MADHYA PRADESH ELECTRICITY REGULATORY COMMISSION
"4^{th} and 5^{th} Floor, Metro Plaza, Bittan Market, Bhopal - 462 016

ORDER ON TRUE-UP OF FINANCIAL PROFIT OR LOSS FOR THE PERIOD Jun 05 to Mar 06

Petition Nos. **58/07 (East Discom),**
59/07 (Central Discom) and
60/07 (West Discom)

PRESENT:

Dr. J. L. Bose, Chairman

D. Roybardhan, Member

R. Natarajan, Member

IN THE MATTER OF:

Trueing up of Financial Profits or Losses of the Distribution Companies for the period of June'05 to March'06

Representatives of the Petitioners:

East Discom (P-58/07)	Central Discom (P-59/07)	West Discom (P-60/07)
Shri O. S. Parihar, SE (Commercial) and Shri P.K.Jain, AEE	Shri R.C. Yadav, SE(Commercial) and Shri A.R. Verma ASE	Shri Rajeev Bais, Company Secretary, Shri Gopal Murthy Deputy Director (Finance) and Shri R.C. Somani Retd.Addl. SE

INDEX

List of Tables and Figures

ORDER

(Passed on this 16th Day of January' 2008)

This order relates to the petition numbers 58/07, 59/07 and 60/07 filed respectively 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. (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 financial losses / profits incurred in the period Jun 05 to Mar 06 against the Tariff Order of the Commission issued on 29th June 2005.

1.1 The third tariff order of the MPERC was passed on 10th December 2004 and while passing this order, the Commission had directed the Madhya Pradesh State Electricity Board (MPSEB) to bring the tariff petition for FY 06 before 15th January 2005 for its consideration. However, there was a considerable delay in filing the petition by the Board and finally this petition was accepted for consideration on 21st March 2005. MPSEB was responsible for generation, transmission and distribution of electricity in the State of Madhya Pradesh till the coming into force on 1st June 2005 of the Madhya Pradesh Reforms First Transfer Scheme Rules, 2003 (Transfer Scheme) notified by the State Government on 30th September 2003. Thus, the integrated Board had presented the petition and the Commission admitted the same on 21st March 2005 but consequent to the coming into force of the Transfer Scheme, the MP Power Generation Company Ltd., MP Power Transmission Company Ltd., MP Poorv Kshetra Vidyut Vitran Company Ltd, all incorporated in the year 2002, joined the process as co-petitioners.

1.2 While the Commission was in the midst of analyzing the ARR and tariff petition of the MPSEB, the GoMP, vide its Order No. 3679-FRS-18-13-2002 dated 31st May, 2005, published in the gazette of Madhya Pradesh dated 31st May 2005, restructured the functions and undertakings of Generation, Transmission, Distribution and Retail Supply of electricity earlier carried out by the Madhya Pradesh State Electricity Board ('MPSEB' or 'Board') and transferred the same to the five Companies to function independently. Through this Order, these five companies – MP Genco, MP Transco and the three Distribution Companies – MP Poorva KVVCL, MP Paschim KVVCL and MP Madhya KVVCL were provided with their respective provisional opening balance sheets. The Order provided that all the five companies shall perform their independent operations from 1st June 05 and shall cease to function as agents of MPSEB. At the time of notifying the provisional opening balance sheets, GoMP had stipulated that within 12 months, the provisional opening balance sheets shall be finalized. However, the State Government later extended the period of finalization through various notifications from time to time and recently the GoMP vide its notification No. 8391-F.R.S-18-2002-XIII dated 29th December'2007 has further extended the date of finalization of opening balance sheet up to 31st March'2008.The Appellate Tribunal for Electricity vide Order dated 2nd May, 2006 under Appeal No. 133 of 2005 had issued the following directives:

"The truing up exercise shall be undertaken by the Commission expeditiously and shall be concluded within three months from the date the data is supplied by the Distribution Companies to the Commission. The distribution companies shall be duty bound to supply the data to the Commission within three weeks from the date of the receipt of a copy of this order."

As per the directives of the Appellate Tribunal for Electricity, the Commission has taken up the exercise of truing up the Annual Revenue Requirements of the Distribution Companies for FY 2005-06. However, the opening balance sheets are not finalized as on the date of issue of this order by the Commission. The opening balance sheets contain important data such as the opening asset base, the opening equity, and the liabilities that the Companies have been vested with. All these data influence the future calculations of depreciation, interest, Return on Equity, etc. The Commission is thus of the view that, it would need further truing up as and when the opening balance sheets are finalized.

1.3 Due to the notification of the Transfer Scheme and vesting the operations with the independent companies in the midst of the tariff process, the Commission could not go ahead with the determination of ARR for the Board as a whole as it would have served no meaningful purpose. The Commission, therefore, disposed off the ARR and Tariff petition of the MPSEB (with MP Genco, MP Transco and MP Poorva KVVCL as co-petitioners), by issuing a Tariff Order on 29th June 2005, which only contained the retail tariff rates for the consumer categories, with no discussion on the aggregate revenue requirements.

1.4 The Commission, while issuing the Order of 29th June 2005 had also directed the Licensees and the Generating Company to file their separate tariff petitions before 31st July 05. The Order further stated that if the petitions are not filed by 31st July '05 due to the provisional opening balance sheet not becoming final, the Commission would consider treating the difference between the revenues and expenditure (which will be subject to prudence check) as Regulatory Asset. Neither the Licensees nor the Generating Company filed its tariff petition before the due date viz, 31st July 2005.

1.5 As the financial year 2005-06 is over and the Licensees have got their annual accounts for the period audited, they have filed their respective petitions for truing-up with the Commission. However, when the Licensees filed their petitions for true-up, the Commission specified a new set of information formats for the Licensees in which they were required to fill up the expenditure and revenue data for truing-up. The Licensees filled up the information formats and provided the same to the Commission. The truing-up petitions and the data supplied to the Commission by the Distribution Licensees relate to the 10 month period 1st June 2005 to 31st March 2006.

1.6 The Commission issued its Regulations on Terms and Conditions for Determination of Tariff on 5th December 2005, which was later modified and re-issued on 26th October 2006. The Regulations laid the foundation for Multi-Year Tariffs in MP and provided the terms of determination of ARR and tariff under the MYT regime. The

Regulations also provided for the treatment of variances between the approved and actual expenses and the terms of sharing of profit, if any, between Licensees and consumers. The first regulations, issued on 5th December 2005 applied to the Multi-Year Tariff Period of FY 07 to FY 09. The modified regulations issued on 26th October 06 (which superseded the regulations of 5th Dec. 05) applied to the MY Tariff Period of FY 08 to FY 10. Thus, in essence, for the true-up period in question (June 05 to Mar 06), the terms of the MYT Regulations of the Commission do not apply. Furthermore, the Commission did not determine any detailed ARR for the Discoms for the period FY 05-06, as already stated above.

1.7 The true-up period in question – June 05 to March 06 here, therefore, is unique due to the following: (a) there are no references for allowed levels of expenditure and revenues as there was no detailed order for the year in question and (b) there are no identified norms or rules for treatment of cost and revenue variances or determining normative levels of expenditure. Therefore, for the purpose of dealing with these petitions, the Commission has invoked the methods and process that it used to follow for determination of ARR of the MPSEB before the MYT framework was put in place. Using these methods and applying prudence checks on the expenditure claimed by the Licensees, the Commission has attempted to determine efficient and allowable levels of expenditure and revenues for each Discom, after allowing for a reasonable Return on Assets.

Procedural history

Submission of petitions by Licensees

1.8 The Commission has issued its Tariff Order for FY 05-06 for the Discoms, which only contained the retail tariff rates and no approved revenue requirement for the Discoms, due to reasons elaborated above. The Licensees, after having completed the audit of their Accounts for the period June 05 to Mar 06, filed petitions for truing-up of financial figures that they claimed to have incurred during the said period, vide petition No. 58/07 – of East Discom, No. 59/07 – of Central Discom and No. 60/07 – of West Discom.

Gist of petitions

1.9 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 June 05 to Mar 06 – as submitted by the Licensees

Discom	Revenue income from sale of power (Rs. Cr.)	Revenue Subsidy (Rs. Cr.)	Non tariff income(Rs. Cr.)	Total revenue (Rs. Cr)	Total Expendtiure, including RoE claimed (Rs. Cr.)	Profit / Loss After Tax for True-up
East	1687.87	80.74	5.93	1774.54	2177.77	(403.23)
West	1699.29	122.32	165.12	1986.72	2248.14	(261.42)

Discom	Revenue income from sale of power (Rs. Cr.)	Revenue Subsidy (Rs. Cr.)	Non tariff income(Rs. Cr.)	Total revenue (Rs. Cr)	Total Expendtiure, including RoE claimed (Rs. Cr.)	Profit / Loss After Tax for True-up
Central	1428.84	90.57	180.48	1699.88	2056.17	(356.28)

1.10 The petitions submitted by the 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, primarily in sales, power purchase quantum and power purchase expenses and revenues. The Licensees could reconcile some information and submitted to the Commission that wherever there is a difference of figures between the petition filed by the licensee and the audited accounts, the data contained in the accounts should be adopted by the Commission.

Notification of tariff proposals for public information

1.11 Subsequent to the filing of balance information by the licensees to complete the data for scrutiny of the Annual Revenue Requirement, the Commission admitted the petitions and a public notice was issued on 3rd October'2007 for inviting comments/objections from various stakeholders by 19.11.2007.

1.12 In response to the public notice, only one comment from the Madhya Pradesh Electricity Consumer Society had been received in the office of Commission by the due date for offering comments i.e. 19/11/07.

Hearings

1.13 The Commission held two hearings on the true-up petitions of the Licensees. The first hearing held on 6th December 2007 in the Commission's office at Bhopal was a formal hearing wherein the Licensees were asked to respond to queries raised by the Commission on their respective petitions and additional information as sought by the Commission.

1.14 The public hearing on the petitions was held in the Office of the Commission on 18th December' 2007 wherein the objections raised by the Madhya Pradesh Electricity Consumer Society, Indore were discussed. The comments/objections/suggestions given by the objector have been duly considered by the Commission while framing this order, in the light of the response by the licensees during the course of public hearing on this matter.

State Advisory Committee

1.15 The Commission convened a meeting with the Members of the State Advisory Committee (SAC) on 28.12.07 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 petitions covering major items of expenditure and revenue was made before the Members of the Committee. The members have given various valuable suggestions for finalising this Order.

The Commission has thus accepted the petitions of the Distribution Licensee for truing-up of financial losses as claimed to have been incurred by the Licensees during the period June 05 to Mar 06. After hearing the response of Licensee's 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 gap / surplus, as detailed in the subsequent section. These amounts of revenue gaps and surpluses, as the case may be, shall be adjusted in the approved Annual Revenue Requirement of FY 08-09.

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

(R. Natarajan) **Member (Econ.)**	**(D. Roy Bardhan)** **Member (Engg.)**	**(Dr.J.L.Bose)** **Chairman**

Dated: 16th January' 2008

Place: Bhopal

A1: LICENSEES' SUBMISSIONS AND COMMISSION'S ANALYSIS

Analysis of Expenses during the period June 05 to March 06

A. Power Purchase Expenses

Energy sold to consumers

1.1 The actual sales made by the Licensees to different categories of consumers during the period June 05 to Mar 06 is shown as under:

Table 2: Actual sales for the period June 05 to Mar 06 (MU)

Consumer Category	East*	West	Central*	Total
Low Tension				
LV 1: Domestic	1096.62	1131.81	1118.84	3347.27
LV 2: Non-Domestic & Commercial	190.63	259.11	258.73	708.47
LV 3: PWW and Street Lights	87.25	106.61	91.06	284.92
LV 4: LT Industry	135.67	297.81	135.57	569.05
LV 5: Agriculture	1107.08	2399.35	1689.81	5196.24
Total LT	**2617.25**	**4195.70**	**3294.01**	**10107**
High Tension				
HV 1: Railway Traction	310.98	255.10	517.60	1083.68
HV 2: Coal Mines	423.84	0.00	30.83	454.67
HV 3: Industrial and Non-Industrial	1049.98	1426.54	881.41	3357.93
HV 4: Seasonal	0.00	0.00	0.00	0.00
HV 5: HT Irrigation and Water Works	44.47	159.58	68.46	272.51
HV 6: Bulk Residential Users	301.97	0.00	1.28	303.25
HV 7: Bulk Supply to Exemptees	0.10	168.03	0.00	168.13
Total HT	**2131.31**	**2009.25**	**1499.58**	**5640.14**
Grand Total (LT+HT)	**4748.56**	**6204.95**	**4793.59**	**15747.10**
Total Sales as per Audited Accounts	**4756.00**	**6204.95**	**4554.35**	**15515.30**

*In case of East and Central Discoms, the data has been taken from the Licensees' revised submissions vide letter no. EZ/SE(TRAC)/True-up05-06/1101 dated 5th October 2007 – for East Discom and vide letter no. CMD/CZ/TRAC/17610 dated 15th Dec. 2007 – for Central Discom

1.2 It can be seen from the table above that there is ambiguity in sales data in case of East Discom and Central Discom, with the figures as contained in the Audited Accounts being different from those submitted to the Commission as part of support to the true-up petition. The differences could not be reconciled by the Licensees; therefore, the Commission, for the purpose of truing-up, has adopted the actual sales as shown in the Audited Accounts. However, it is a matter of serious concern and reveals the inefficiencies in the Licensees' information systems. The Licensees must take immediate cognisance of this and ensure that such discrepancies and inconsistencies are not found in their future petitions for truing-up or for tariff determination.

Energy Balance

1.3 The Licensees' petitions do not clearly state the energy balance equations i.e. the Licensees' petitions do not clearly state the loss levels of Distribution, transmission and Inter-State transmission. The Licensees have only indicated the quantum of power purchased from the erstwhile MPSEB.

1.4 Based on the data of sales and power purchase as contained in the audited accounts of the Licensee, the weighted average T&D losses for each Discom shall work out as follows:

Table 3: Sales, Power Purchase and T&D losses as per Audited Accounts

Particulars	**East**	**West**	**Central**	**Total**
Total Sales (MU)	4756.00	6204.95	4554.35	**15515.30**
Power Purchase from MPSEB (MU)	8129.84	10523.19	8842.41	**27495.44**
T&D losses (MU)	3373.84	4318.25	4288.06	**11980.15**
T&D losses (%)	**41.50%**	**41.04%**	**48.49%**	**43.57%**

1.5 In order to determine the performance of the distribution companies in terms of losses, it is necessary that the loss levels at each stage – inter-state transmission, intra-state transmission and distribution are identified. The actual losses shown by MP Transco in its petition in its true-up petition for FY 06 were 5.23%, which were accepted by the Commission. This data is for the entire financial year of 2005-06. From the Annual Report of SLDC for FY 05-06, the MP Transco's losses for the ten month period of June 05 to Mar 06 can be computed as the report provides energy injection to MP Transco system and energy sent out to Discoms and export to other states on a monthly basis. From this report, the MP Transco's losses for the ten month period in question work out to be 5.28%.

1.6 The total purchases of the Discoms as claimed by them are 27,495.44 MU as shown above, which is also corroborated from the invoices for power purchase raised by MPSEB (now MP Tradeco) over the Discoms (The Discoms have formally submitted these invoices to the Commission). The total energy injected into MP Transco's system as per SLDC's Annual Report of FY 06 is 26,842.02 MU. The energy lost over PGCIL network would thus work out to 653.42 MU (27495.44 – 26842.02). This is apportioned over the three Discoms in the ratio of their total power purchase and works out to 193.20 MU for East Discom, 250.08 MU for West Discom and 210.14 MU for Central Discom. The total actual losses over distribution network can then be worked out in the following manner:

Table 4: Distribution Losses for the period June 05 to Mar 06

	Particulars	East	West	Central	Total
A	Total Sales (MU)	4756.00	6204.95	4554.35	**15515.30**
B	Total Power Purchase (MU)	8129.84	10523.19	8842.41	**27495.44**
C	PGCIL losses in MU	193.20	250.08	210.14	**653.42**
D	MP Transco losses in %	5.28%	5.28%	5.28%	**5.28%**
E	Total requirement at T&D boundary - (B-C)*(1-D)	7517.96	9731.19	8176.90	**25426.05**
F	**Distribution Losses in % - 100*(E-A)/E**	**36.74%**	**36.24%**	**44.30%**	**38.98%**

*The transmission losses – both inter-state and intra-state put together amount to 7.53%, and the distribution losses are computed as shown above

1.7 For the period of true-up under consideration, there are no notified targets for loss reduction. The Govt. of MP notified a loss reduction trajectory for the Discoms on 28th December 2006 shown in the table below. This trajectory does have any targets for FY 05-06. In order to test whether the actual distribution losses as worked out by the Commission in the table above as allowable or not, the Commission has tried to interpolate the GoMP loss reduction trajectory and determine the levels that would have been allowed for FY 06 if the trajectory contained targets for FY 06. The GoMP loss reduction trajectory and the "allowable distribution losses" as worked out after interpolating the trajectory to FY 06 are as given below:

Table 5: GoMP specified Loss reduction trajectory for Discoms (%)

Year	East Discom	Central Discom	West Discom
FY 06	**36.5**	**46.0**	**31.5**
FY07	34.5	43.0	30.0
FY08	32.5	40.0	28.5
FY09	29.5	37.0	27.0
FY10	26.5	34.0	25.5

FY11	23.5	31.0	24.0

1.8 The data in the tables above show that if the loss reduction trajectory specified by the GoMP is worked backwards for FY 06, the West Discom's actual distribution losses turn out to be more than the "normative" level so determined and the East Discom's losses are marginally above the "normative" level.

1.9 A look at West Discom's loss reduction trajectory suggests that the targets that the Discom has agreed to achieve are the most stringent among the three Discoms. This is despite the fact that the West Discom's has the poorest HT:LT sales ratio on account of having maximum agricultural load. Even the actual losses achieved by the West Discom in the ten month period under consideration are the lowest among the three Discoms, with Central Discom being the highest. Furthermore, the Government of Madhya Pradesh's notification of 28th December 06 indicates the loss level of West Discom for FY 06-07 as 30%, which is a steep decline over the actuals of FY 06. The Commission, therefore, feels that if the losses to the other two Discoms, being poorer performers, are allowed at actuals, it would not be fair to the West Discom if its losses are curtailed. Also, the period under consideration is the first year of independent operations of the Discoms and there are no identified targets for loss reduction for this period. Therefore, for the period June 05 to Mar 06, the Commission allows the actual distribution losses to all three Discoms.

1.10 Allowed losses and power requirement for the Discoms:

Table 6: Allowed energy balance and power purchase quantum for the period June 05 to Mar 06

	Particulars	**East**	**West**	**Central**	**Total**
A	Total Sales (MU)	4756.00	6204.95	4554.35	**15515.30**
B	Distribution Losses in % allowed	36.74%	36.24%	44.30%	**38.98%**
C	Total requirement at T&D boundary – A / (1-B)	7517.96	9731.19	8176.90	**25426.05**
D	MP Transco losses in %	5.28%	5.28%	5.28%	**5.28%**
E	At MP Periphery - C / (1-D)	7936.64	10273.10	8632.27	**26843.38**
F	PGCIL losses in MU	193.20	250.08	210.14	**653.42**
G	**Total Power Requirement for purchase allowed (E+F)**	**8129.84**	**10523.20**	**8842.41**	**27495.45**

Power Purchase Cost

1.11 The Licensees have submitted that they have procured power from the erstwhile MPSEB for the quantum mentioned above at the differential Bulk Supply Tariff notified by the Govt. of MP under the Transfer Scheme. These rates are Rs. 1.5871 per unit for East Discom, Rs. 1.5475 per unit for West Discom and Rs. 1.4104 per unit for Central Discom.

1.12 There was discrepancy between the quantum and cost of power purchase as claimed by the Licensees in their Truing-up petitions and that accounted for in their Audited Annual Accounts for the period under consideration. These differences in data were later reconciled by the Licensees during the formal hearing conducted on the matter on the 6th of December 2007. In this hearing, the Licensees submitted the following information and workings for the power purchase expenses as claimed by them for the period June 05 to Mar 06:

Table 7: Details of Power Purchase Expenses

	Item of Expenditure	**East**	**West**	**Central**	**Total**
A	Energy purchased (MU)	**8129.84**	**10523.19**	**8842.41**	**27495.44**
B	Short-Term quantum (included in above) MU	**664.27**	**859.71**	**722.45**	**2246.43**
C	Short-Term rate (Rs/unit)	3.46	3.46	3.46	
D	Short-term purchase cost (B*C) – Rs. Crore	229.84	297.46	249.97	**777.27**
E	Long-Term purchase (A - B) – Rs. Crore	7465.57	9663.48	8119.96	**25249.01**
F	BST (Rs./unit)	1.5871	1.5475	1.4104	
G	Cost of long-term purchases (E*F) – Rs. Cr.	1184.86	1495.42	1145.24	**3825.52**
	Total purchase cost (D+G) – Rs. Crore	**1414.70**	**1792.88**	**1395.21**	**4602.79**
	As per Audited Accounts (Rs. Crore)	**1414.70**	**1628.46**	**1395.20**	**4438.36**

1.13 The difference in power purchase expenses in case of West Discom is on account of the fact that the Discom has accounted for its Short Term purchases from the erstwhile MPSEB also at the differential BST of Rs. 1.5475 per unit instead of the short-term purchase rate of Rs. 3.46 per unit as charged by the erstwhile MPSEB. On querying, the representatives of the West Discom stated that this is because the Discom finalised and got its annual accounts audited before the bills for Short-Term purchase were raised on the Discom by the erstwhile MPSEB.

1.14 Apart from the expenses indicated above, the West and Central Discoms have also included amounts to the tune of Rs. 1.93 Crore and Rs. 6.59 Crore towards power purchase expenses from Private Sector. On querying, the Discoms claimed that these expenses are on account of power purchase by the Discoms from the Captive Power Plants. However, the Discoms have not stated the corresponding quantum of purchase in MU from these sources.

Commission's analysis of power purchase expenses

1.15 In order to determine the allowable power purchase expenses, it is necessary to establish - (a) the quantum of power purchase in MU that can be considered as allowable and (b) the rate at which energy is purchased from various sources.

1.16 The quantum of power purchase is in turn a function of energy sold by the Discom and T&D losses. This has already been worked out in the table 6 above using the allowed loss levels at each stage in energy flow.

1.17 The Discoms have included short term purchases in their total power purchase expenses and have claimed that the erstwhile MPSEB (now MP Tradeco) have billed the Discoms at the rate Rs.3.46 per unit for short term purchases. During the formal hearing on the matter held in the Commission's office on the 6th of December 2007, the MP Tradeco submitted the details of short-term purchase and sales on a month-wise basis. This is shown in the table below:

Table 8: Details of Short-Term Purchase and Sale of Power by MPSEB

Particulars	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Total
Power Purchased / (Sold) MU	102.64	(71.47)	(67.28)	14.81	198.45	349.80	491.85	449.36	461.02	128.98	**2058.16**
Cost / (Revenue) Rs. Crore	36.17	(19.09)	(19.30)	4.55	65.80	115.99	164.38	159.23	156.30	49.00	**713.03**
Rate (Rs./unit)	3.52	2.67	2.87	3.07	3.32	3.32	3.34	3.54	3.39	3.80	**3.46**

1.18 As seen from the table above, the erstwhile MPSEB has procured short-term power at the weighted average rate of Rs. 3.46 per unit. This, however, also includes the Inter-State sale of power made during the months of July 05 and August 05 to the tune of 138.75 MU at a weighted average rate of Rs. 2.77 per unit.

1.19 The Commission's Regulations on power procurement – MPERC (Power Purchase and Procurement) Regulations, 2004 state very clearly that the Licensee shall prepare an annual short-term power procurement plan containing the details of demand forecasts, time of short-term requirement, proposed method of competitive solicitation, load curtailment measures, etc. and get the same approved by the Commission. The Regulations state that these plans must be filed by the Licensee for Commission's approval before October 31st of the forthcoming year. The Regulations further state that after approval, the Licensee must fine tune its plan for short-term procurement on a month-before and week-before basis.

1.20 It is pertinent to note that while the Regulations mentioned above, framed as early as 2004, required the Licensee to obtain MPERC's approval for short-term procurement, no such approval was sought by the MPSEB (the bulk buyer and deemed trading licensee) or the Discoms. The Commission takes a very serious view of this and considers that the Licensees cannot be allowed to get away with such a blatant non-compliance of its Regulations. The Commission is of the opinion that the Discoms, being under universal service obligation, do require power from electricity traders and other short-term sources in case long-term contracts are unable to meet their demand. However, it is the responsibility of the Licensees to ensure and demonstrate to the satisfaction of the Commission that such short-term requirement has been met in the most economical manner and that the process has been completely transparent and open to scrutiny. In the absence of any such evidence from the Licensees, the Commission cannot allow the supply of short-term power to the Discoms by the erstwhile MPSEB at the rate indicated, which is Rs. 3.46 per unit. The only rate for power procurement recognised by the Commission is the differential BST notified under the Transfer Scheme, so while the Commission allows the procurement of short-term power to the Discoms as claimed by them, the rate of such procurement from erstwhile MPSEB has been limited to the Discoms' respective BST rate. In case the Discoms / MP Tradeco can convince the Commission that they have procured the additional power only as per their needs and also at a rate which was the best at that period of time, the Commission may still consider the prudent cost at a later date.

1.21 The allowed power purchase cost to the Discoms for the period June 05 to Mar 06 is, therefore, as indicated in the table below:

Table 9: Power Purchase Expenses

Particulars	**East**		**West**		**Central**	
	Claimed	Allowed	Claimed	Allowed	Claimed	Allowed
Power Purchase Quantum (MU)	8129.84	8129.84	10523.19	10523.20	8842.41	8842.41
Cost of power purchase from MPSEB (Rs. Crore)	1414.70	1290.29	1628.46	1628.46	1395.20	1247.13

	East		West		Central	
Cost of purchase from Private Sector (Rs. Crore)	0.00	0.00	1.93	1.93	6.59	6.59
Total Power Purchase Expenses (Rs. Crore)	**1414.70**	**1290.29**	**1630.39**	**1630.39**	**1401.79**	**1253.72**

B. Intra-State Transmission Charges (MP Transco charges)

1.22 Towards charges for Intra-State Transmission, the Licensees have claimed expenses to the tune of Rs. 114.18 Crore by East Discom, Rs. 144.70 Crore by West Discom and Rs. 133.41 Crore by Central Discom. There is no explanation in the petitions as to how these charges have been billed by the MP Transco to the Discoms.

1.23 In order to verify the claims of the Discoms, the Commission has had a look at the Tariff Order for MP Transco issued on 7th Feb. 2006, which allowed MP Transco to recover transmission charges from the Discoms. Furthermore, in its True-up petition for FY 06, the MP Transco submitted its audited annual accounts to the Commission which contained the revenue amount collected for transmission and other ancillary services from the Discoms and the SEZ, Indore.

1.24 The Commission's Order dated 7th Feb. 2006 allowed the MP Transco to recover Rs. 2276.34 per MW per day from long-term open access customers. The Commission has verified the calculations of the Discoms and has found that the Discoms have indeed claimed expenses for transmission charges at the specified rate. The Central Discom's claim for transmission charges, however, is higher because the Discom has also included a levy of Rs. 8.02 Crore towards payment of Availability Incentive to MP Transco. Both East and West Discoms, however, have stated that they have not included the Availability Incentive in their computations of Transmission Charges since the Invoices raised by MP Transco did not include any charges towards such incentive. The Commission accepts these arguments and allows the MP Transco charges to the Discoms as claimed.

1.25 The workings for transmission charges and their comparison with the Discom claims is as shown in the table below:

Table 10: MP Transco Charges as allowed

Item of Expenditure	East	West	Central
Transmission Charges (Rs./MW/day) – as per MPERC Tariff Order	2276.34	2276.34	2276.34
Capacity Allocated (MW)	1650	2091	1812
Transmission cost (for a total of 304 days for the ten month period)	114.18	144.70	125.39

Item of Expenditure	East	West	Central
MP Transco charges as claimed by the Discoms (Rs. Crore)	114.18	144.70	133.41*
Allowed MP Transco charges (Rs. Crore)	**114.18**	**144.70**	**133.41**

*Includes Rs. 8.02 Crore towards payment for Availability Incentive as explained above

C. Operations and Maintenance Costs

Licensees' submission

1.26 The Operations and Maintenance Expenses comprise of Employee Expenses, Administration and Repairs and Maintenance Expenses. For the ten-month period of June 05 to Mar 06 of FY 06, the Licensees have claimed a total expenditure on these items as under:

Table 11: O&M Expenses as claimed by the Licensees (Rs. Crore)

Item of Expenditure	East	West	Central	Total
Employee expenses	229.98	216.71	208.97	**655.66**
Administrative and General Expenses	40.06	32.39	42.61	**115.06**
Repairs and Maintenance Expenses	13.29	18.83	11.69	**43.81**
Less: Capitalisation	6.35	11.76	6.77	**24.88**
Net Total Expenditure	**276.98**	**256.17**	**256.50**	**789.65**

Commission's analysis for O&M cost

1.27 O&M expenditure is a very important component of the ARR of distribution companies. Distribution companies need to control this expenditure in order to control the cost of the supply but at the same time under-spending on O&M may result in reduced efficiency of operations, poor conditions of equipment and inadequate quality of supply. The Commission has analysed the O&M expenditure of Distribution companies claimed as actually incurred for FY 05-06 with the objective of unearthing the efficiencies or inefficiencies in cost incurring. This is required since the Commission has to determine the allowable expenditure on this item which, in turn, would affect the financial profit or loss for FY 05-06 allowed to be passed through.

1.28 It needs to be emphasised at the outset that even though the financial year 2005-06 is not covered under the Commission's MYT framework, the Commission is still required to ensure that inefficiencies in technical and financial performance of the Licensees are not passed on to the consumers. In this context, it is essential that, as far as possible, the expenses and revenues claimed as actually incurred by the Licensees in FY 05-06 are scrutinised for efficiency, and inefficiencies such as un-necessary or wasteful expenditure are identified.

1.29 Towards this end, the actual O&M expenses as claimed by the Licensees have been analysed in two ways:

(a) Comparison of actual O&M expenses with the normative O&M worked out using norms as prescribed by MPERC for FY 06-07 in the erstwhile regulations for tariff determination for Discoms – worked backwards for FY 05-06;

(b) Benchmarking different elements of O&M expenses (R&M, Employee, A&G expenses) with those of distribution companies in other States

Normative expenditure on O&M

1.30 In order to compare the actual expenditure as claimed on O&M by the Licensees with the normative allowance, the parameters - metered consumers and sales, HT network length and transformation capacity – are compiled, as at the end of FY 05-06. It needs to be clarified that for FY 07-08 also, the Commission had allowed O&M expenses using the data against these parameters as at the end of FY 06 only. The norms (ratios – O&M expenses per MU of metered sales, etc.) are, however, as specified for FY08 in the Commission's Regulations. This was because the Licensees had not been able to convincingly establish the addition to asset base and other particulars during FY 06-07.

1.31 Furthermore, during the tariff process for FY 07-08, the data on metered consumers, sales, etc. for FY 05-06 had been supplied by the Licensees to the Commission. This data was used to work out the allowable O&M expenditure to be included in the ARR for FY 07-08. However, except for East Discom, the data on the same parameters as provided by the other Discoms in the FY 06 true-up petition is different from the one they supplied during the said tariff process. This discrepancy is highlighted in the table below:

Table 12: Physical Statistics of the Distribution Network

All data as at end of year 2005-06

Parameter	East		West		Central	
	Data for FY 05-06 as contained in FY 07-08 Tariff Order	Data for FY 05-06 as provided in the True-up petition	Data for FY 05-06 as contained in FY 07-08 Tariff Order	Data for FY 05-06 as provided in the True-up petition	Data for FY 05-06 as contained in FY 07-08 Tariff Order	Data for FY 05-06 as provided in the True-up petition

Metered consumers	1718458	1718460	2274808	2069738	1446670	1470441
Metered sales (MU)	4147	4147	5606	4581	3689	5790
HT Network length (ckt-km)	70928	70928	62999	63255	63249	63152
Transformation Capacity (MVA)	2671	2671	4876	4876	3415	3413

1.32 While the above discrepancy may not have any impact on FY 05-06 expenditure as that will not be re-determined on the basis of norms, but it raises questions on the authenticity of data and on the correctness of the expenditure amounts decided for the Licensees for FY 07-08. The Commission will look into this matter again at the time of truing up for FY 07-08.

1.33 The re-worked norms of O&M for FY 05-06 would be:

Table 13: Norms of O&M expenses

Norm	FY 07 (as contained in Regulations)	FY 06 (worked backwards using 6% discounting)*
O&M expenses Rs. Lakhs per '000 metered consumers	6.10	5.75
O&M expenses Rs. Lakhs per MU metered sales	2.21	2.08
O&M expenses Rs. Lakhs per 100 ckt-km of HT lines	15.10	14.25
O&M expenses Rs. Lakhs per MVA	1.44	1.36

* The rate of escalation for norms as per Tariff Regulations is 6%.

1.34 O&M expenditure as computed from above norms and using the parameters as average for FY 05-06 (average of closing FY 05 and closing FY 06) for the three distribution companies is shown here. A brief comparison of the O&M expenditure of the three distribution companies with the normative expenditure as worked out is given in the table below:

Table 14: Normative O&M expenses

Distribution company	Actual Expenditure as claimed in True-up petition (Rs. Crore)	Expenditure worked out using norms (Rs. Crore)	Normative Expenditure pro-rated to 10 months (Rs. Crore)
East	276.98	317.11	264.26
West	256.17	368.77	307.30
Central	256.50	316.37	263.60

Benchmarking of O&M Expenditure

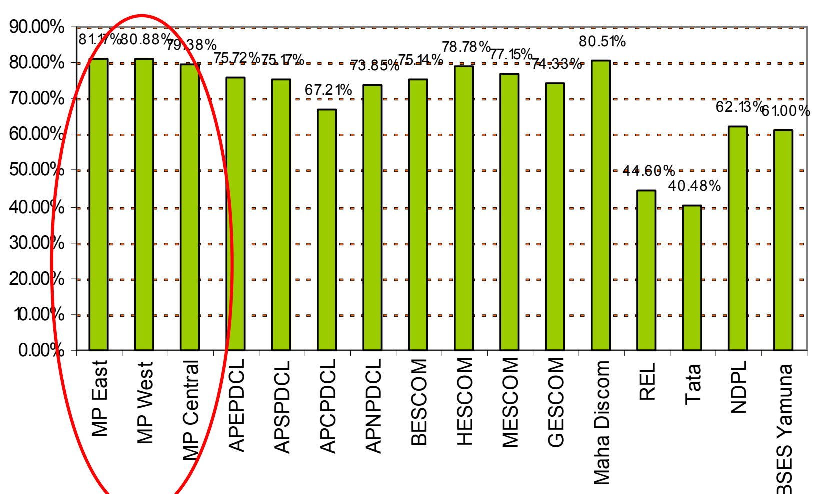
1.35 The Commission has also tested the O&M expenditure claimed to be incurred by the MP Discoms vis-à-vis distribution companies in other States. Through this exercise, the Commission has attempted to compare the expenditure on various items of O&M, referenced to the size of the business of MP Discoms with that of Discoms in other States.

1.36 In order to make these comparisons, relevant data of 16 distribution companies in the States of Andhra Pradesh, Maharashtra, Delhi and Karnataka have been collated. The data was collected for FY 05-06.

Employee expenses

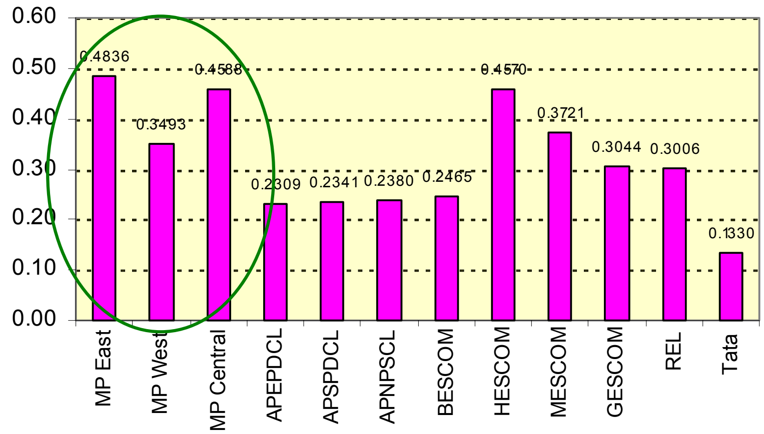
1.37 As a percentage of the total O&M expenses, employee expenses of East, West and Central Discoms was 81.17 %, 80.88% and 79.38% respectively. Comparing this with the other distribution companies, it is seen that the expenditure on employees makes a greater share of total O&M expenses in MP as compared to that in other States. This is primarily because, the expenditure on repairs and maintenance is at a very low level (as we shall see in the next sections). For the 16 distribution companies for which the study was done, employee expenses averaged at about 72% of total O&M expenses. It is also interesting to note that in case of private distribution companies like REL and Tata Power, the portion of employee expenses is as low as 44.60% and 40.48% indicating better man power utilization by these companies. However, it must be noted that the businesses of these private licensees are confined mostly to urban areas, and therefore the performance of these licensees is not strictly comparable to the Discoms in MP, which have a high degree of rural and agricultural loads.

Share of Employee expenses in total O&M expenses



1.38 Employee expense per unit of sales is a good indicator of the efficiency of the employees of the distribution companies and of the efficiency in deployment of manpower to serve customers. As can be seen from the chart below, the employee expense per unit of sales is highest for MP East Discom. In general, this ratio is higher for all three Discoms in MP as compared to the Discoms in other States. A low number for this indicator reveals better deployment and utilisation of manpower on the part of the Discom. The Discom average for all the 12 companies is 0.29.

Employee expenses per unit of sales

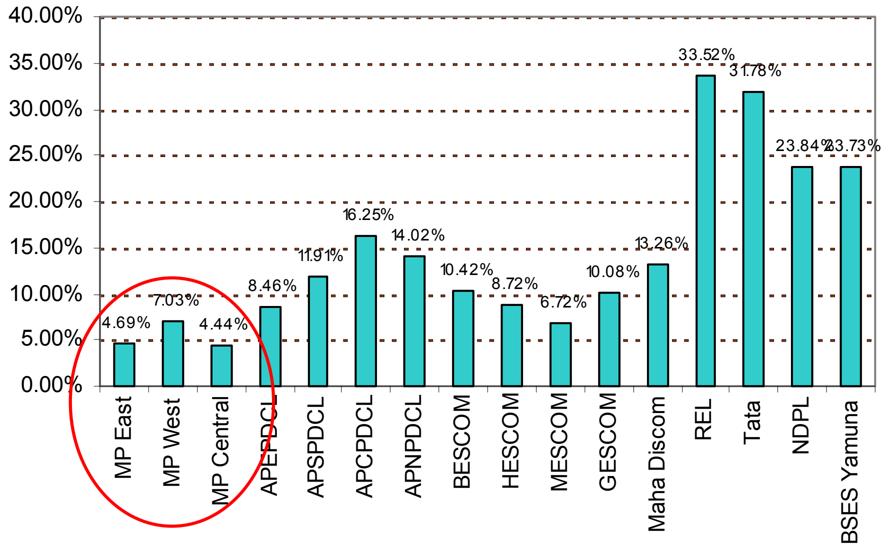


Repairs & Maintenance expenses

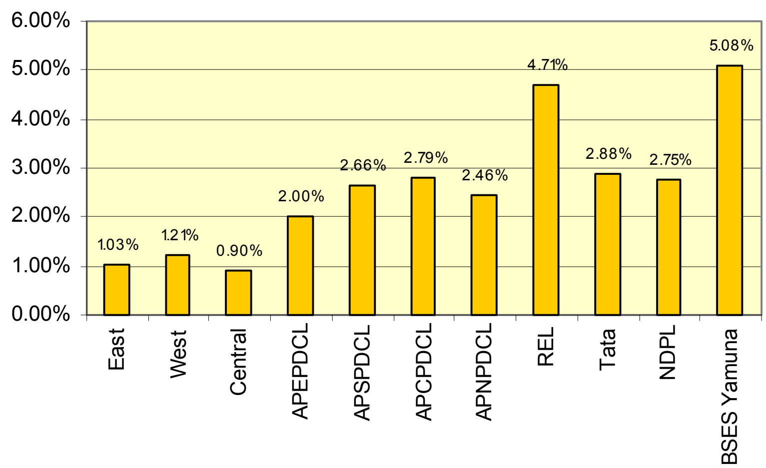
1.39 Expenditure on R&M is critical to keep the breakdown at low levels and to reduce the technical losses. We compared R&M expenses as % of total O&M expenses across the 16 distribution companies under study. It is seen from the study that the expenditure of East, West and Central Discoms in MP was 4.69%, 7.03% and 4.44% respectively. The chart below shows that the share of R&M in total O&M expenses for MP Discoms is very low as compared to the Discoms in other States. This shows a considerable under-spend on Repairs and Maintenance, which is crucial for providing reliable and quality power to consumers. In case of private Distribution Licensees such as REL and Tata, the shares of R&M expenses are 33.52% and 31.78% respectively.

Average expenditure on R&M across 16 distribution companies was 15%. If the performance of private licensees – REL, Tata, BSES Yamuna and NDPL are not taken into account as their expenditure on R&M seems to be fairly high, the average level across all the remaining public sector companies would be about 11%. So, even when a comparison is made only across Govt. owned companies, the expenditure levels of MP Discoms on Repairs and Maintenance is still alarmingly low.

Share of R&M expenses in total O&M expenses



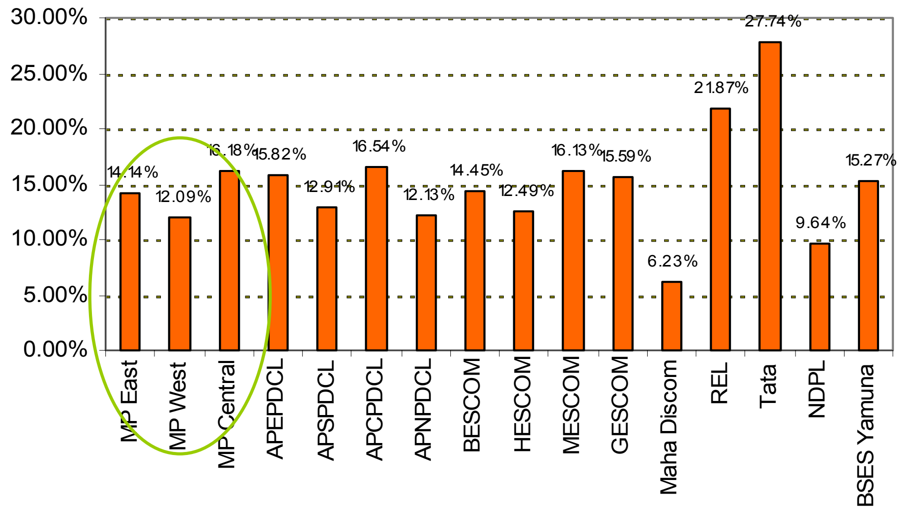
1.40 The size of the asset base of a business is a key driver of Repairs and Maintenance expenses, as expenditure on this head is incurred for the upkeep of network assets. Therefore, it is imperative to analyse repairs and maintenance expenditure with respect to the size of the asset base. For this purpose, we have the financial size of the asset base i.e. the Gross Fixed Assets (opening balance) for FY05-06 for 12 out of the 16 selected companies (due to data unavailability for the remaining 4 companies). The comparison is shown in the chart below:



1.41 It can be seen that for MP Discoms, this ratio is very low as compared to other Discoms. This represents a significant under-spend in the upkeep of the network, and requires a regulatory review and resolution of the underlying causes.

Administrative & General expenses

1.42 A&G expenditure as a percentage of total expenditure on O&M of the three distribution companies of MP was comparable to the expenditure of other distribution companies under study. Expenditure of East, West and Central Discoms was 14.14%, 12.09% and 16.18%. The average expenditure of the 16 distribution companies was 12.90%.



1.43 Similarly, in an analysis of A&G expenses per unit of sales, the expenditure level of MP Discoms was found to be comparable to that of the Discoms in other States. The average level of A&G expenses per unit of sales is 0.07, and that of the East, West and Central Discoms is 0.08, 0.05 and 0.09 respectively.

1.44 It is seen from the benchmarking exercise above that the MP Discoms have spent considerably less on O&M in absolute terms as compared with the distribution companies in other States. However, the relationship of the items of O&M expense to their underlying drivers is skewed in case of MP. For example, Employee Expenses per unit of sales of MP Discoms is higher than that of Discoms in other States.

1.45 Based on this exercise, the Commission has tried to work out an efficient O&M cost allowance for the MP Discoms based on the average performance of all the other Discoms under study. This shall be as under:

Table 15: Efficient expenditure allowances on O&M

Discom	Employee expenses	R&M expenses	A&G expenses	Sales (MU)	Opening GFA (Rs. Cr)	O&M cost allowance (Rs. crs.)
	Driver value*					
	Rs/ unit	% of GFA	Rs./unit			
	A	B	C	D	E	(A*D/10 + B*E + C*D/10)
East	0.25	3.54 %	0.068	4756	1252.0	**195.56**
West	0.25	3.54 %	0.068	6205	1499.42	**250.40**
Central	0.25	3.54 %	0.068	4554	1281.0	**190.16**
Total	0.25	3.54 %	0.068	15,515	4032.32	**636.12**

* ‘Driver value’ is the average value for all other Discoms (Other than MP)

Other issues

Terminal benefits

1.46 The Licensees have, in their claim for Employee Expenses, included expenditure towards “Terminal Benefits” amounting to Rs. 46.82 Crore, Rs. 40.95 Crore and Rs. 42.16 Crore respectively for East, West and Central Discoms. During the course of formal hearing on the matter on 6th December 2007, the Licensees have confirmed that the amount under this head is a provision made for employees due to retire from the Discoms.

1.47 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.

1.48 The Commission observes that the formalities with regard to the setting up of the Fund as envisaged in the Transfer Scheme have not been completed and so no payments towards terminal benefits have actually been remitted to the trust. These provisions, therefore, stand disallowed for the purpose of these true-up petitions.

1.49 Furthermore, the Licensees have also confirmed to the Commission during the course of formal hearing on true-up petitions that provisions for "Insurance" have been made in the Administrative and General Expenses, which amounts to Rs. 6.73 Crore, Rs. 7.60 Crore and Rs. 7.63 Crore respectively for East, West and Central Discoms. The amounts, being in the nature of mere provisioning, have not been considered by the Commission in working out the truing-up amounts for the Discoms.

1.50 In their claims for A&G expenses, the Licensees have also included expenditure under the head "Common Expenses by MPSEB", which amounts to Rs. 16.31 Crore for East Discom, Rs. 2.17 Crore for West Discom and Rs. 14.22 Crore for Central Discom. 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.

1.51 The Gross O&M expenses as claimed by the Licensees, after adjusting for the disallowances as explained above shall be Rs. 213.47 Crore, Rs. 217.22 Crore and Rs. 199.25 Crore for East, West and Central Discoms respectively. In order to determine the O&M expenses net of capitalisation, the Commission has pro-rated the claimed capitalisation amount in line with the adjusted gross expenses mentioned above. The net O&M expenses worked out in this manner would be Rs. 208.46 Crore, Rs. 207.90 Crore and Rs. 193.87 Crore for East, West and Central Discoms respectively. These amounts, when compared to the "efficient" expenses as worked out in Table 15 above show a remarkable similarity in case of East and Central Discoms. This level of expenditure can therefore be considered efficient and allowed for truing-up purposes.

Table 16: Allowed O&M expenses (Rs. Crore)

Discom	**As claimed in True-up petition (net of capitalisation)**	**Allowed after truing-up (net of capitalisation)**	**Difference**
East	276.98	208.46	68.52
West	256.17	207.90	48.27
Central	256.50	193.87	62.63
Total	**789.65**	**610.24**	**179.42**

D. Depreciation

East Discom's submission:

1.52 In the truing-up petition, the East Discom has claimed depreciation only on the opening gross-block of assets transferred to the Discom as on 31st May 05. While the Discom has claimed an asset addition of Rs. 36.05 Crore during the ten month period, it claims that the no depreciation has been charged on such additions. As per the Note 4.1 of Schedule 25 of the Audited Accounts of the Licensee submitted to the Commission the Licensee has claimed that depreciation on fixed assets is provided on Straight Line Method at the rates provided by the Central Government in Circular No. S.O.266 (E) dated 29th March 1994. The Licensee has also submitted that wherever rates of depreciation as per the Central Govt. Circular are lower than the rates of depreciation specified under the Schedule XIV of the Companies Act, 1956, the Companies Act rates have been adopted.

1.53 The submissions of the Licensee are given as under:

Table 17: GFA and accumulated depreciation as on 31st May 05

(Amount in Rs. Crore)

A/c Code	Particulars	Opening GFA	Accumulated Depreciation
10.1	Land & Land rights	2.02	0.00
10.2	Building & Civil works	15.29	11.03
10.3	Hydraulic Works	9.67	6.42
10.4	Other Civil Works	2.75	1.23
10.5	Plant & Machinery	277.55	179.18
	- Transformers, etc		
	- Communication Equipment		
	- Batteries		
10.6	Lines Cable Networks etc	936.20	555.55
	- Meters		
	- Others		
10.7	Vehicles	2.89	2.16
10.8	Furniture & Fixtures	1.61	1.17
10.9	Office Equipments	4.03	1.73
	Any other items	0.46	0.10
	Total	**1252.00**	**759.00**

1.54 The depreciation charged by the Licensee in its audited accounts for the period June 05 to Mar 06 is as under:

Table 18: Depreciation charged as per Audited Accounts

(Amount in Rs. Crore)

A/c Code	Particulars	Depreciation Charged
10.1	Land & Land rights	0.00
10.2	Building & Civil works	0.26
10.3	Hydraulic Works	0.11
10.4	Other Civil Works	0.07
10.5	Plant & Machinery	18.22
	- Transformers, etc	
	- Communication Equipment	
	- Batteries	
10.6	Lines Cable Networks etc	63.94
	- Meters	
	- Others	
10.7	Vehicles	0.00
10.8	Furniture & Fixtures	0.17
10.9	Office Equipments	0.43
	Any other items	0.01
	Total	**83.21**

West Discom's submission:

1.55 In the truing-up petition, the West Discom has claimed depreciation only on the opening gross-block of assets transferred to the Discom as on 31st May 05. While the Discom has claimed an asset addition of Rs. 53.94 Crore during the ten month period, it claims that the no depreciation has been charged on such additions. As per the Audited Accounts of the Licensee submitted to the Commission, the Licensee has claimed that depreciation on fixed assets is provided on Straight Line Method at the rates provided by the Central Government in Circular No. S.O.265 (E) dated 27th March 1994. The submissions of the Licensee are given as under:

Table 19: GFA and accumulated depreciation as on 31st May 05

(Amount in Rs. Crore)

A/c Code	Particulars	Opening GFA	Accumulated Depreciation
10.1	Land & Land rights	3.99	0.05
10.2	Building & Civil works	27.64	10.09
10.3	Hydraulic Works	6.55	2.86
10.4	Other Civil Works	2.93	1.40
10.5	Plant & Machinery	449.92	259.05
	- Transformers, etc		
	- Communication Equipment		
	- Batteries		
10.6	Lines Cable Networks etc	998.25	587.48
	- Meters		
	- Others		
10.7	Vehicles	5.19	4.67
10.8	Furniture & Fixtures	1.88	1.35
10.9	Office Equipments	3.05	1.08
	Any other items	0.00	0.00
	Total	**1499.42**	**868.04**

1.56 During discussions with the Commission in the formal hearing on true-up petition conducted on 6th December 2007 at the Commission's office, the Licensee has submitted that it has worked out chargeable depreciation after computing the category wise depreciable assets as on 31st May 05. For this purpose the Licensee has collated the data of annual fixed asset addition since 1984-85 upto 2004-05 and has categorized the asset addition into accounting code-wise blocks for determining depreciation. The Licensee has applied depreciation rates based on the depreciation rates in force from time to time. The Licensee has ensured that the GFA and Accumulated Depreciation worked out from this exercise is matched up with the opening balance sheet figures. Using this data, the Licensee has separated out depreciable and fully depreciated assets as on 31st May 05. Further, the depreciation during the 10 month period of FY 05-06 has been charged only on depreciable assets identified from this exercise.

1.57 The depreciation charged by the Licensee in its audited accounts for the period June 05 to Mar 06 is as under:

Table 20: Depreciation charged as per Audited Accounts

(Amount in Rs. Crore)

A/c Code	Particulars	Depreciation Charged
10.1	Land & Land rights	0.003
10.2	Building & Civil works	0.54
10.3	Hydraulic Works	0.08
10.4	Other Civil Works	0.056
10.5	Plant & Machinery	13.30
	- Transformers, etc	
	- Communication Equipment	
	- Batteries	
10.6	Lines Cable Networks etc	40.57
	- Meters	
	- Others	
10.7	Vehicles	0.00
10.8	Furniture & Fixtures	0.055
10.9	Office Equipments	0.215
	Any other items	0.00
	Total	**54.82**

Central Discom's submission:

1.58 In the truing-up petition, the Central Discom has claimed that depreciation has been charged only on the opening gross-block of assets transferred to the Discom as on 31st May 05. The Discom has, however, not provided any information regarding its opening gross block in the Audited Accounts. Similarly, with regard to accumulated depreciation as on 31st May 05, the Discom has only submitted that Rs. 788.00 Crore has been transferred to it through the transfer scheme. However, no asset category-wise break-up of accumulated depreciation has been provided by the Discom.

1.59 With regard to asset addition during the ten month period in question, the Discom has claimed an addition of Rs. 22.07 Crore, which is made up of Rs. 13.31 Crore of CWIP converted to Fixed Assets and Rs. 8.76 Crore of new addition, made up almost entirely of additions to "Lines and Cable Network". The Discom has also not submitted its claim of depreciation on an asset category-wise basis. The annual audited accounts of the Discom only give a lump-sum amount of Rs. 93.00 Crore as depreciation charged during the period June 05 to Mar 06.

Commission's analysis of depreciation claims:

1.60 The Commission's regulations on terms and conditions of distribution tariff were first published on the 5th of December 2005. These regulations provided that depreciation on distribution assets shall be allowed at the rates prescribed by the Central Electricity Regulatory Commission (CERC). The rates prescribed by the CERC are different from what the Central Govt. prescribed through its Circular No. S.O. 265 (E) and adopted by the Licensees for accounting purposes.

1.61 It has already been stated above that the terms of the said regulations shall not be applicable to the period under consideration as the regulations came into being when three quarters of the ten month period in question were already over. Therefore, for the purposes of the period June 05 to Mar 06, the Commission accepts the depreciation terms, as adopted by the Licensees. However, it needs to be clarified that notwithstanding the accounting practices followed by the Licensees, from FY 07 onwards, the Commission shall adopt the rates of depreciation on assets as specified in the Commission's Regulations on Terms and Conditions of Tariff.

1.62 The Commission is happy to note that the West Discom has put in great efforts to determine the actual depreciable assets (i.e. those assets not depreciated upto 90% of original book cost) as on the date of the Transfer Scheme of 31st May 05. The Discom has computed depreciation only of these assets, thus negating the possibility of depreciation being charged on an asset which has already depreciated to 90% of its historical cost. The efforts of West Discom are indeed laudable. However, the other two Discoms have not done any such exercise and have not shared data of depreciable assets computation with the Commission.

1.63 It can be readily seen from the Licensees' submissions that the West Discom having the largest share of fixed assets among three Discoms has claimed the least amount towards depreciation. This is entirely due to the fact that the Discom has, using historical data of fixed assets addition, identified and separated the assets which have completely depreciated and thus are not eligible for depreciation any longer. The other two Discoms have not done this exercise. As shown above, the Central Discom has not even provided asset class-wise depreciation, making it impossible to verify its claims of depreciation.

1.64 The Commission is of the opinion that the method adopted by the West Discom is the most appropriate under the circumstances as it ensures that the depreciation is not charged on fully depreciated assets. The Commission, however, has not been supplied with similar calculations by the other two Discoms. Therefore, under the circumstances, the Commission, while allowing depreciation to the West Discom as claimed, allows depreciation to the East and Central Discoms at the weighted average % depreciation rate of West Discom. The weighted average depreciation rate for West Discom for the period June 05 to Mar 06 works out to 3.66% {(54.82 / 1499.42)*100}. Applying this rate on the opening GFA of East and Central Discoms, the depreciation during the said period works out to Rs. 45.77 Crore and Rs. 46.83 Crore respectively for these Discoms. The Commission approves of this amount for the purpose of truing-up.

1.65 The East Discom and Central Discom are directed to compute the depreciated and depreciable assets as on 31st May 05, matching the same with the figures of the opening balance sheet. The depreciation for the period June 05 to Mar 06 should then be recomputed using the balance of depreciable assets as on 31st May 05. The East and Central Discom may seek assistance from West Discom for this exercise. Once this data is submitted to the Commission, the Commission shall allow the difference between recomputed depreciation and that allowed in this Order to be adjusted in the subsequent ARR. It is important that East and Central Discoms perform these computations and submit the data to the Commission as early as possible, since the absence of this information would force the Commission to adopt the same methodology as adopted in this Order for these two Discoms for determination of depreciation for all future years as well.

Table 21: Allowed Depreciation (Rs. Crore)

Discom	As claimed in True-up petition	Allowed after truing-up	Difference
East	83.21	45.77	37.44
West	54.82	54.82	0.00
Central	93.00	46.83	46.17
Total	**231.03**	**147.42**	**83.61**

E. Interest and Finance Charges

Licensees' submission

1.66 The interest and finance charges comprise of interest on project specific loans as per the opening Balance Sheet of 31st May 05 and the new loan drawals during the ten month period of FY 06 in question, 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. The Licensees have made the following submissions in this regard:

Table 22: Interest and finance charges as claimed by the Licensee

Amount in Rs. Crore

Interest and finance charges (IFC)	**East**	**West**	**Central**
Generic Loan from MPSEB	25.20	48.41	31.60
Power Finance Corporation – STL	0.83	0.00	0.00
NABARD	0.01		0.007
APDRP	0.11	9.56	0.19
ADB	4.47		4.47
Power Finance Corporation – RTL	9.89	14.01	8.64
Penal Interest	0.00	0.05	0.00

Interest and finance charges (IFC)	East	West	Central
Sub-total Interest on Project Loans	**40.51**	**72.02**	**44.91**
Less IFC on project loans Capitalised	11.05	36.32	25.39
Net IFC on Project Loans	**29.46**	**35.70**	**19.52**
Borrowings for Working Capital	0.92	3.21	1.16
Interest on consumer security deposit	4.48	10.53	6.47
Cost of raising finance	0.0018	0.00	0.00
Other Charges	1.22	1.80	0.85
Rebate in interest on timely payment	(0.00)	(0.16)	(0.00)
Total Interest and Finance Charges	**36.08**	**51.08**	**28.00**

Interest on Project Loans

1.67 The Commission has examined the interest claims of the Licensees from the audited accounts and the repayment schedules for each funding agency as provided by the Licensees. In its Tariff Orders for FY 07 and FY 08, the Commission has attempted to identify the component of debt funds associated with completed assets and allowed interest on only some portion of total outstanding debt. This was necessary as the Distribution Licensees had not been able to map their various loans (including Generic Loan from MPSEB) with the assets created.

1.68 The Commission is of the opinion that while loans may be drawn by the Licensees to build or augment the network and thus serve its consumers better, the interest burden of such debt cannot be allowed to be passed through to the consumers if such assets are not completed and put into use. The only evidence for asset completion is the transfer of CWIP (capital works in progress) to Gross Fixed Assets as visible from the Audited Accounts of any financial year. There could be other evidences also, such as the Asset Completion Reports, which, however, have never been submitted by the Licensees to the Commission. The Commission has thus been forced to carry out the mapping of loans and equity with Fixed Assets and CWIP in order to identify the debt and equity eligible for earning Interest and Return respectively. This philosophy of the Commission is clearly spelt out in its Regulations on Terms and Conditions of Determination of Tariff.

1.69 The true-up period in question, however, does not fall under the purview of the above mentioned Regulations. Therefore, for the period June 05 to Mar 06, the Commission allows for true-up, the actual interest claimed by the Licensees in their Audited Accounts, without attempting to map debt and equity to fixed assets and capital works in progress. In case of West Discom, however, Penal Interest amounting to Rs. 5 Lakhs has been disallowed. But, it needs to be clarified that this allowance should not be construed as a deviation from the Commission's approach as set out in its MYT Regulations, which will be followed strictly from the period FY 07 onwards.

1.70 The interest on project loans – net of capitalisation - thus allowed for truing-up purpose for the ten month period of June 05 to Mar 06 is as under:

Table 23: Interest and Finance Charges as allowed (Rs. Crore)

Discom	**Total Interest on Project Loans considered for truing-up – net of capitalisation**	**Other finance charges (less rebates)**	**Total Interest and Finance Charges on Project Loans as allowed**
East	29.46	1.22	30.68
West	35.72	1.64	37.36
Central	19.52	0.85	20.37
Total	**84.70**	**3.71**	**88.41**

Interest on Working capital

1.71 As per the Audited Accounts of the Licensees, they have claimed interest charges on working capital loans to the tune of Rs. 0.92 Crore, Rs. 3.21 Crore and Rs. 1.16 Crore for East, West and Central Discoms respectively. The annual accounts also indicate that working capital loans to the tune of Rs. 92.94 Crore, Rs. 117.30 Crore and Rs. 89.76 Crore have been drawn by East, West and Central Discoms respectively during the period June 05 to Mar 06.

1.72 No working capital loans were transferred to the licensees via the opening balance sheet and therefore the interest on working capital loans now claimed by the Licensees must surely be only on account of borrowings during the period June 05 to Mar 06. The Licensees have not provided any further details to the Commission regarding the payment schedule of these working capital loans making it impossible for the Commission to verify the interest claims of the Licensee on this account.

1.73 The financial year in question does not fall under the purview of the Commission's regulations for determination of tariff under section 61 of the Act. Therefore, the Commission is not inclined to apply the norms specified in these regulations for determination of working capital requirement for the Licensees. Furthermore, the Licensees have received working capital loans during the period and the amount of interest payments indicate that the loans have been received in the later part of the financial year, presumably to make payments for short term purchase of power or finance the revenue deficit on account of poor collection efficiency.

1.74 As the amounts of working capital interest claimed by the Licensees are insignificant and the audited balance sheet shows the receipt of working capital loan from GoMP during the period in question, the Commission accepts the Licensee's claim in this regard. However, it needs to be emphasised here that the acceptance of Licensee's claim on this account does not mean that the Commission shall continue to recognise the existence of these working capital loans and allow for pass through the consequent interest payments in future years. From FY 07 onwards, the working capital interest shall only be allowed based on the norms specified by the Commission in its regulation and the existence of any past loans for working capital and consequent interest payments, if any, shall not be recognised.

Interest on Consumer Security Deposits

1.75 As per the provisionally notified opening balance sheet of 31st May 05, the Consumer Security Deposits of the three companies stood at Rs. 273 Crore, Rs. 405 Crore and Rs. 278 Crore for East, West and Central Discoms respectively. The Licensees have, during the period in question, received security deposits to the tune of Rs. 15.63 Crore, Rs. 28.86 Crore and Rs. 20.18 Crore respectively.

1.76 The MPERC (Consumer Security Deposit) Regulations 2004, notified on 22nd September'2004 required that the Licensees must pay interest on security deposits of consumers at the prevailing Bank Rate as on 1st April 2005 (which was 6% p.a.) It can be readily seen that the actual interest payouts of the three Discoms during the period in question are, however, quite low as compared to what they should have been if interest was paid @ 6% p.a.:

Table 24: Interest on Consumer Security Deposit (Rs. Crore)

Discom	Opening CSD	Closing CSD	Average CSD	Interest @ 6% pro-rated to 10 months	Actual Interest on CSD as per Audited Accounts
East	273.00	288.63	280.82	14.04	4.48
West	405.00	433.68	419.34	20.97	10.53
Central	278.00	298.18	288.09	14.40	6.47
Total	**956.00**	**1010.49**	**983.25**	**49.16**	**21.48**

1.77 For the purpose of this tariff order, the Commission is interested primarily in determining the allowable expenditure and revenue for the purpose of working out allowable profit or loss to be passed on to the consumers of the Licensees. Therefore, the Commission accepts and approves for truing-up purposes, the actual interest on CSD as accounted for by the Licensees.

While the amounts computed in table above @ 6% are on the average of opening and closing balance of CSD and therefore are at best a close approximation, the actual interest payments by the Licensees are drastically different, requiring an explanation. The Commission directs the Licensees to furnish to the Commission, with adequate supporting, a statement that interest on Consumer Security Deposit is indeed being paid at the rate and in the manner specified by the Commission. The Licensees must submit these statements to the Commission within a month of the issue of this Order.

F. Reasonable Return

1.78 All three Discoms have, in their true-up petitions, claimed a Return on Equity and have worked out their profit / loss for the period in question after including the RoE. The amounts claimed under RoE by East, West and Central Discoms are Rs. 42.27 Crore, Rs. 61 Crore and Rs. 51.68 Crore respectively. However, it is interesting to note that the same does not find any mention in the true-up formats submitted by the Licensees. Also, the petitions have no explanation as to how these amounts have been arrived at.

1.79 It has been stated before that, for the period in question, the Commission is not in favour of invoking the provisions of its regulations for tariff determination. Therefore, the Commission shall not determine the Reasonable Return to the Licensee on Equity, but the same is being allowed to the Licensees at the rate of 3% of opening balance of Net Fixed Assets less consumer contributions and capital subsidies, if any; as was the practice before the RoE regime was put in place. As per the balance sheets of 31st May 05, there are no consumer contributions or capital subsidies, therefore, the NFA amounts as available from these balance sheets have been taken as such for the purpose of allowing Reasonable Return. The Reasonable Return amounts considered by the Commission for the purpose of truing-up are as follows:

Table 25: Reasonable Return (Rs. Crore)

Discom	**As claimed in True-up petition (on Equity)**	**Allowed Return**	
		Opening NFA	Return (@ 3% on opening NFA) – pro-rated to 10 months
East	42.27	493	**12.33**
West	61.00	631	**15.78**
Central	51.68	493	**12.33**
Total	154.95	1617	**40.43**

The allowances of reasonable return at 3% on opening NFA (and prorated for 10 months) is a deviation from the practice followed by the Commission in the case of MP Genco and MP Transco where Return on Equity was allowed. This is because in their cases, the norms of operation have been prescribed by the Commission in the tariff order for FY 2005-06 whereas in the case of Discoms, no such norms were prescribed. The true up petitions of these Companies have been considered on the basis of achievement against the norms and hence the RoE was also allowed.

1.80 The Commission, however, wishes to point out that from the financial year 2006-07 onwards, the Licensees shall be allowed a Return on Equity as per the terms and conditions laid down by the Commission in its Regulations on determination of tariff for Distribution and Retail Supply.

G. Other items of ARR

1.81 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 and any prior period expenses / credits. These are analyzed below:

Bad and doubtful debts

1.82 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 26: Bad and Doubtful Debts (Rs. Crore)

Discom	Bad Debts Written Off	Provision for Bad Debts write-off	Total Charged to P&L Account
East	104.01	105.31	209.32
West	No clarity on actual write offs and provisions		48.06
Central	No clarity on actual write offs and provisions		90.90

1.83 It can be seen from the table above that the East Discom has actually written off a large portion of bad debts. Most of these are receivables from Rural Electricity Cooperative Societies. The Commission understands that the write-off has been approved by the Board of Directors of the Eastern Discom. In case of the other two companies the petitions and accounts did not clearly state how much of the total amount charged to P&L Account is actual write-offs and how much is mere provisioning. But in a separate query from the Commission, the West Discom has, vide their letter no. xxx dated xxx, submitted that out of the total of Rs. 48.06 Crore shown towards Bad and Doubtful Debts, the amount to the tune of Rs. 48.03 Crore is a mere provision. Similarly, the Central Discom has, vide its submission dated 18th December 2007 intimated to the Commission that the entire amount of Rs. 90.90 Crore shown towards Bad and Doubtful Debts is only a provision, with no actual write-off.

1.84 The inclusion of bad debts in the ARR means that the present consumers actually bear the burden of non-recovery of dues from past consumers, which are now disconnected from the system. The Commission thinks that it is not fair to load the tariffs of current consumers with the dues of past consumers, which could not be recovered, in large part, due to inefficiencies in the systems of the Licensees. It is for these reasons that the Commission's Regulations allowed for inclusion in the ARR, only a maximum of 1% of sales revenues towards bad debts and doubtful debts. But since the provisions of the said regulations are not applicable for the period in question, the Commission considers only the actual write-offs as submitted by the Licensees (vide letters mentioned above) for the purpose of truing-up.

Table 27: Bad and Doubtful debts allowed

Amount in Rs. Crore

Particulars	**East**	**West**	**Central**
Claimed by Licensee	209.32	48.33	90.90
Allowed by Commission	**104.01**	**0.03**	**0.00**

Other miscellaneous expenditure

1.85 The Licensees have claimed miscellaneous expenditure amounting to Rs. 0.85 Crore – East Discom, Rs. 1.53 Crore – West Discom and Rs. 0.53 Crore – Central Discom. These amounts are allowed by the Commission. Further, the Licensees have claimed Rs. 0.62 Crore – East Discom, Rs. 0.38 Crore – West Discom and Rs. 0.36 Crore – Central Discom – towards Fringe Benefit Tax paid in the period under consideration. This is allowed by the Commission.

Revenues

Revenue from sale of power

1.86 The Licensee's Audited Accounts show revenue from sale of power to the tune of Rs. 1651.72 Crore, Rs. 1699.29 Crore and Rs. 1428.84 Crore for East, West and Central Discoms respectively. In case of East Discom and Central Discom, the Commission found a discrepancy between the figures in Audited Accounts and those in the Licensees' True-up petitions (as per R-15 information). The East Discom submitted, vide its letter no. EZ/SE(TRAC)/True-up05-06/1101, dated 5th October 2007, that its revenue from sale of power in the period June 05 to Mar 06 is Rs. 1538.72 Crore. The Central Discom's true-up petition showed the revenue from sale of power as Rs. 1671.73 Crore, which the Discom later revised to Rs. 1406.70 Crore vide its letter no. CMD/CZ/TRAC/7610, dated 15th December 2007.

1.87 Even after the subsequent submissions by the licensees as discussed above, there were still mismatches between the revenue as appearing in the Audited Accounts and that available from the R-15s for the period in question. In the truing-up hearing conducted by the Commission on 18th December 2007, the East Discom submitted its revised data reconciling the amount of revenue as per R-15 and that as per the Audited Accounts, while the Central Discom submitted that the figures of revenue from sale of power as available from the Audited Accounts should be considered by the Commission as final.

1.88 The Commission issued a Tariff Order for FY 05-06 dated 29th June, 2005, which contained the retail tariff rates for various LT and HT consumer categories. The Commission understands that this Tariff Order was implemented by the Licensees (i.e. billing to consumers started using the Tariff Order rates) from September 2005 i.e. for the three months period June 05 to August 05, the billing to consumers was done by the Licensees using the rates notified as part of the earlier Tariff Order of the Commission dated 10th December 2004.

1.89 The Commission, in this Order, is not re-computing the tariff revenues as it is not practically feasible due to computation problems on account of modifications in consumer categories, change of tariff rates, etc. during the period June 05 to March 06. Furthermore, the actual billing to consumers takes into account various incentives / penalties, rebates, surcharges, etc. levied as per the Tariff Order in vogue during the period in question. In absence of comprehensive sales and billing databases, it is not possible for the Commission to re-determine the revenues or prove / disprove the claims of the Licensees in this regard. The Commission, therefore, trusts the Audited Accounts of the Licensees and allows the actual revenues from sale of power during June 05 to Mar 06 as obtained from the Audited Accounts.

1.90 Further, the Licensees' Accounts for the period June 05 to Mar 06 reveal that they have received revenue subsidy from the Government of MP to the tune of Rs. 80.74 Crore, Rs. 122.32 Crore and Rs. 90.57 Crore for East, West and Central Discoms respectively. The Commission approves this amount for determination of allowable profit / loss for the period June 05 to Mar 06.

Non-Tariff Income

1.91 The Licensees have made the following claims regarding Non-Tariff Income for the period June 05 to Mar 06, which is approved by the Commission:

Table 28: Non-Tariff Income as claimed and allowed

Amount in Rs. Crore

Particulars	**East**	**West**	**Central**	**Total**
Meter Rent / Service Line Rental	12.98	16.18	10.28	39.44
Recoveries for Theft and Malpractice	0.75	0.00	3.65	4.40
Wheeling Charges	0.00	0.15	0.00	0.15
Miscellaneous Charges	22.42	44.87	17.33	84.62
Delayed Payment Surcharge	122.29	95.67	141.21	359.17
Other miscellaneous items	5.94	8.25	8.01	22.20
Total	**164.39**	**165.12**	**180.48**	**509.98**

1.92 Based on above discussion, the total revenues earned by the Licensees during the period June 05 to Mar 06 and allowed by the Commission are as follows:

Table 29: Total Revenue earnings as allowed

Amount in Rs. Crore

Particulars	Revenue from sale of power	Non-Tariff Income	Revenue Subsidies	Total Revenues
East	1651.72	164.38	80.74	**1896.85**
West	1699.29	165.11	122.32	**1986.72**
Central	1428.84	180.48	90.57	**1699.88**
Total	**4779.85**	**509.97**	**293.63**	**5583.45**

Profit / Loss for pass-through

1.93 Based on the discussion about the various cost and revenue items as claimed by the Licensees and scrutinised by the Commission, the Commission considers the following profit / loss for the period June 05 to Mar 06 as allowable for pass through to the ARR of FY 08-09, for recovery by each Licensee through retail tariffs. The amounts as shown against each Distribution Licensee shall be added (in case of losses) and subtracted (in the event of profit) from the approved Aggregate Revenue Requirement of FY 2008-09 of such Licensee:

Table 30: Profit / Loss allowed for pass through

Amount in Rs. Crore

Particulars	East	West	Central	Total Discoms
Revenues:				
Revenue from Sale of Power	1651.72	1699.29	1428.84	**4779.85**
Non-Tariff Income	164.39	165.11	180.48	**509.98**
Tariff Subsidy	80.74	122.32	90.57	**293.63**
Total Revenues	**1896.85**	**1986.72**	**1699.88**	**5583.45**
Expenditure:				
Cost of Power Procurement, including charges for Inter-State Transmission	1290.29	1630.40	1253.73	**4174.41**
Intra-State Transmission Charges	114.18	144.70	133.41	**392.29**
Net Operations and Maintenance Cost	208.46	207.90	193.87	**610.24**
Bad and Doubtful Debts	104.01	0.03	0.00	**104.04**
Other Expenses	0.85	1.53	0.53	**2.91**

PBDIT	179.06	2.17	118.34	**299.57**
Depreciation	45.77	54.82	46.83	**147.42**
PBIT	133.28	(52.65)	71.51	**152.14**
Interest and Finance Charges (incl. interest on CSD and Working Capital Loans) – net of capitalisation	34.87	49.45	27.14	**111.46**
PBT	98.42	(102.10)	44.37	**40.69**
Taxes	0.62	0.38	0.36	**1.36**
PAT	97.80	(102.49)	44.01	**39.33**
Reasonable Return	12.33	15.78	12.33	**40.43**
Allowed Profit / (Loss) for pass through	**85.48**	**(118.27)**	**31.69**	**(1.10)**

A2: PUBLIC OBJECTIONS AND COMMENTS ON LICENSEES' PETITIONS

2.1 A public notice in the matter of truing up petitions for FY 05-06 filed by the Discoms had been published in the newspapers for inviting comments from various stakeholders by 19.11.2007.

2.2 In response to the public notice, one comment from the Madhya Pradesh Electricity Consumer Society only has been received in the office of Commission up to the due date for offering comments i.e. 19/11/07.

2.3 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:

1. **Objection raised under Para 6.1: Incomplete information in the true up petition for year'06, not in line with mperc regulations:-**

Objection: That the true up Petition filed by all the three DISCOM's are incomplete and does not give required information like comparison of actual performances v/s the order of the Hon'ble Commission/ Petition filed by the Petitioners.

(i) Response by West Discom: The Commission had not issued a detailed order for FY06. There were no benchmarks fixed for FY06 against which comparisons can be drawn. Further, the averment made is vague and does not point out any shortcoming, hence may not be treated as an objection.

(ii) Response by Central Discom: The Commission had not issued a detailed order for FY06. There were no benchmarks fixed for FY06 against which comparisons can be drawn.

(iii) Response by East Discom: The Commission had not issued a detailed order for FY06. There were no benchmarks fixed for FY06 against which comparisons can be drawn.

(iv) Commission's view:- The response by the Discoms may be considered correct .

2. Objection raised under Para 6.1.1 These Petitions are not filed according to The Madhya Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for distribution and retail supply of electricity and methods and principles for fixation of Charges) Regulations, 2006 to known in short as MPERC (Terms and Conditions of Tariff and Charges) Regulations, 2006 which requires following………………… *(reproducing the clauses under terms and conditions of tariff)*

(i) Response from West Discom: The referred Regulation is applicable to tariff filings under MYT regime and is not applicable to true up petition of FY06.

(ii) Response from Central Discom: The referred Regulation is applicable to tariff filings under MYT regime and is not applicable to true up petition of FY06.

(iii) Response by East Discom: The referred Regulation is applicable to tariff filings under MYT regime and is not applicable to true up petition of FY06.

(iv) Commission's view:- The Commission had specified data formats for true-up separately and the Licensees have filed information in the specified formats, complying with the requirements of the Commission. The Licensees have also supplied additional information to the Commission necessary for scrutiny of the petitions as and when sought by the Commission.

3. Objection raised under Para 7.0 : Distribution losses

Objection: None of the DISCOM's has been able to restrict their respective losses as stipulated in the tariff order. Hence the EZ shall not be allowed to pass on its additional losses to the extent of 7.09% (**41.59-34.5**) 8126.842 MUs. WZ shall not be allowed to pass through losses to the extent of 11.04% (**41.04-30**) of 10523.194 MUs. CZ shall not be allowed to pass on losses to the tune of 3.29 (**46.29 -43**) 8842.41 MUs in lieu of MPERC (Terms and conditions for determination of tariff for distribution and retail supply of electricity) Regulations, 2005 (G-27 of 2005).

Based on the average cost of supply (COS) proposed by the Petitioners as per form no T 9.1, page 50 of Tariff petition 2006 the loss of Rs. 228.25 crores (7.09 % x8129.842xRs.3.96) approximately to EZ against their losses of Rs. 360.36 crores, Rs. 460.05 crores (11.04% x 10523.194 xRs.3.96) to WZ against their loss of Rs. 200.04 crores and Rs 115.20 crores (3.29 %x8842.41 x3.96Rs) to CZ against their loss of Rs. 304.24 crores shall not be allowed.

In it's true up petition schedule….10a, an investment of Rs. 53.94 crores have been shown on account of various HT/LT works undertaken. In its petition FY06 on page 284 it had submitted its "Loss Reduction Plan for FY 05-06" according to which it had planned to save 7840 MU. However no reduction in losses has been achieved as planned.

Likewise the EZ in it's petition FY06 on page 283 had submitted it's "Loss Reduction Plan for FY 05-06" according to which it had planned to save 1748 MU. However, no reduction in losses has been achieved as planned.

Likewise the CZ in it's petition FY06 on page 284 it had submitted it's "Loss Reduction Plan for FY 05-06" according to which it had planned to save 2808 MU. However, no reduction in losses has been achieved as planned.

(i) Response by West Discom:- It is not clear from which order/ regulation the objector has inferred that loss target for FY06 was 30%. Further it is requested that while drawing comparison the objector should also account for MPPTCL and PGCIL's losses.

Regulations G27 of 2005 were notified on 23rd December 2005, which cannot be taken as applicable with retrospective effect i.e. for FY06. However the Distribution loss level projected for FY06 is 41.04% (includes MPPTCL and PGCIL's losses).

The petitioner does not agree wholly with the contention of the objector that saving in losses would result in saving of total cost. In fact reduction in losses would result in savings to the extent of lesser power purchase cost on account of reduction in technical losses, which requires huge investment and time. The average power purchase cost (including transmission cost) in FY06 is Rs. 1.685 per unit. However, it is to submit that this cost does not include cost of short-term power purchase.

(ii) Response by Central Discom:- It is not clear from which order/ regulation the objector has inferred that loss target for FY06 was 34.5%. Further it is requested that while drawing comparison the objector should also account for MPPTCL and PGCIL's losses.

Regulations G27 of 2005 was notified on 23rd December 2005 which cannot be taken as applicable with retrospective effect i.e. for FY06. However the Distribution loss level projected for FY06 is 35.5% (excludes MPPTCL and PGCIL's losses).

The petitioner does not agree with the contention of the objector that saving in losses would result in saving of total cost. In fact reduction in losses would result in savings to the extent of lesser power purchase cost. The average power purchase cost (including transmission cost) in FY06 is Rs. 1.88 per unit.

(iii) Response by East Discom: It is not clear from which order/ regulation the objector has inferred that loss target for FY06 was 34.5%. Further it is requested that while drawing comparison the objector should also account for MPPTCL and PGCIL's losses.

Regulations G27 of 2005 was notified on 23rd December 2005 which cannot be taken as applicable with retrospective effect i.e. for FY06. However the Distribution loss level projected for FY06 is 35.5% (excludes MPPTCL and PGCIL's losses).

The petitioner does not agree with the contention of the objector that saving in losses would result in saving of total cost. In fact reduction in losses would result in savings to the extent of lesser power purchase cost. The average power purchase cost (including transmission cost) in FY06 is Rs. 1.88 per unit.

(iv) Commission's view:-

The Commission in its tariff order dated 30th N0vember'2002 had mentioned T&D loss reduction programme over five years but it was for the MPSEB as a whole. Further, the Commission under clause 3.9 of the "Terms and Conditions of Distribution tariff" notified on 23rd Dec'2005 had fixed the Company-wise loss targets from FY 06 to FY 09.In view of the facts mentioned above, the targets for each Discom used by the objector are incorrect and irrelevant. It is pertinent to mention here that the GoMP on 28th Dec'2006, under the provisions of National Electricity policy and National tariff Policy had specified a loss reduction trajectory for each Discom. The Commission, with reference to the GoMP loss reduction trajectory may interpolate the loss targets during the truing up period in respect of each Discom to arrive at the figure of allowable losses.

The Commission agrees with the objector that if the actual losses are partly disallowed, there shall be a reduction in allowed power purchase quantum and cost. The actual magnitude of such reduction, if any, shall depend on the allowable distribution losses, which shall be determined keeping in view the factors already mentioned above.

4.0 Objection raised under Para 8.0: Depreciation

For the purpose of tariff, depreciation shall be computed in the following manner: (a) The asset base for the purpose of depreciation shall be the historical cost of the assets, i.e. actual expenses limited to approved / accepted capital cost: Provided that the consumer contribution or capital subsidy/ grant etc shall be treated as per the accounting rules notified and in force from time to time.

The audited balance sheet does not show the assets created through consumer contribution (from no s2,1 (D)a, Capital contributions from consumers) extension of distribution mains etc separately and the depreciation is charged on the entire gross block. The Petitioner may be asked to submit on affidavit the details of all such asset creation and the depreciation on such asset shall be dealt separately in accordance with the provisions.

We feel that a very large amount of such assets are added in the gross block of the respondents, In case of WZ the depreciation of Rs. 40.57 crores includes the consumer contribution. Similar is the position in respect of EZ and CZ. However Table 10 does not have any column showing the addition of assets through consumer contribution.

It may be noted that the order was passed by Hon Commission for the integrated utility, erstwhile Board (MPSEB) but now the three DISCOM's have filed individual performance figures without adding the individual figures or without comparing the figures with their own projections in the tariff petition and hence it is difficult to compare the overall and individual performance.

(i) Response by West Discom:- The Company is following the rules prescribed under ESAAR 1985. As per ESAAR depreciation is allowable on assets created through consumer contribution and further the Commission through its various tariff orders has settled this issue.

(ii) Response by Central Discom: The Company is following the rules prescribed under ESAAR 1985. As per ESAAR depreciation is allowable on assets created through consumer contribution and further this issue has been settled by the Commission through its various tariff orders.

(iii) Response by East Discom: The Company is following the rules prescribed under ESAAR 1985. As per ESAAR depreciation is allowable on assets created through consumer contribution and further this issue has been settled by the Commission through its various tariff orders.

(iv) Commission's view:-

The objector himself has pointed out that the Commission's Regulations prescribe that consumer contribution / capital subsidy or grant shall be treated as per the accounting rules notified and in force from time to time. The amount of consumer contribution will be deducted from the total capitalization for the purpose of calculating Return on Equity and interest on loan components.

The Accounting Rules notified and in force presently are ESAAR 1985, which allow depreciation to be charged on assets created from consumer contribution. Further, even after the consumer ceases to be a consumer of the Licensee, the assets so created remain the property of the Licensee. Therefore, charging depreciation on such assets is a practice, which may be considered as acceptable by the Commission.

5.0 **Objection raised under Para 9.0 :- Ambuguity in figures**
The respondent may be asked to explain the ambiguity in the figures shown in balance sheet as observed by Hon Commission with regard to revenue from sales of power by East Discom amounting to Rs. 113 crores (1651.72-38.72) and by Central Discom to the extent of Rs.(-) 233.56 crires(1428.87-1662.40).

(i) Response by West Discom:- Not applicable.

(ii) Response by Central Discom: The figure of Rs. 1662.40 crores was intimated wrongly due to clerical mistake. The corrected figure for 10 months i.e June 05 to March 06 (as per our R-15 document) has been submitted to the Commission.

(iii) Response by East Discom: The Revenue Income as submitted through audited balance sheet is to be considered as authentic.

(iv) Commission's view :- In case of East and Central Discoms, there is a difference in the revenue earned as appearing in R-15s vis-à-vis that in the audited accounts. The Licensees have been directed to reconcile the figures and report back to the Commission.

6.0 Objection raised under Para 10.0 : Lower sales than projected in petition:-

In the integrated petition, the projected sales was shown as 18022.47 MU (EZ 5496.32, CZ 5481.19 MU, WZ 7044.96 MU). Whereas, the actual sales is only 15702.49 MU EZ).

(i) Response by West Discom:-

Sales achieved in FY06 (for the period 01/06/05 to 31/03/06) are 6205 MUs against the projected sales of 7045 MUs for complete FY06.

(ii) Response by Central Discom:-Sales achieved in FY06 are 5598 MUs against the projected sales of 5496 MUs.

(iii) Response by East Discom: Sales achieved in FY06 is 5598 MUs against the projected sales of 5496 MUs.

(iv) Commission's view :- A difference between forecast and actual is quite a natural phenomenon.

7.0 Objection raised under Para 11.0 : Reduction in average cos:-

The Av COS has reduced from proposed Rs. 3.96 PU (as per table 18.31, page 5 113 of petition) to Rs. 3.48 for all three DISCOM's together as calculated below.

(1774.54 + 1986.72 + 1699.88 = 5461.14) divided by (4798.56 + 4748.98 + 6204.95 = 15702.45) = Rs. 3.73 PU. (From Audited balance sheet).

Whereas for WZ it is Rs. 3.73 PU, for CZ it is Rs. 3.58 PR and EZ it is Rs.3.20 PU.

The national Tariff policy requires that by 2011-2012, the loss levels must be brought down to comparable international level. This will definitely mean better performance leading to lowering of average cost of supply and consequently, lower tariffs.

Thus the tariff cost of all subsidizing categories like Industrial, Non domestic, railways etc shall be reduced proportionately in all future tariffs to the extent of Rs. 3.96 less Rs. 3.38 that is Rs. 0.48 PU.

Hon'ble Commission has also given road map for reduction in CROSS SUBSIDY vide notification no 2018-MPERC-2007 dated 6th October, 2007.

(i) Response by West Discom:- The objector has narrated a factual position. The Commission has notified the road map vide GoMP notification dated 6th October 2007.

(ii) Response by Central Discom:- The objector has narrated a factual position. The Commission has notified the road map vide GoMP notification dated 6th October 2007.

(iii) Response by East Discom: The objector has narrated a factual position. The Commission has notified the road map vide GoMP notification dated 6th October 2007.

(iv) Commission's view :- There is no objection made. Only a factual position has been narrated.

8.0 <u>Objection raised under Para 11.0</u> : Illegal recovery of cost of distribution mains:-

The respondents are not allowed to charge for the extension of distribution mains as per regulation on Misc Charges. However invariably the Petitioners are illegally recovering the cost of distribution mains from various consumers. Hence the Petitioners shall be asked to submit all this information under an affidavit before Hon Commission and shall arrange to refund these charges to the various consumers with interest. This is non –Compliance of supply code under section 50 of EA 2003

(i) Response by all Discoms:- Requires no comment, as it is related to provisions of a separate Regulation.

(ii) <u>Commission's view</u> :- The objection does not relate to the True-up petition. These issues shall be dealt separately.
