006-07 is more by Rs. 64.28 Crores.

2.64 The submission of the Central Discom is given as under:

Table 47 : Opening GFA, Additions and Closing GFA for FY 2006-07 (Rs. Crores)

Sr. No.	Particulars	Opening balance of GFA as on 01.04.2006	Change during the year (additions / deductions)	Closing Balance of GFA as on 31.03.2007
1	Land & Land rights	-	-	-
2	Building and Civil Works	-	0.05	0.05
3	Hydraulic Works	-	-	-
4	Other Civil Works	-	-	-
5	Plant & Machinery	0.003	1.81	1.82
6	Line Cable Networks etc.	8.33	7.71	16.03
7	Communication equipment	-	-	-
8	Meters, including metering equipment	-	-	-
9	Vehicles	-	-	-
10	Furniture & fixtures	-	0.06	0.06
11	Office Equipments	0.43	0.40	0.83
12	CWIP transferred to Fixed Assets	13.31	29.59	42.91
13	Fixed Assets -Transfer vide GOMP notification No.3679/FRS/18/13/2002 dtd 31.05.2005	1,281.00	-	1,281.00
12	Total (1 to 13)	1,303.07	39.62	1,342.70

2.65 Details of opening accumulated depreciation, addition during the year, withdrawal during the year and closing balance of the accumulated depreciation are as follows:

Table 48 : Opening Accumulated Depreciation, Additions/Withdrawal during the Year and Closing Accumulated Depreciation of Central Discom (Rs. Crores)

Sr. No.	Particulars	Opening balance of Depreciation as on 01.04.2006	Additions during the year	Withdrawals during the year	Closing balance of Depreciation as in 31.03.07
1	Land & Land rights	-	-	-	-
2	Building and Civil Works	-	-	-	-
3	Hydraulic Works	-	-	-	-
4	Other Civil Works	-	-	-	-
5	Plant & Machinery	-	-	-	-
6	Line Cable Networks etc.	-	-	-	-
7	Communication equipment	-	-	-	-
8	Meters, including metering equipment	-	-	-	-
9	Vehicles	-	-	-	-
10	Furniture & fixtures	-	-	-	-
11	Office Equipments	-	-	-	-
13	CWIP transferred to Fixed Assets	93.00	114.77	-	207.78
14	Fixed Assets -Transfer vide GOMP notification No.3679/FRS/18/13/2002 dtd 31.05.2005	788.00	-	-	788.00
15	Total (1 to 14)	881.00	114.77	-	995.78
16	Depreciation capitalized	-	-	-	-
17	Net depreciation (15-16)	881.00	114.77	-	995.78

Commission's analysis on depreciation claims:

2.66 The Commission in its Regulation dated 5th December, 2005 on terms and conditions for determination of tariff for distribution and retails supply of electricity has specified the calculation of depreciation in the following manner:

- (a) *The value base for the purpose of depreciation shall be historical cost.*
- (b) *Depreciation rates for determination of allowable depreciation shall be as per Annexure-I of the Regulation*
- (c) *Total depreciation during the life of the asset shall not exceed 90% of the original cost.*

- 2.67 The depreciation rates given in the above Regulation are equivalent to the depreciation rates given as per CERC (Central Electricity Regulatory Commission) Regulation. But depreciation claimed by the Discoms are based on Central Government's circular No. S. O. 266 (E) dated 29th March, 1994. Also in its true-up order for FY 2005-06 dated 16th January 2008 the Commission had clarified that “ *notwithstanding the accounting practices followed by the Licensees, from FY 2006-07 onwards, the Commission shall adopt the rates of depreciation on assets as specified in the Commission's Regulation on Terms and Conditions of Tariff.*”
- 2.68 A meeting with the concerned Officers of the three petitioners was convened in the Office of the Commission on 31st May'2008 to discuss the issues on depreciation also besides several other issues related to their true-up filings.. The Commission vide letter no. 1221 dated 07/06/2008 had conveyed the minutes of meeting to the Distribution Companies and directed the Discoms to come with the depreciation claims such that the assets already dereciated up to 90% are separated so that no depreciation is charged on them.. In response, East Discom and Central Discom have re-submitted their revised depreciation calculation. However, West Discom has shown its inability to calculate the depreciation as per the Regulation and requested the Commission to allow the depreciation based on Central Government's Circular.
- 2.69 The East Discom and Central Discom have submitted the depreciation calculation based on depreciation rates provided in the MPERC (Terms and conditions for Distribution tariff), Regulations. However, East Discom has calculated the depreciation by multiplying the opening balances as on 01-04-2006 with depreciation rates as provided in the Regulations. Regarding the asset additions during the year, it has calculated depreciation for half year only. This calculation does not appear to fulfill the criteria of total depreciation claim not exceeding 90% of the original cost. Depreciation claims by East and Central Discoms based on MPERC depreciation rates are given as below :

Table 49 : Depreciation Claims by East and Central Discoms based on MPERC depreciation Rates (Rs. Crores)

	East	Central
Assets Balance as on 31.03.2006	1,288.05	1,303.07
Assets Balance as on 31.03.2007	1,444.71	1,342.70
Depreciation claim based on MPERC Depreciation Rates	56.44	29.07
As % of closing balance of GFA as on 31.03.2007	3.91%	2.17%

- 2.70 From the table above East Discom's claim based on the regulation as a percentage of closing balance as on 31.03.2007 is 3.91% while Central Discom's claim is 2.17%.
- 2.71 To comply with the criteria of maximum 90% depreciation of the original cost as per the Regulation, West and Central Discoms had prepared and submitted details of category-wise and year-wise addition of the assets. East Discom has not provided these details.

2.72 The Commission in its tariff order for FY 2008-09 had calculated the depreciation in respect of West and Central Discom based on asset database provided by these two Discoms. In case of East Discom, depreciation was calculated based on weighted average depreciation rate of West and Central Discoms. Adopting the same approach, the Commission hereby allows depreciation for East, Central and West Discom of Rs. 29.40 Crores, 27.48 Crores and Rs. 33.87 Crores respectively for year FY 2006-07. The submission by East Discom as mentioned in paragraph 2.54 regarding extraordinary credit of Rs 4.00 crore is considered by the Commission at an appropriate place in table 58 under miscellaneous write-off/losses/ sundry expenses/credits etc

Table 50 : Depreciation Allowed (Rs. Crs.)

DISCOM	Depreciation as per 2006-07 True-up Filing		Allowed in Tariff Order dated 31.03.2006	Allowed in True-up 2006-07 (including depreciation on assets added during the year)	True up amount
	MoP rates / Audited Balance Sheet	MPERC Rates			
East	114.78	56.44	50.70	29.40	21.3
West	66.94	not submitted	60.75	33.87	26.88
Central	114.78	29.07	50.49	27.48	23.01
Total	296.49	85.51	161.94	90.75	71.19

Other items of ARR

2.73 Apart from the components of expenses discussed above, there are certain other items, which form part of the Aggregate Revenue Requirement. These include provision for bad debts, other miscellaneous expenditure, any prior period expenses / credits, income tax and fringe benefit tax. These are analyzed below:

Bad and doubtful debts

Licensees' submission:

2.74 As per the audited accounts and True-up petitions of the Licensees, the following amounts under Bad and Doubtful Debts have been charged in the Profit and Loss Accounts:

Table 51 : Bad Debts claimed by Discoms (Rs. Crs.)

Discom	Bad Debts actually Written off	Provision for Bad Debts write-off	Total Charged to P&L Account
East	64.35	47.36	111.71
West	6.90	35.91	42.81
Central	-	134.31	134.31

Commission's Analysis on Bad and Doubtful debts:

- 2.75 From the above table it is clear that East Discom has actually written off Rs 64.35 crores bad debts out of total Rs 111.71 charged to P&L account. West Discom has actually written-off Rs. 6.90 Crores of bad debts out of a total of Rs. 42.81 Crores charged to P&L account. In case of Central Discom, no amount is actually written-off and whole amount is provision.
- 2.76 The Commission's regulations provide for allowing bad debts as amount actually written-off subject to the maximum of 1% of the sales revenue. However, all three distribution licensee has claimed an amount equal to 1% of the sales revenue on account of bad and doubtful debts irrespective of the actual amount written off in the balance sheet. The Commission notes that bad and doubtful debts actually written off for West Discom is lower than the maximum permissible limit (1% of sales revenue) under Commission's regulations, while the actual amount written-off in case of East Discom is much higher than the permissible limit of 1% of sales revenue. In case of Central Discom, no amount is actually written-off and whole amount is provision.
- 2.77 The Commission approves the bad and doubtful debts in accordance with its regulation i.e. minimum of the amount actually written off or 1% of revenue from sale of power. The following table gives the amount claimed by licensee in their respective true-up petitions, amount actually written and the month in their respective audited financial statement under the head of Bad and Doubtful Debts.

Table 52 : Bad Debts Allowed by the Commission (Rs. Crs.)

Particulars	East	West	Central	Total
Approved in Commission's Tariff Order for FY 2006-07	16.52	26.35	10.00	52.87
Claimed by Licensee	19.83	23.83	18.92	62.58
1% of Revenue from sale of Power	19.83	23.83	18.92	62.58
Actual write-off of bad and doubtful debts	64.35	6.90	-	71.25
Allowed in True-up	19.83	6.90	-	26.73
True-up difference	3.31	(19.45)	(10.00)	(26.14)

Any other expenses

Misc. Losses & Write-offs / Sundry Expenses / Net Prior Period Charges / (Credit)

Licensees' submission:

- 2.78 As per the audited accounts and True-up petitions of the Licensees, the following amounts under misc. losses & write-offs / sundry expenses / net prior period charges – (credits) have been claimed in true-up petition:

Table 53 : Misc. Losses & Write-offs / Sundry Expenses / Net Prior Period Charges / (Credit) claimed by Discoms (Rs. Crs.)

Particulars	East	West	Central	Total
Compensation for injuries and damages	0.28	0.23	0.43	0.95
Shortage on physical verification of stock	-			-
Loss on obsolescence of stores	-			-
Write-off of deffered revenue expenditure	0.40		0.40	0.79
Amortisation of Priliminary expenditure	0.00		0.00	0.01
Amortization of preoperative expenses	0.06		0.02	0.07
Sundry Expenses		0.33		0.33
Net Prior Period Charges / (Credit)	(0.13)	1.10		0.97
Extra ordinary credits (including losses on account of flood,fire, cyclone etc)	(4.00)	-	-	(4.00)
Total other expenses allowed in this true-up	(3.39)	1.67	0.85	(0.87)

Commission's Observation:

2.79 The Commission has verified all above expenses from the audited accounts of the Distribution Companies and hereby allows the miscellaneous losses & write-offs / sundry expenses / net prior period charges – (credits) as claimed by the petitioner based on their audited balance sheets respectively. The Commission has further observed from Schedule 25 of the audited accounts of the East Distribution Company that Rs 4.00 crore is shown against extra ordinary credits (including losses on account of Flood,Fire,Cyclone etc). The Commission has adjusted this amount of East Discom in the above table accordingly.

Fringe Benefit Tax

Licensees' submission:

2.80 As per the audited accounts and True-up petitions of the Licensees, the following amounts under fringe benefit tax have been claimed:

Table 54 : Fringe Benefit Tax claimed by Discoms (Rs. Crs.)

Particulars	East	West	Central	Total
Provision for Fringe Benefit Tax	0.77	0.52	0.32	1.61
Total	0.77	0.52	0.32	1.61

Commission's Observation:

The Commission in para 2.95 of the Tariff Order for FY 2006-07 had not made any provision for income tax for the licensees for the purpose of ARR for FY 2006-07. The Commission hereby allows the fringe benefit tax as claimed by the petitioner based on their audited balance sheet.

Revenue Surplus / (Deficit) Allowed in this Order

2.81 Based on the scrutiny of various cost components regarding revenue income and expenditures of the petitioners, the Commission considers the following surplus / (deficit) for the period April' 06 to March' 07 as allowable for pass through in the ARR of FY 09-10, for recovery by the Licensee through retail tariffs. The amount as shown against each Distribution Licensee shall be added (in case of deficit) and subtracted (in the event of surplus) from the Aggregate Revenue Requirement of FY 2009-10 of such Licensee as approved by the Commission:

Table 55 : Revenue Surplus / (Deficit) allowed in True-up of ARR for FY 2006-07 (Rs. Crs.)

	East	West	Central	Total
INCOME				
Revenue from Sale of Power	1,982.66	2,382.50	1,892.25	6,257.42
Tariff Income	1,946.81	2,306.66	1,871.00	6,124.47
Non-tariff income (meter rent, recoveries for theft of power, wheeling/U.I. charges recovery, Misc. charges from consumers)	35.85	75.84	21.25	132.94
Other Income	13.60	17.59	9.97	41.16
Delayed Payment Surcharge	-	-	-	-
Subsidy / Grants	88.51	214.25	115.84	418.60
Total Income	2,084.77	2,614.34	2,018.06	6,717.17
EXPENSES				
Power Purchase				
Power Purchase Cost	1,354.76	1,607.13	1,568.46	4,530.35
MP Transco Charges	183.20	226.55	204.53	614.28
O&M Expenses				
Employee Expenses	250.94	233.34	225.92	710.20
A&G Expenses	30.50	28.56	29.82	88.88
R&M Expenses	21.42	24.26	11.36	57.04
Less: Expense Capitalised	(8.41)	(11.19)	(7.36)	(26.96)
Total O&M	294.46	274.97	259.74	829.16
Other Expenses				
Depreciation	29.40	33.87	27.48	90.75
Interest & Financing Charges on Project Loans	12.09	24.19	11.19	47.47
Interest and Finance Charges on working capital loans	-	4.78	-	4.78
Interest on Consumer Security Deposit	8.89	15.84	8.71	33.44
Return on Equity	55.91	76.92	52.18	185.01
Bad & Doubtful Debts	19.83	6.90	-	26.73
Any Other Expense	(3.39)	1.67	0.85	(0.87)
Tax	0.77	0.52	0.32	1.61
Total Expenses	1955.91	2273.34	2133.46	6362.71
Revenue Surplus / (Deficit)	128.86	341.00	(115.40)	354.46

PUBLIC OBJECTIONS AND COMMENTS ON LICENSEES' PETITIONS:

A public notice was issued on 14th October, 2008 for West Discom, 18th October for East Discom and 22nd October 2008 for Central Discom for inviting comments/objections from various stakeholders by 12th November 2008.

In response to the public notice, only two comments from the Madhya Pradesh Electricity Consumer Society and MPSEB pensioners association, Jabalpur had been received in the office of the Commission. The para-wise response on the objections raised by the objectors had been asked from the Discoms. Para –wise response of the Distribution Companies and the Commission's view is given as below:

ISSUE NO.1 : POWER PURCHASE COST

Issue raised by stakeholders

It is necessary to indicate the highest rate at which 5% of power was purchased. Any power purchased due to increase in T&D Loss cannot be allowed.

Response of West Discom

Clause 3.22 of Tariff Regulation, 2005 states that "Any power purchased by Discom over and above the requirement of power approved by the Commission or variation in the mix of power purchase, shall be considered by the Commission if it is for reason beyond the control of the Discom."

Response of East Discom

Ground reality and proper reasoning of increase in losses over and above targeted losses may please be considered and actual power purchase expenses be allowed.

Commission's Observation

The contention of objector regarding indication of highest rate at which 5% of power was purchased has no relevance with the instant petition. The power purchase is allowed only to the extent of normative T&D losses.

ISSUE NO.2 : O&M EXPENSES

Issue raised by stakeholders

- (a) Actual O&M expenses should be allowed and not on normative basis.
- (b) Terminal benefits are included in transmission charges and cannot be allowed separately as charges on consumers will get duplicated.

Response of Discoms

- (a) The Commission should follow same policy for allowing O&M Expenses and T&D Loss
- (b) Actual payment made to existing pensioner is allowed in transmission tariff order. The amount claimed by Discom is for building up terminal benefit trust to discharge the liability of the existing employees in the coming years.

Commission's Observation

- (a) The Commission has taken a consistent approach in case of allowing O&M expenses as already adopted while issuing truing-up of transmission tariff for FY 2006-07 and Generation true-up for FY 2006-07.
- (b) All terminal benefits are being paid by the MPPTCL hence, this provisional expense in this true-up shall not be allowed.

ISSUE NO.3 : INTEREST CHARGES

Issue raised by stakeholders

The explanation why interest charges on MPSEB, NABARD and APDRP were disallowed and now are being asked for is necessary. The interest on working capital should be disallowed.

Response of Discom

The interest charges on capital loans were disallowed by the Commission since the CAPEX Plan was not submitted by the Discom. The interest on working capital has been claimed as per actual.

Commission's Observation

The interest charges are being allowed for the loans which are approved by the Commission.

ISSUE NO.4 PROVISION FOR BAD AND DOUBTFUL DEBT

Issue raised by stakeholders

The additional provision for bad and doubtful debt may not be allowed as the debts are not written-off during the year.

Response of West Discom

The Commission may kindly consider as per provisions for Regulations.

Commission's Observation

Provisions of Regulation have been applied.

ISSUE NO.5 DELAYED PAYMENT SURCHARGE

Issue raised by stakeholders

The delayed payment surcharge of Rs. 106.99 crore is the revenue earned and if not taken into account because of regulations, will amount to misappropriation of the amount. All the revenues earned have to find a place in the balance sheet. We once again submit to the Hon'ble Commission to modify regulations to include DPS as part of miscellaneous revenue.

Response of West Discom

DPS is not a legitimate part of revenue as per regulations.

Response of East Discom

DPS may not be considered as Tariff Income as the Commission has considered income on accrual basis and not on cash collected basis. DPS is on account of uncollected revenue which has been considered part of the revenue though in reality it does not materialize. This will amount to double counting and inflates the income of the petitioner.

Commission's Observation

As per Regulation 2.42 of the MPERC (Terms and Conditions for determination of tariff for Distribution and retail supply of electricity), 2005 notified on 5th December 2005, the late payment surcharge shall not be considered as income for the purpose of determination of revenue gap.

ISSUE NO.6 AMOUNT OF EXPENDITURE

Issue raised by stakeholders

West Discom has claimed Rs. 56.28 Cr., East Discom has claimed Rs. 64.23 Cr. and Central Discom has claimed Rs. 56.69 Cr. towards payment of pension. It is understood that this expenditure is towards payment of pension for the year under consideration. There is no provision to meet the commitment of the Company to build up the Terminal Benefits Fund. The provision for contribution towards the fund must be allowed.

Response of Discoms

All three Discoms requested the Commission to accept the request of the Objector.

Commission's Observation

The State Govt. of MP, through notification on Transfer Scheme of 13.06.2005 transferred the responsibility of meeting the pension liabilities of all Pensioners to MPPTCL. The Commission had therefore, allowed the current liabilities of the pension, gratuity and annuity for Pensioners of all the Companies constituted on unbundling of the erstwhile MPSEB to the MPPTCL.

ISSUE NO.7 LESS AMOUNT CLAIMED BY THE DISCOMS

Issue raised by stakeholders

West Discom has claimed Rs. 314 Cr. as employee expenses. The contribution towards pension and gratuity @ 23.92% and 3.20% respectively should be Rs. 75.11 Cr. and Rs. 10.05 Cr. (Total Rs. 85.16 Cr.)

East Discom has claimed Rs. 328.10 Cr. as employee expenses. The contribution towards pension and gratuity @ 24.29% and 3.24% respectively should be Rs. 79.70 Cr. and Rs. 10.63 Cr. (Total Rs. 90.33 Cr.)

Central Discom has claimed Rs. 329.47 Cr. as employee expenses. The contribution towards pension and gratuity @ 24.05% and 3.25% respectively should be Rs. 79.24 Cr. and Rs. 10.70 Cr. (Total Rs. 89.94 Cr.)

Response of Discoms

All three Discoms have stated that they have worked out the expenses for pension and gratuity on the gross employee expenses as per ARR Petition, which already includes expenses on pension and gratuity. Thus, the figures quoted by the Objector are on higher side.

Commission's Observation

The Commission has not considered this in view of observations made above in Issue no.6.

ISSUE NO.8 REQUEST FOR ALLOWING CONTRIBUTION

Issue raised by stakeholders

The fate of the pensioners is dependent on the creation of the funds. It is requested that the sum as mentioned in Point 8 above should be allowed towards Terminal Benefits Fund, in addition to the current liability on account of pension.

Response of Discoms

All three Discoms have requested the Commission to allow the expenditure as filed in the petition.

Commission's Observation

The State Govt. of MP, through notification on Transfer Scheme of 13.06.2005 transferred the responsibility of meeting the pension liabilities of all Pensioners to MPPTCL. The Commission had therefore, allowed the current liabilities of the pension, gratuity and annuity for Pensioners of all the Companies constituted on unbundling of the erstwhile MPSEB to the MPPTCL.