# PUNJAB STATE ELECTRICITY REGULATORY COMMISSION

**SITE NO. 3, BLOCK B, SECTOR 18-A MADHYA MARG, CHANDIGARH**

**Petition No. 23 of 2017**
**Date of Order:03.09.2019**

In the matter of : Petition for approval of Annual Fixed Cost of 100 MW Malana II Hydro-Electric Project for Hydro-Electric Project for Multi Year Tariff (MYT) Control Period(FY 2017-18 to FY 2019-20) under Section 62 and Section 64 of the Electricity Act, 2003 read with Regulation 63 of Punjab State Electricity Regulatory Commission (Terms and Conditions of Determination of Generation, Transmission, Wheeling and Retail Supply Tariff), Regulations, 2014.

AND

In the matter of: Everest Power Private Limited, Hall A, First Floor, Plot No.143-144, Udyog Vihar, Phase IV, Gurgaon-122015, Haryana.

…..Petitioner

Versus

1. Punjab State Power Corporation Limited, The Mall Patiala.
2. PTC India Limited, 2nd Floor, NBCC Tower, 15, Bhikaji Cama Place, New Delhi-110066.

…Respondents

Present: Ms. Kusumjit Sidhu, Chairperson
Sh. S.S. Sarna, Member
Ms. Anjuli Chandra, Member

**Order**

Everest Power Private Limited (EPPL), the Petitioner, has developed a 100 MW Malana- II Hydro Electric Project in District Kullu in the State of Himachal Pradesh and filed petition No. 23 of 2017 for approval of the Annual Fixed Cost for MYT Control Period of FY

2017-18 to FY 2019-20. The petition was taken up for hearing on admission and it was noticed by the Commission that there is delay in filing the petition. The Ld. Counsel for the petitioner requested for time to file an application for condonation of delay. The petitioner filed IA No. 19 of 2018 for condonation of delay. The Commission condoned the delay and petition No. 23 of 2017 was admitted and taken on the record vide Order dated 31.05.2017 further directing the petitioner to publish a public notice inviting comments from the stake holders by 20.06.2017.

1.1 The public notice was published on 19.06.2017 in 'The Tribune', 'Dainik Tribune' and 'Punjabi Tribune'. In response to the public notice only one objection was received from Directorate of Energy, Govt. of Himachal Pradesh vide letter No. HPDOE/CE (Energy/LADF-Malana –II HEP/2017- 2433-34 dated 21.06.2017. It was submitted in the letter that EPPL had filed a writ petition No. 1403 of 2016 in the Hon'ble High Court of Himachal Pradesh and the Hon'ble High Court Stayed the H.P. Govt. Notification dated 16.09.2009 and 05.10.2011. However, H.P. State has filed LPA in the Hon'ble High Court and the decision of the same is still awaited. Therefore, before approving the annual fixed cost ( True-up) for FY 2015-16, Annual Fixed cost for MYT Control period 2017-18 to 2019-20 and Capital Investment Plan and Business Plan in respect of Malana-II HEP (100 MW), the provision of Pre-Commissioning as well as Post-Commissioning Local Area Development Fund ( LADF) may kindly be kept as per Govt of HP,LADF guidelines dated 11.12.2006, 16.09.2009, 30.11.2009, 05.10.2011, 26.05.2015, and 17.08.2016 with effect from date of COD.

1.2 PSPCL filed its reply to the petition vide memo No. 6455 dated 12.07.2017 and vide memo no. 5110 dated 25.06.2017 replied to the objection raised by Directorate of Energy, Govt. of Himachal Pradesh. PTC India Limited filed its reply to the petition vide reply dated 14.07.2017. The petitioner filed an amended petition vide letter dated 14.12.2017 which was admitted by the Commission vide Order dated 15.02.2018 further directing the respondents to file their respective replies to the petition. The petitioner was directed to publish a public notice inviting suggestions/ objections from the public. The public notice was published on 09.03.2018 in 'The Tribune', 'Dainik Tribune' and 'Punjabi Tribune'. PSPCL filed reply to the amended petition vide memo no. 6676 dated 28.03.2018. The petitioner filed rejoinder, to the reply filed by PSPCL, vide letter dated 10.04.2018. Public hearing was held on 12.04.2018 and despite issuance of the public notice, nobody appeared in the public hearing except the petitioner and the respondents.

1.3 EPPL had filed petition No. 24 of 2017 for approval of the Capital Investment Plan and Business Plan for MYT Control period for FY 2017-18 to FY 2019-20. While disposing of this petition the Commission observed vide Order dated 30.07.2018 that EPPL was required to file its petition for fixation of Annual Fixed cost for MYT control period for each year of the control period consistent with the Business Plan and Capital

Investment Plan approved by the Commission. Accordingly, the petitioner filed an amended petition vide letter dated 19.11.2018 based on audited accounts of FY 2017-18 and Capital Investment Plan order which was admitted by the Commission vide Order dated 08.01.2019 further directing the respondents to file their respective replies to the petition. The petitioner was directed to publish a public notice inviting suggestions/ objections from the public. The public notice was published on 15.02.2019 in 'The Tribune', 'Dainik Tribune' and 'Punjabi Tribune'. PSPCL filed reply to the amended petition vide memo no. 5498 dated 31.01.2019. The petitioner filed rejoinder, to the reply filed by PSPCL, vide letter dated 12.04.2019. Public hearing was held on 10.04.2019 and despite issuance of the public notice, nobody appeared in the public hearing except the petitioner and the respondents.

1.4 The Commission, vide Order dated 17.04.2018 directed EPPL to furnish information regarding details of other projects where the Govt. of H.P. has asked for construction of Chute spill way, half yearly statement of accounts for FY 2017-18 duly authenticated, details of additional capital expenditure incurred upto 31st March 2018 alongwith its justification and details of purchase of additional Runner & Nozzle Assembly with justification of its requirement, The Commission, vide letter no. 3251-3253 dated 19.03.2019 and vide Order dated 08.04.2019, directed EPPL to furnish information regarding the detail of each item of expenditure costing Rs. 1 lac and above under

'Repair and Maintenance expenses' with justification of the expenses incurred during last three years, information in respect of Administrative and General expenses for last three years, the status of year wise expenditure incurred/to be incurred, if any, for the works over and above the deferred provisions viz land lease claimed by GoHP (Rs. 4.10 crore), chute spillway (Rs. 15.00 crore) and purchase of runner and nozzle assembly for the control period i.e FY 2017-18 to 2019-20. EPPL was also asked whether the information with respect to the region/location of project site including geology and water analysis etc was shared with the original equipment supplier/manufacturer of the TG sets including runners and nozzles etc. for facilitating the design of the equipment especially the runners and nozzles etc. installed at the project. The petitioner was also directed to furnish the copies of Salary Bill of the employees of EPPL for the month of March for the last three financial years i.e, FY 2014-17, copy of the insurance payment voucher amounting to Rs. 2.56 crore for the insurance expenses incurred during FY 2017-18 alongwith the insurance policy.

The petitioner submitted its reply to the observations/queries vide letter dated 12.04.2019 and submitted the details of Repair & Maintenance Expenses (above one lac rupees) incurred during the last three Financial Years, the cost of old Runner of EPPL and the concept of cost to company, reasoning of HRA and Special allowance. PSPCL filed its submission to the reply dated 12.04.2019 filed by the petitioner reiterating its earliest submissions vide memo no. 5024 dated 25.04.2019. EPPL was directed vide Order dated 30.07.2018 in petition No. 24 of 2017 to get examined the requirement of new design runners or old designed runners from IIT Roorkee and submit a comprehensive report. EPPL submitted IIT Roorkee report dated 01.12.2018 and copy of the same was sent to PSPCL for its comments.

1.5 EPPL filed IA No. 18 of 2017 for grant of provisional Annual Fixed Cost for FY 2017-18, IA No. 04 of 2018 for grant of Provisional Annual Fixed Cost for FY 2018-19 and IA No. 02 of 2019 for grant of provisional Annual Fixed charges for FY 2019-20. The Commission vide Order dated 08.11.2017, 02.05.2018 and 19.06.2019 allowed Annual Fixed Cost of Rs. 167.83 Crore, 170 Crore and 170 Crore for the FY 2017-18, FY 2018-19 and FY 2019-20 respectively subject to the final Order of the Commission in the petition.

1.6 EPPL requested in the amended petition to allow the Annual Fixed Cost for the Control Period, for FY 2017-18 Rs.178.08 Crore, FY 2018-19 Rs.178.82 Crore & FY 2019-20 Rs.180.46 Crore. However, EPPL vide letter dated 12.04.2019 in reply to the observations/queries of the Commission submitted revised amount of the Annual Fixed Cost (AFC) for the MYT Control Period FY, 2017-18, Rs. 178.08 crore, FY 2018-19, Rs. 175.47 crore and FY 2019-20, Rs. 174.37 crore based on PSERC

(Terms and Conditions for Determination of Tariff) Regulations, 2014 and has thus prayed

a) To allow Annual Fixed Cost for the Control Period of FY 2017-18, Rs.178.08 Crore, FY 2018-19, Rs.175.47 Crore and for FY 2019-20, Rs.174.37 Crore.

b) to allow Audit Fees and Regulatory Fees over and above the O&M Expenses as per the PSERC MYT Regulations, 2014;

c) to direct PSPCL to pay the determined Annual Fixed Cost on the terms and conditions as prescribed by the Commission including carrying cost approved by the Commission in the Petition;

d) to direct PSPCL to pay transmission charges upon submission of invoice(s) of ADHPL as per direction of the Commission in this regard; and

e) to pass any other order's as the Commission may deem fit and appropriate under the circumstances of the case and in the interest of justice.

**Observations, Findings & Decision of the Commission.**

The Commission has examined the petition, reply filed by the respondents, rejoinder filed by the petitioner, the documents adduced by the parties on the record and after hearing the parties decides as under.

1. Capital Cost (Deferred Provisions and over & above the deferred provisions)

The Commission vide its Order dated 24.05.2018 in petition no. 62 of 2017 approved the capital cost of the project amounting to Rs. 841.7425 crore for FY 2016-17 alongwith the remaining deferred provisions of Rs. 9.0597 crore to be considered on merits when claimed as actual expenditure by EPPL, on submission of audited accounts for the same and subject to the provisions in the Regulations. Further, while approving the capital investment and business plan for the control period from FY 2017-18 to FY 2019-20, the Commission vide its Order dated 30.07.2018 in petition no. 24 of 2017 approved the balance deferred provisions as under:

(Rs. in crore)

| S. No. | Head of Works [as per Order dated 04.12.2014 in petition no 54 of 2012 | Balance deferred provisions at the end of FY 2016-17 (True-Up) | Capital investment approved against deferred provisions in (FY 2017-18) | Capital investment approved against deferred provisions in (FY 2018-19) | Capital investment approved against deferred provisions in (FY 2019-20) | Total |
|---|---|---|---|---|---|---|
| 1. | Infrastructure works | | | | | |
| i) | Land | 0.453 | 0.453 | 0.00 | 0.00 | 0.453 |
| ii) | Buildings | 1.7308 | 2.63 * | 0.00 | 0.00 | 2.63 |
| iii) | Communications (construction of roads, bridges and ropeways) | 3.8545 | 0.00 | 1.30 | 2.55 | 3.85 |
| iv) | Miscellaneous (Purchase of Security Camera and online mandatory release system) | 0.0475 | 0.0475 | 0.00 | 0.00 | 0.0475 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | **Total** | **6.0858** | **3.1305** | **1.30** | **2.55** | **6.9805** |
| 2. | Major Civil & Hydro Mechanical Work | | | | | |
| i) | Dam intake and desilting chamber | 1.7556 | 1.7556 | | | 1.7556 |
| ii) | Escalation on infrastructure and Major Works | 1.1300 | 0.00 ** | 0.19 | 0.0408 *** | 0.2308 |
| | **Total** | **2.8856** | **1.7556** | **0.19** | **0.0408** | **1.9864** |
| 3. | Plant & equipment including initial spares (transmission line & terminal equipment) | 0.0883 | 0.00 (claim withdrawn by EPPL) | 0.00 | 0.00 | 0.00 |
| | **Total (1+2+3)** | **9.0597** | **4.8861** | **1.49** | **2.5908** | **8.9669** |

* Rs. 1.7308 cr. + Rs. 0.8992 cr. (shifted from the Head 'Escalation on infrastructure and Major Works') (Rs. 1.90 cr. for buildings + Rs. 0.73 cr. towards staff rest rooms at Dam Complex.

** Rs. 0.50 cr. adjusted in the Head 'Buildings' at Sr. no. 1 (ii) above.

*** Rs. 0.3992 cr. adjusted in the Head 'Buildings' at Sr. no. 1 (ii) above.

Further, in the aforesaid Order dated 30.07.2018, under additional capitalization/capital expenditure over and above the approved deferred provisions, the Commission had allowed Rs. 4.10 crore payable to GoHP on account of land lease, Rs. 5.50 crore for purchase of runner and nozzle assembly for FY 2017-18 and Rs. 15 crore for Chute Spillway and 5.50 crore for purchase of runner and nozzle assembly to be incurred in FY 2018-19. The Commission vide the said Order dated 30.07.2018 in Petition no. 24 of 2017 directed EPPL to get the runners and nozzle examined from IIT Roorkee as to whether new design runners or old design runners are required.

## A. Deferred Provisions

### (i) Land: Rs. 0.453 crore

EPPL Submissions

EPPL in this petition has submitted that Hon'ble High Court of Himachal Pradesh vide its Order dated 29.01.2017 has decided that no interference in the rate is warranted. EPPL has withdrawn the amount of Rs. 0.453 crore approved deferred provisions under the head 'Land' and submitted that as per Regulation 18.2(b) of the PSERC MYT Regulations 2014, it shall approach the Commission for necessary approval in future, if required.

PSPCL Submissions

PSPCL did not furnish any comment on this issue.

Commissions Analysis

**The Commission notes that an amount of Rs. 0.453 crore under the head 'Land' in the deferred provisions has been withdrawn by EPPL as per the Order dated 29.01.2017 of Hon'ble High Court of Himachal Pradesh. Hence, the same is allowed to be withdrawn.**

### (ii) Buildings: Rs. 2.63 crore

EPPL submitted that out of the approved deferred provisions under head' buildings'(balance works towards constructions of project colony and construction of staff rest room at Dam complex), it has actually incurred an amount of Rs.2.14 crore against the approved amount of Rs. 1.90 crore towards constructions of project colony during FY 2017-18. EPPL further submitted that an amount of Rs. 0.73 crore towards construction of staff rest rooms at Dam complex has been incurred in FY 2018-19.

PSPCL Submissions

EPPL has claimed Rs. 2.14 crore against the approved amount of Rs. 1.90 crore for construction of the project colony. EPPL has claimed an amount of Rs. 0.73 crore for the construction of staff rest rooms which has not been incurred. The said increase is to be allowed subject to the prudence check by the Commission in accordance with the PSERC MYT Regulations, 2014.

Commission Analysis

**The Commission notes that as per the balance deferred provisions an amount of Rs. 2.63 crore was allowed under the head 'Buildings' (Rs.1.90 crore for buildings and Rs.0.73 crore towards staff rest rooms at Dam complex). The Commission is of the considered view to allow an amount of Rs.1.90 crore incurred by EPPL for construction of project colony in FY 2017-18 and provisionally allows the amount of Rs.0.73 crore for the constructions of rest rooms at Dam complex to be incurred in FY 2018-19 under the head 'Buildings'.**

**(iii) Communications: Rs. 3.8545 crore**

EPPL Submissions

EPPL submitted that it has incurred Rs.0.52 crore in FY 2017-18 towards black topping of approach roads out of the approved provision of Rs. 3.85 crore under the head 'Communications'. The balance amount of Rs. 3.33 crore i.e. Rs. 0.78 crore and Rs. 2.55 crore has to be incurred in FY 2018-19 and FY 2019-20 respectively.

PSPCL Submissions

PSPCL did not furnish any comment on this issue.

Commission Analysis

**The Commission notes that the amount available under the head 'Communication' is Rs. 3.8545 crore which was allowed by the Commission under balance deferred provisions. Further, vide Order dated 30.07.2018, EPPL was allowed an amount of Rs. 1.30 crore and 2.55 crore to be incurred in FY 2018-19 and 2019-20 respectively under this head. After considering the submissions of EPPL, the Commission allows Rs.0.52 crore incurred by EPPL toward black topping of approach road during FY 2017-18 and provisionally allows the balance amount of Rs.0.78 crore and Rs. 2.55 crore to be incurred as sought by EPPL for FY 2018-19 and 2019-20 respectively.**

**(iv) Miscellaneous (Purchase of Security Camera and online mandatory release system):Rs. 0.0475 crore**

EPPL Submissions

EPPL submitted that the Commission vide Order dated 30.07.2018 approved Rs.0.05 crore under the head 'Miscellaneous' for procurement of office equipment, tools and tackles/machinery and computers. However, EPPL has incurred an amount of Rs.0.25 crore towards purchase of office equipment, plant and machinery, furniture and fixtures and computers during FY 2017-18.

PSPCL Submissions

PSPCL did not furnish any comment on this issue.

Commission Analysis

**The Commission notes that vide Order dated 30.07.2018, EPPL was allowed Rs.0.0475 crore under this head for purchase of security cameras and on line mandatory release system under the head 'Miscellaneous'. However, in this petition EPPL has claimed Rs.0.25 crore towards purchase of office equipment, plant and machinery, furniture and fixtures and computers during FY 2017-18. The Commission notes that Regulation 18.2.e of the MTY Regulations, 2014 provides as under:**

> ***"In case of hydro generating stations, any expenditure which has become necessary on account of damage caused by natural calamities (but not due to flooding of power house attributable to the negligence of the generating company) including due to geological reasons after adjusting for proceeds from any insurance scheme, and expenditure incurred due to any additional work which has become necessary for successful and efficient plant operation:***
>
> ***Provided that any expenditure on acquiring the minor items or the assets like tools and tackles, furniture, air-conditioners, voltage stabilizers, refrigerators, coolers, fans, washing machines, heat convectors, mattresses, carpets etc. brought after the cut-off date shall not be considered for additional capitalisation for determination of tariff w.e.f. the date of the start of first year of the control period."***

**Considering the above, the Commission disallows an amount of Rs.0.25 crore towards purchase of office equipment,**

**plant and machinery, furniture and fixtures and computers during FY 2017-18 as it is not allowable as per the Regulations.**

2. **Major civil and hydro mechanical works**

**i) Dam intake and desilting chamber: Rs. 1.7556 crore**

EPPL Submission

EPPL submitted that the Commission vide Order dated 30.07.2018 has allowed an amount of Rs.1.7556 crore under this head for FY 2017-18. EPPL further submitted that the said amount is required under this head in FY 2019-20 and requested the Commission for approval of the same.

PSPCL Submissions

PSPCL did not furnish any comment on this issue.

Commission Analysis

**The Commission provisionally allows Rs. 1.7556 crore to be incurred under the head Dam intake and desilting chamber by EPPL during FY 2019-20.**

**ii) Escalation on infrastructure and major works: Rs. 0.2308 crore**

EPPL Submissions

EPPL submitted that it has incurred an amount of Rs.1.35 crore during FY 2017-18 against the approved amount of Rs.0.23 crore under this head.

PSPCL Submissions

PSPCL did not furnish any comment on this issue.

Commission Analysis

**The Commission notes that there was provision of Rs. 1.13 crore under this head out of which Rs. 0.50 crore was allowed for FY 2017-18 which was shifted to the head buildings, Rs. 0.19 crore for FY 2018-19 and Rs.0.44 crore for FY 2019-20 out of which Rs.0.3992 was shifted to head 'Buildings'. The total amount left under this head was Rs. 0.2308 crore for FY 2019-20 i.e. Rs. 0.19 crore for FY 2018-19 and Rs. 0.0408 for FY 2019-20 crore. Accordingly, the Commission allows Rs.0.2308 crore in FY 2017-18 instead of Rs. 1.35 crore sought by EPPL.**

**B. Over and above Deferred Provisions**

**1. Land Lease: Rs. 4.10 crore**

EPPL Submissions

EPPL submitted that the matter of land lease claimed by GoHP is subjudice before Hon'ble High Court of Himachal Pradesh. The said amount is expected to be incurred as per the decision of Hon'ble High Court of Himachal Pradesh. EPPL further submitted that it shall approach the Commission after incurring the said expenses towards lease rent. However, in its recent submissions, EPPL stated that the Hon'ble High Court of Himachal Pradesh vide its Order dated 29.01.2017 has remanded the matter to the GoHP with directions to first issue a proper and complete notice to show cause, to the petitioners, and thereafter, after calling for their response and affording them an opportunity of hearing, decide the issue in accordance with law. The matter presently is under consideration of GoHP and may be finalized any time. EPPL further submitted that it has not so far paid any amount to GoHP in this regard and GoHP on its part, has not so far withdrawn or modified the above demand letters raised on EPPL for payment of lease charges. EPPL further submitted that it shall approach the Commission at the time of incurring the actual expenses towards lease rent.

PSPCL Submissions

PSPCL submitted that additional capitalization is permissible only under specific circumstances and not in the manner as sought by the petitioner. The additional capitalization is permitted only if it falls within the parameters specified in the Regulations 18 of Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and Retail Supply Tariff) Regulations, 2014. PSPCL further submitted that the additional capitalization is to be allowed only after the commercial operation date and upto the cut-off date. The cut-off date is defined in the aforesaid Regulations as under:

> *"Cut-off Date" means 31st March of the year closing after two years of the year of commercial operation of the project, and in case the project is declared under commercial operation in the last quarter of a year, the cut-off date shall be 31st March of the year closing after three years of the year of commercial operation;"*

PSPCL submitted that the project achieved COD on 12.07.2012, accordingly in terms of the aforesaid definition, the cut-off date works out to be 31.03.2015. There is a threshold bar for EPPL claiming any additional capitalization beyond 31.03.2015.

Commission Analysis

**The Commission notes that PSPCL in its reply stated that**

**after the cut-off date there should be a bar on EPPL for claiming any additional capitalization beyond 31.03.2015. The EPPL's claim of Rs. 4.10 crore is for the land lease as claimed by GoHP which is subjudice before Hon'ble High Court of Himachal Pradesh. EPPL in the petition submitted that the said amount is expected to be incurred as per the decision of Hon'ble High Court of Himachal Pradesh. Considering the submissions of the parties, the Commission is of the considered view that the claim of Rs. 4.10 crore by GoHP on EPPL against the land lease is a decision of GoHP which is a change-in-law event. Hence, the Commission provisionally allows the same, considering it change-in-law and the same will be considered as and when paid by EPPL to GoHP.**

**2. Chute Spillway: Rs. 15 crore**

EPPL Submmissions

EPPL in the petition submitted that an amount of Rs.15 crore is to be incurred for construction of the chute spillway in FY 2018-19 and 2019-20 and the same is expected to be capitalized in FY 2019-20 on completion of the works. Now in the recent submissions, EPPL submitted that considering the climatic condition at the project site, the chute spillway is unlikely to be completed during FY 2019-20 and is expected to be spill over to FY 2020-21. EPPL further submitted that it shall claim the said expenditure as and when the same is actually incurred as directed by the Commission vide its Order dated 30.07.2018. The Commission notes that vide Order dated 30.07.2018

EPPL has been allowed Rs.15 crore for construction of chute spillway during FY 2018-19.

PSPCL Submissions

PSPCL reiterated its submissions as detailed in para B.1 above.

Commission's Analysis

**PSPCL in its submissions stated that as per definition of cut-off date an amount of Rs. 15 crore to be incurred by EPPL for construction of chute spillway is not allowable. In this issue, the Commission is of the view that cut-off date is not relevant as this is a Himachal Pradesh Govt. order which has to be complied with for safety reasons. In view of the same, the Commission agrees to consider the said amount for construction of chute spillway as and when constructed.**

**3. Runner and Nozzle Assembly: Rs. 11.00 crore for 2 sets (Rs.5.50 crore for one set)**

EPPL Submissions

The Commission in its Order dated 30.07.2018 has allowed the purchase of Runners and Nozzle Assembly of Rs.5.50 crore in FY 2017-18 and Rs.5.50 crore in FY 2018-19 subject to the submission of IIT Roorkee report before the capital expenditure on procurement of runners is incurred in the respective years. EPPL said that it has not incurred an amount of Rs.5.50 crore approved by the Commission in FY 2017-18 but claimed Rs. 11.00 crore for purchase of runners and nozzle assembly in FY 2018-19. However, EPPL recently submitted that two numbers of new forged runners have been installed in FY 2018-19 and two more fully forged runners are expected to be delivered at site by the end of June 2019 i.e. FY 2019-20, which will be kept as spares. After the performance of the new forged runners (runner-1, 2, 3 & 4), the requirement of one more set of forged runner and one nozzle assembly will be assessed. To maximize the generation and for safe and efficient operation of the plant it is planned to procure third set of two runners alongwith new nozzle after evaluating the performance of the new runners now commissioned.

EPPL, in compliance to the said Order dated 30.07.2018, submitted the IIT Roorkee report vide its letter dated 06.12.2018, which states as under:

> *"4. …………………….. Even with silt concentration less than the permissible limits, it has been observed that the runners & nozzles have extensive damage.*
>
> *……………………..*
>
> *6. CONCLUSIONS AND RECOMMENDATIONS*
>
> *In view of the observations made during the above site inspections, the following conclusions can be derived, and recommendations made:*
>
> *1. During the site inspection, the condition of the existing runners was found to be in a very bad shape and here exists no other alternative except immediate replacement of the existing runners for smooth operation of the power station, for avoiding revenue loss.*
>
> *2. Four (4) numbers of runners are required, two for immediate installation in the units and two as spares to take care of replacement and refurbishment during Annual Maintenance."*

Thereafter, the Commission sought advice from Himachal Pradesh Electricity Regulatory Commission, NHPC, Himachal Pradesh State Electricity Board and Chief Engineer/Hydel Projects, PSPCL on replacement of runners due to wear and tear beyond repairs after six years of commissioning of the project on 12.07.2012. In this regard, a meeting was held with the representatives of NHPC, PSPCL and EPPL, where it was clarified that the runners can be damaged due to the presence of quartz in the water.

PSPCL Submissions

PSPCL reiterated its submissions as detailed in para B.1 above.

Commission's Analysis

**The Commission notes that the material viz. Civil & Hydro mechanical, Electromechanical (Plant & Machinery), Step-up Sub-Station of 132/220 kV 'Chaur' (location: 220/132 kV Chaur sub-station, V.P.O. Chaur, Tehsil & Distt. Kullu-175125, HP and 132 kV Double Circuit Transmission Line and associated Equipments of EPPL are insured for a sum of Rs. 988 crore and premium is being paid. The insurance policy provides as under:**

> ***"i. As regards buildings, plants and machinery, furniture, fixture, fittings etc. the cost of replacement or reinstatement on the date of replacement or reinstatement subject to the maximum liability being restricted to the sum insured in respect of that category of the item under the policy."***

**The Commission observes that IIT Roorkee in its report mentioned that even with silt concentration less than the**

**permissible limit, the runners and nozzles have suffered extensive damage. Thus, damage to plant and machinery is covered in the Insurance Policy. EPPL stated in the court that no claim has been raised with the insurance company to either get the insured value or to replace the runners. EPPL is directed to take up the matter with the Insurance Company and come back to the Commission on this issue during true up. Hence this issue is not being adjudicated at this time.**

**C. Transmission Charges payable to ADHPL**

EPPL Submissions

EPPL submitted that Hon'ble Supreme Court of India dismissed the Civil Appeal No. 1795 of 2013 of M/s. AD Hydro Power Ltd. vide its Order dated 28.04.2015 wherein it has held as under:

> *"…………..we are not inclined to interfere with the order passed by the Appellate Tribunal for the Electricity, New Delhi. The civil appeals are accordingly dismissed."*

Further, on the Review Petition (C) No. 1365 of 2017 filed by M/s. AD Hydro Power Ltd. in the said Civil Appeal, Hon'ble Supreme Court of India dismissed the said review petition of M/s. AD Hydro Power Ltd. vide its Order dated 12.07.2017 wherein it held as under:

> *"……….we find that there is no error apparent in our order dated 26th April, 2017. However, when the Central Electricity Regulatory Commission decides the matter on merits, it may do so without regard to the observations made by the Appellate Tribunal for Electricity in its order dated 02.01.2018. With these observations, the Review Petition is disposed of."*

EPPL further submitted that in view of the above, the matter has been remanded back to Hon'ble CERC by Hon'ble Supreme

Court of India and M/s. ADHPL has submitted the tariff petition before CERC for determination of transmission charges on 08.09.2017. The Petition is pending before CERC. EPPL submitted that it had not claimed any amount towards transmission charges from PSPCL since July, 2017 onwards i.e. after Hon'ble Supreme Court Order.

EPPL submitted that Hon'ble CERC has passed the interim Order with regard to the payment of Transmission charges on 22.12.2017 wherein it held as under:

> *"The Commission after hearing the parties directed EPPL to make payment of 60% of the Outstanding bills raised by the petitioner immediately and to continue the payment of monthly transmission charges at the said rate for use of the dedicated transmission line of the petitioner, subject to the determination of tariff of the said transmission line. I.A. no. 69/2017 is disposed of in terms of the above."*

EPPL further submitted that in view of the above it is claiming only 60% of the transmission invoice from PSPCL in compliance of PSERC and CERC Orders.

<u>PSPCL Submissions</u>

PSPCL submitted that EPPL has prayed herein for directions to PSPCL to pay the transmission charges on the invoices raised by AD Hydro Power Ltd. In this regard, PSPCL submitted that it has no contractual relationship with AD Hydro to clear the invoices for payment of transmission charges. EPPL should pay the invoices raised by AD Hydro. Thereafter, and subject to showing proof of payment, EPPL can raise invoices through PTC – Respondent No. 2

to PSPCL as per the procedure of payment contemplated in the PPA / PSA.

Commissions Analysis

**Considering the above submissions of EPPL and PSPCL, the Commission directs PSPCL to pay transmission charges to EPPL on the invoices raised through PTC so as to enable EPPL to make payment of 60% of the outstanding bills raised by M/s. AD Hydro and to continue the payment of monthly transmission charges at the said rate for use of the dedicated transmission line of M/s. AD Hydro, subject to the determination of tariff of the said transmission line, as decided by CERC in its interim Order dated 22.12.2017 in Petition no. 209/MP/2017. EPPL shall submit proof of payments to PSPCL regularly.**

The Commission vide Order dated 24.05.2018 in petition no. 62 of 2017 approved the capital cost of the project for FY 2016-17 (True-up) as Rs.841.7425 crore. Considering the discussion in the foregoing paras, the following deferred provisions out of the deferred provisions already approved in petition no. 24 of 2017 as brought out hereinbefore, are allowed for the capital cost for MYT period i.e. FY 2017-18, 2018-19 and 2019-20:

| S. No. | Head of Works | Balance deferred provisions as per petition no. 24 of 2017 | FY 2017-18 | FY 2018-19 | FY 2019-20 | Total (balance deferred provisions now approved) |
|---|---|---|---|---|---|---|

| 1 | 2 | 3 | 4 | 5 | 6 | 7=4+5+6 |
|---|---|---|---|---|---|---|
| 1. | Infrastructure Works<br>i) Land | 0.453 | 0.00 | 0.00 | 0.00 | 0.00 |
| | ii)Buildings | 2.63 | 1.90 | 0.73 | 0.00 | 2.63 |
| | iii) Communications (construction of roads, bridges and ropeways) | 3.85 | 0.52 | 0.78 | 2.55 | 3.85 |
| | iv) Miscellaneous (purchase of Security Camera and online mandatory release system) | 0.475 | 0.00 | 0.00 | 0.00 | 0.00 |
| | **Total** | **6.9805** | **2.42** | **1.51** | **2.55** | **6.48** |
| 2 | Major Civil & Hydro Mechanical Work | | | | | |
| | i)Dam intake and desilting chamber | 1.7556 | | | 1.7556 | 1.7556 |
| | ii)Escalation on infrastructure and Major Works | 0.2308 | 0.2308 | 0.00 | 0.00 | 0.2308 |
| | **Total** | **1.9864** | **0.2308** | **0.00** | **1.7556** | **1.9864** |
| 3. | Plant & equipment including | 0.00 | 0.00 (claim withdra | 0.00 | 0.00 | 0.00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | initial spares (transmission line and terminal equipment ) | | wn by EPPL) | | | |
| | **Total (1+2+3)** | **8.9669** | **2.6508** | **1.51** | **4.3056** | **8.4664** |
| **4.** | **Capital cost** | | **844.3933 (841.7425+2.6508)** | **845.9033 (844.3933+1.51)** | **850.2089 (845.9033 + 4.3056)** | |

## 2 Operation and Maintenance Expenses

2.1 Operation & Maintenance expenses constitutes employee cost, Repair & Maintenance and Administrative & General cost as per Regulation 26 of PSERC(T&C for determination of Gen., Transmission, Wheeling and Retail Supply Tariff) Regulations,2014.

**a) Employee cost**

**EPPL's Submission:**

Employee cost is a constituent of O&M expenses. In the MYT petition for FY 2017-18 to FY 2019-20, EPPL has projected employee cost as Rs.8.15 crore for FY 2017-18, Rs.9.78 crore for FY 2018-19 and Rs.11.74 crore for FY 2019-20. EPPL stated that based on the last three full operational years, the average annual escalation in the Employee cost of EPPL is 32%. However, EPPL projected annual escalation @ 20% in the Employee cost during the control period on the Actual Employee cost of Rs.6.79 crore for FY 2016-17. Details of the employee cost for the control period are as under:-

**Table 2.1 Detailed Employee Cost claimed by EPPL from FY 2017-18 to FY 2019-20.**

**(Rs. crore)**

| | | | Current | Control period (Projections) | | |
|---|---|---|---|---|---|---|
| | **S.No** | **Particulars** | **Actual 2017-18** | **FY 2017-18** | **FY 2018-19** | **FY 2019-20** |
| **A** | | Employee cost(Other than 'C' & D') | | | | |
| | 1. | Salaries | 2.94 | 3.30 | 3.96 | 4.75 |
| | 2. | Other Allowances | 3.02 | 3.52 | 4.22 | 5.06 |
| | 3. | Overtime | 0.02 | 0.01 | 0.01 | 0.02 |
| | 4. | Bonus | 0.04 | 0.04 | 0.04 | 0.05 |
| | 5. | Generation Incentive | 0.16 | 0.15 | 0.18 | 0.21 |
| | | **Sub Total** | **6.17** | **7.01** | **8.42** | **10.10** |
| **B.** | | **Other Costs** | | | | |
| | 1. | Medical reimbursement | 0.04 | 0.05 | 0.06 | 0.07 |
| | 2. | Travelling allowance | 0.08 | 0.08 | 0.10 | 0.12 |
| | 3. | Leave Travel Assistance | 0.12 | 0.19 | 0.23 | 0.28 |
| | 4. | Other staff welfare exps. | 0.39 | 0.30 | 0.36 | 0.43 |
| | | **Sub Total** | **0.64** | **0.62** | **0.75** | **0.90** |
| **C** | **1** | **Apprentice & Other Training Expenses** | 0.00 | 0.00 | 0.00 | 0.00 |
| **D** | | **Contribution to Terminal Benefits** | | | | |
| | **1.** | E.L. Encashment | 0.12 | 0.13 | 0.16 | 0.19 |
| | **2.** | P.F. Contribution | 0.16 | 0.14 | 0.17 | 0.21 |

| | | | Current | Control period (Projections) | | |
|---|---|---|---|---|---|---|
| | **S.No** | **Particulars** | **Actual 2017-18** | **FY 2017-18** | **FY 2018-19** | **FY 2019-20** |
| | **3.** | Pension | 0.00 | 0.00 | 0.00 | 0.00 |
| | **4.** | Gratuity | 0.24 | 0.08 | 0.10 | 0.12 |
| | **5.** | Ex-gratia | 0.29 | 0.16 | 0.19 | 0.22 |
| | | **Sub Total** | **0.81** | **0.52** | **0.62** | **0.74** |
| **E** | | **Grand Total(A+B+C+D)** | **7.62** | **8.15** | **9.78** | **11.74** |
| **F** | | Employee Exps capitalised | **0.00** | **0.00** | **0.00** | **0.00** |
| **G** | | **Net Employee cost(E-F)** | **7.62** | **8.15** | **9.78** | **11.74** |

2.2 EPPL argued vide letter dated 22.06.2019 that CERC, in its Tariff Regulation 2014-19, had relaxed regulations for O&M expenses for Hydro Stations having installed capacity less than 200 MW and allowed O&M expenses on Rs Lacs/MW basis for all projects depending on the actual expenditure incurred. Regulations of CERC Regulation,2014 is re-produced below for reference:

> *"(c)* ***In case of the hydro generating stations, which have not been in commercial operation for a period of three years as on 1.4.2014, operation and maintenance expenses shall be fixed at 2% of the original project cost*** *(excluding cost of rehabilitation and resettlement works) for the first year of commercial operation. Further, in such case, operation and maintenance expenses in first year of commercial operation shall be escalated @6.04% per annum up to the year 2013-14*

*and then averaged to arrive at the O&M expenses at 2013-14 price level. It shall be thereafter escalated @ 6.64% per annum to arrive at operation and maintenance expenses in respective year of the tariff period.*

***(d) In case of the hydro generating stations declared under commercial operation on or after 1.4.2014, operation and maintenance expenses shall be fixed at 4% and 2.50% of the original project cost*** *(excluding cost of rehabilitation & resettlement works) for the first year of commercial operation for stations less than 200 MW projects and for stations more than 200 MW respectively and shall be subject to annual escalation of 6.64% per annum for the subsequent years."*

2.3 EPPL further compared the O&M expenses determined by CERC on nearby installed capacity of other hydro projects and submitted as:

"*Thus, it would be not correct to compare the O&M cost of two different hydro projects as each hydro project is unique by itself and is not comparable with any other project due to its site specific conditions. However, in the following paras the O&M expenses of Malana – II are being compared with the cost of other hydro projects having similar installed capacity and also as a percentage of capital cost (as provided in CERC tariff regulation)*

***2.2 Comparison of Malana – II O&M cost with O&M cost of other hydro projects having similar installed capacity.***

***2.2.1*** *The following table highlights the expenditure incurred on various projects during the last three years having capacity* *near to Malana – II HEP.*

**Total O&M Cost**

| ***"Particulars*** | ***Bairasul (180 MW)*** | ***Loktak (150 MW)*** | ***Tanakpur (120 MW)*** | ***Rangit (60 MW)*** | ***SEWA (120 MW)*** | ***Malana (100 MW)*** |
|---|---|---|---|---|---|---|
| ***COD Year*** | ***Sept, 83*** | ***May, 83*** | ***April, 92*** | ***Feb, 2000*** | ***July, 10*** | ***July, 12*** |
| ***2014-15*** | *82.39* | *85.90* | *95.04* | *43.56* | *65.29* | *24.31* |
| ***2015-16*** | *80.58* | *86.44* | *114.90* | *49.66* | *70.25* | *37.71* |
| ***2016-17*** | *95.37* | *112.45* | *124.16* | *60.22* | *80.11* | *31.84"* |

**PSPCL's Objection:**

2.4 PSPCL has submitted that the O&M Expenses have to be strictly allowed as per the principles in PSERC Order dated 31.08.2015 and the Review Order dated 29.01.2016.

2.5 The claim for additional employee expenses has also been specifically rejected by the Commission in the Review Order dated 29.01.2016. Therefore, the Employees Expenses have to be computed accordingly.

2.6 Similarly, the R&M Expense and the A&G Expenses can also be allowed only as per the PSERC Tariff Regulations and not as per the claims made by the Petitioner.

Further, the Commission has already taken a view due to the lack of appropriate data in determining the these expenses for base year FY 2012-13, the principles laid down in the Regulations of the Central Commission would be adopted.

2.7 In the present petition, the Petitioner has claimed substantially higher projections for each of the components of the O&M expenses than what has been allowed by this Hon'ble Commission in the Order dated 08/08/2017 passed in Petition No. 74 of 2015, and therefore, the same may kindly be disallowed.

**Commission's Analysis:**

2.8 The baseline values of O&M expenses are to be determined as per Regulations 8(1) of PSERC MYT Regulation-2014, which states as

**"*8.1 Baseline values***

a) *The baseline values for the control period shall be determined by Commission and the projections for the control period shall be based on these figures.*

b) *The baseline values shall be inter-alia based on figures approved by the Commission in the past, latest audited accounts, estimates of the expected figures for the relevant year, industry benchmarks/norms and other factors considered appropriate by the Commission."*

2.9 The Petitioner submitted O&M expenses determined by CERC in respect of various Hydro Projects. The Commission, in its order dated 27th May,2019, has trued-up O&M expenses of Shanan Power House, Joginder Nagar( 110 MW) based on Audited Annual Accounts of PSPCL for FY 2017-18.O&M expenses as allowed towards Shanan Power House(State owned Hydel Project) can also be considered for comparison. The PSPCL had not segregated project wise O&M expenses for FY 2016-17 during True-up of FY 2016-17. Terminal benefits, Audit and licence fees were allowed as pass through expenses for both projects i.e. Malana-II and Shanan Power House, Joginder Nagar as per PSERC Tariff Regulations. O&M expense allowed to PSPCL towards Shanan Power House for FY 2017-18 tabulated as under:-

**Table- 2.2: O&M Expenses allowed to PSPCL for Shanan Power House, Joginder Nagar for FY 2017-18**

**(Rs. Crore)**

| **Particulars** | **FY 2017-18** |
|---|---|
| Employee cost allowed in PSPCL Tariff order for FY 2019-20 | 17.88 |
| Less Terminal benefits allowed in ratio (2239.16:2241.80) to other employee cost in Table 2.18 of PSPCL Tariff Order for FY 2019-20 | 8.94 |
| R&M and A&G expenses allowed | 1.97 |
| Total O&M Expenses allowed | **10.91** |

2.10 It is apparent that O&M expenses (without terminal benefits)of Rs.10.91 crore allowed for FY 2017-18 to PSPCL for Shanan Power House, Joginder Nagar (110 MW )is less than O&M expenses of Rs.17.99(without terminal benefits, audit fees and licence fees) crore to EPPL having capacity (100 MW) in the previous year i.e. FY 2016-17. Shanan Power House is being managed by Government company where as Malana II is being managed by a private limited company. **The Commission cannot consider O&M expenses determined by CERC for various Hydro projects in view of O&M expenses determined by the State Commission for Hydro Projects of the state of Punjab i.e. Shanan Power House, Joginder Nagar and EPPL.**

2.11 The Commission vide its order dated 08.04.2019 directed EPPL to furnish the information on various categories of O&M expenses. EPPL vide its letter No. EPPL/PSERC/190412 dated 12.04.2019 has supplied the information along with some documents. During the hearing on 19.06.2019, the Commission raised queries on O&M expenses which were replied by EPPL on 22.06.2019. The Commission observed that:

1) EPPL failed to provide any logic for maintaining offices at Delhi, Gurugram and Shimla in addition to the project site.
2) In addition to the above offices, Guest Houses at Shimla, Delhi and Gurugram are also being maintained by EEPL and expenses have been claimed under O&M expenses.
3) EPPL also failed to provide the exact amount charged to these Guest Houses. However, during hearing on 19.06.2019, the counsel of EPPL intimated that 50% of Officers/Officials are working outside the project Area.
4) EPPL also failed to reply the query regarding increase in salary expenditure in FY 2017-18 in spite of reduction in strength from 51 to 43 from FY 2016-17 to 2017-18.
5) EPPL projected employee cost as Rs.8.15 crore for FY 2017-18 where as actual employee cost is Rs. 7.62 crore as per Audited Annual Accounts.
6) EPPL failed to provide any reason for the increase in salary expenditure of 20% on projected employee cost (Rs. 8.15 crore) of FY 2017-18 for FY 2018-19 and FY 2019-20.
7) EPPL has projected Insurance charges to the tune of Rs.2.56 crore under A&G expenses. As per copy of the policy of Insurance supplied by EPPL vide No. EPPL/PSERC/190412 dated 12.04.2019, the policy is for the total value of material for Rs.988.01 crore, whereas the

cost of project approved by the Commission as on 31.03.2017 is Rs.841.74 crore.

8) EPPL has also incurred expenses on Corporate Social Responsibility to the tune of Rs.0.54 crore during FY 2017-18 which cannot be considered as O&M expenses.

In view of above, **actual O&M expenses incurred by EPPL cannot be considered as baseline value O&M expenses for control period FY 2017-20**.

2.12 Further, EPPL had argued regarding the applicability of CERC Regulations for determination of O&M expenses. EPPL submitted O&M expenses determined by CERC on similar hydro projects.

As per CERC regulations, ***hydro generating stations, which have not been in commercial operation for a period of three years as on 1.4.2014, operation and maintenance expenses shall be fixed at 2% of the original project cost*** *(excluding cost of rehabilitation and resettlement works) for the first year of commercial operation.*

Commercial Date of operation of EPPL is 12.07.2012. O&M expenses of Hydro Project, whose date of commercial date of operation falls between 1.4.2011 to 1.4.2014, are to be determined based on 2% of Original project cost. State Commission in petition no 37 of 2014, on similar lines, determined the O&M expenses based on original capital cost as under:

"The *Commission in its order dated 4.12.2014 approved the capital cost of Rs. 837.28 crore upto date of commercial operation (i.e.12.07.2012). The Commission in this order* *allowed additional capital cost as nil for FY 2012-13, Rs 1.017 crore for FY 2013-14 and nil for FY 2014-15. Accordingly, capital cost incurred by the petitioner and admitted by the Commission upto 31.03.2015 is worked out as Rs. 838.30(837.28+1.017) crore. Based on this, base of O&M expenses @ 2% works out to Rs. 16.77 crore for FY 2012-13 and Rs. 12.08 crore from 12.07.2012 to 31.03.2013."*

Further, in same Order, the Commission determined components of O& M expenses for FY 2012-13(Base Year) as under:

"*As per above regulations, the Commission works out the base of O&M expenses as Rs.16.77 crore for full year (FY 2012-13) and Rs.12.08 crore for the period from 12.07.2012 to 31.03.2013 for FY 2012-13. But EPPL has incurred Rs.8.24 crore as O&M expenses which includes terminal benefits of Rs. 0.08 crore. An amount of Rs.0.08 crore of terminal benefits as claimed by EPPL is not allowable as per Regulation 33 of PSERC (Terms and Conditions for Determination of Tariff) Regulations, 2005. Thus, the total allowable O & M expenses works out to be Rs.8.16 (Employee cost Rs 1.66 crore+ R&M cost Rs. 3.3 crore + A&G expenses Rs. 3.2 crore based on Audited Annual Accounts) for FY 2012-13"*

The Commission in this order also determined the employee cost for FY 2013-14 as under:

"*After applying WPI increase of 5.98% on the base of Rs.1.66 crore of employee cost for FY 2012-13, the employee cost of*

*FY 2013-14 work out to Rs.3.61 [(1.66*16.77)*(1.0598)] crore,…..*"

The Commission, further, approved the 'other employee cost' as Rs.3.69 crore for FY 2014-15 in Petition no 55 of 2015, Rs. 3.66 crore for FY 2015-16 in Petition No. 17 of 2017 and Rs. 3.97 crore for FY 2016-17 in Petition No 62 of 2017.

The Commission allowed the O&M expenses(employee cost, R&M and A&G expenses) based on Regulation 28(4)(a) of PSERC(Terms and Conditions for determinations of Tariff) Regulation,2005 after adjusted base O&M expenses as under:

**Table 2.3 O&M Expenses claimed and approved by the Commission from FY 2013-14 to 2016-17**

**(Rs. Crore)**

| S. No. | Financial Year | Actual O&M expenses | Claimed by EPPL | Approved without Terminal Benefits, Audit fees and Licence fees | Approved with Terminal Benefits, Audit Fees and Licence fees |
|---|---|---|---|---|---|
| I | II | III | IV | V | VI |
| 1. | 2013-14 | 27.23 | 25.28 | 17.61 | 17.75 |
| 2. | 2014-15 | 25.32 | 18.10 | 16.24 | 16.38 |
| 3. | 2015-16 | 37.71 | 18.10 | 17.50 | 17.66 |
| 4. | 2016-17 | 31.84 | 18.52 | 17.99 | 18.36 |

Regulation 26.1 of PSERC MYT Regulations, 2014 provides for adjusting base employee cost in proportion to increase in combined

Consumer Price Index (CPI) and Wholesale Price Index (WPI) of nth year and shall be calculated as 0.50*CPIn+0.50*WPIn

**Table 2.4 Average increase in price indexation for FY 2017-18**

| Particulars | 2016-17 | FY 2017-18 | |
|---|---|---|---|
| | | | Increase(%) |
| Consumer Price Index | 275.92 | 284.41 | 3.08 |
| Whole sale price index | 111.60 | 114.90 | 2.96 |
| Average increase | | | 3.02 |

**Accordingly, the Commission determines baseline value of 'other employee cost' for FY 2017-18 as Rs 4.09(3.97*1.0302) crore after escalating 'Other Employee Cost' approved for FY 2016-17 for Control Period FY 2017-20.**

The Indexation for FY 2019-20 is not available. Therefore, the increase in indexation for FY 2019-20 has been assumed based on increase in FY 2018-19. Accordingly, CPI index for FY 2019-20 works out to 315.43 {299.92+(299.92-284.41)} and WPI index for FY 2019-20 works out to 124.70{119.80+(119.80-114.90)}

Average increase of WPI and CPI due to indexation for FY 2018-19 and FY 2019-20 is worked out as under:

**Table 2.5 Average increase in price Indexation for FY 2017-18 to FY 2019-20**

| Particulars | FY 2017-18 | FY 2018-19 | | FY 2019-20 | |
|---|---|---|---|---|---|
| | Base value | Base Value | Increase (%) | Base Value | Increase(%) |

| | | | | | |
|---|---|---|---|---|---|
| Consumer Price Index | 284.41 | 299.92 | 5.46 | 315.43 | 10.91 |
| Whole sale price index | 114.90 | 119.80 | 4.26 | 124.70 | 8.52 |
| Average increase | | | 4.86 | | 9.71 |

As per Note (4) of Regulation 26.1 of MYT Regulation, 2015 terminal benefits are to be allowed on actual basis. EPPL has provided a certificate from Statuary Auditor in which states that Rs.13,27,159 (Rs.0.13 crore) and Rs.15,22,474 (Rs.0.15 crore) were paid as full and final settlement of employees, hence considered as terminal benefits. However, the payment of Rs.7,13,017 (Rs.0.07 crore) on account of leave emoluments withdrawn and Rs.15,76,048 (□ 0.16 crore) on account of Bonus, paid during FY 2017-18, relates to existing employees of the company which cannot be considered as Terminal Benefits as these are part of 'other employee cost' of EPPL. **Accordingly, the Commission allows terminal benefits of Rs.28,49,633 (Rs.13,27,159+15,22,474) i.e. Rs. 0.28 crore and same is considered for FY 2018-19 and FY 2019-20 also**.

**Therefore, the Commission allows employee cost of Rs 4.37(4.09+0.28) crore for FY 2017-18**

2.13 Accordingly, the Commission works out Employee Cost for FY 2018-19 to FY 2019-20 as under**:-**

**Table 2.6 Employee Cost for FY 2018-19 to FY 2019-20 approved by the Commission**

| S.No. | Particulars | FY 2018-19 | FY2019-20 |
|---|---|---|---|
| 1. | Base line value(Rs. in | 4.09 | 4.09 |

| | | | |
|---|---|---|---|
| | crore) (4.09 for FY 2017-18) | | |
| 2. | WPI and CPI Increase | 1.0486 | 1.0971 |
| 3. | Other employee cost =(1)*(2) | 4.29 | 4.49 |
| 4. | Terminal Benefits | 0.28 | 0.28 |
| **5.** | **Total Employee cost allowed=(3)+(4)** | **4.57** | **4.77** |

**Thus, the Commission allows Rs.4.37 crore as Employee Cost for FY 2017-18, Rs.4.57 crore for FY 2018-19 and Rs.4.77 crore for FY 2019-20.**

**Repair and Maintenance(R&M) and Administration & General (A&G) Expenses**

**EPPL's Submission:**

2.14 In MYT Petition for FY 2017-18 to FY 2019-20, EPPL has projected R&M and A&G expenses of Rs.25.77 crore,Rs.27.10 crore and Rs.28.47 crore for FY 2017-18, FY 2018-19 and FY 2019-20 respectively. EPPL submitted that R&M expenses and A&G expenses have been linked to K factor and WPI index. K is the constant (expressed in %) governing the relationship between R&M and A&G Expenses and Gross Fixed Assets. The value of 'K' is to be specified by the Commission.

For computing 'K' factor, based on the Audited Account for the previous year, EPPL has submitted R&M expenses and A&G expenses & GFA, as given in the following table:

**Table-2.7: 'K' factor Computed by EPPL for FY 2017-18**

***(Rs. Crore)***

| **Particulars** | **FY 2016-17** |
|---|---|
| Opening GFA | 841.64 |
| Closing GFA | 841.74 |
| R&M Expenses | 16.28 |
| A&G Expenses (Excluding Audit Fee & Regulatory Fee.) | 8.45 |
| Total of R&M and A&G Expenses | 24.73 |
| R&M and A&G Exp. as % of GFA | 2.94% |
| **K factor** | **2.94%** |

2.15 EPPL further stated that increase in WPI index works out to 2.92% (available actual till March 2018) as per PSERC MYT Regulations, 2014. Hence, for the purpose of R&M and A&G expenses, EPPL has considered the escalation index of 2.92% (i.e. average of increase in WPI from FY 2016-17 to FY 2017-18). It has considered K factor after taking in account inflation factor of 2.92% for each of the year during Control period as given in the following table:

**Table-2.8: EPPL-Computation of K Factor for FY 2017-18 to FY 2019-20**

| **Particulars** | **FY 2017-18** | **FY 2018-19** | **FY 2019-20** |
|---|---|---|---|
| K Factor | 2.94% | 3.02% | 3.11% |
| WPI Index | 2.92% | 2.92% | 2.92% |
| **K factor** | **3.02%** | **3.11%** | **3.20%** |

EPPL has projected combined R&M and A&G expenses as under:

**Table-2.9 : EPPL's claim of R&M and A&G Expenses for FY 2017-18 to FY 2019-20**

***(Rs. Crore)***

| Particulars | FY 2017-18 Projections | FY 2018-19 Projections | FY 2019-20 Projections |
|---|---|---|---|
| Opening GFA | 841.74 | 846.00 | 879.37 |
| Additional Capitalization | 4.26 | 7.01 | 9.81 |
| Less: De-capitalization on Runners | - | 2.55 | 2.24 |
| Closing GFA | 846.00 | 850.46 | 858.03 |
| Average GFA | 843.87 | 848.23 | 854.25 |
| K Factor | 3.02% | 3.11% | 3.20% |
| R & M and A & G Expenses | 25.52 | 26.38 | 27.34 |
| Add: Audit Fee & Regulatory fees | 0.25 | 0.26 | 0.27 |
| **Total R&M and A&G Expenses** | **25.77** | **26.64** | **27.61** |

2.16 EPPL requested to allow the projected R&M and A&G Expenses of Rs.25.77 crore for FY 2017-18, Rs.26.64 crore for FY 2018-19 and Rs.27.61 crore for FY 2019-20.

2.17 EPPL argued that as per the proviso to Regulation 26 (1) note 7 of the PSERC Tariff Regulations 2014, any expenditure on account of license fee, initial or renewal, fee for determination of tariff and audit fee shall be allowed on actual basis, over and above the A&G expenses approved. Therefore the Commission was requested to approve an amount of Rs. 0.25 crore( Rs. 0.20 crore(Audit Fees) + Rs. 0.05 crore ( Fee paid to Regulatory Bodies) for FY 2017-18, Rs.0.26 crore and Rs.0.27 crore for FY 2018-19 and FY 2019-20 respectively, over and above the A&G Expenses.

**PSPCL's Objection:**

2.18 PSPCL has submitted that O&M expenses be allowed as per the principles in the order dated 31.08.2015 and the Review Order dated 29.01.2016.

Similarly, the R&M expense and the A&G expenses can also be allowed only as per the PSERC Tariff Regulations and not as per the claims made by the Petitioner.

**Commission's Analysis:**

2.19 The baseline values of O&M expenses are to be determined as per Regulations 8(1) of PSERC MYT Regulation-2014, which states as

"***8.1 Baseline values***

*a) The baseline values for the control period shall be determined by Commission and the projections for the control period shall be based on these figures.*

b) *The baseline values shall be inter-alia based on figures approved by the Commission in the past, latest audited- accounts, estimates of the expected figures for the relevant year, industry benchmarks/norms and other factors considered appropriate by the Commission*."

2.20 R&M and A&G expenses are part of O&M expenses. The Commission has analysed O&M expenses and decided to consider baseline values of 'Other Employee cost' for FY 2017-18 based on CERC's Regulations in para 2.12 of this order. On similar lines, Commission determines R&M expenses and A & G expenses, being a part of O&M expenses, as under :

2.21 The Commission has approved R&M and A&G expenses as Rs. 14.02 crore during True-up of FY 2016-17. The opening value of approved Gross Fixed Assets as on 1.04.2017 is Rs. 841.74 crore.

The Commission approved additional capitalization of Rs 2.65 crore for FY 2017-18 as per Capital Investment Plan. Additional capitalization of assets are considered as an addition of Gross Fixed Assets based on nature of capital expenditure. And addition of GFA during FY 2017-18 is Rs. 2.65 crore. Considering the addition of assets for six months, due to non-availability of date of addition of assets, the Commission allows an addition of R&M and A&G expense as Rs.0.02 (14.02*2.65/2/841.74) crore.

2.22 The provisions of Regulation 26 (1) of PSERC MYT Regulations, 2014 provide for adjusting the base of R&M and A&G expenses in proportion to the increase in the Wholesale Price Index (all commodities). After applying WPI increase of 2.96% (determined in para 2.12 of this order) to the amount of Rs.14.04(14.02+.02)crore, the R&M expenses for EPPL works out to Rs.14.46(14.04*1.0296) crore. The Commission determines baseline value of the R&M and A&G expenses as Rs. 14.45 crore of FY 2017-18 for the control period. K factor is worked out as 1.71 (14.45/(841.74+2.65)) for the control period. As per Annual Audited Accounts for FY 2017-18, audit fees is Rs 0.14 crore which is allowed. Licence fees of Rs0.05 crore is also allowed as per PSERC MYT Regulations, 2014.

**Accordingly, R&M and A&G expenses for FY 2017-18 works out to Rs. 14.65(14.46+0.14+0.05)crore.**

2.23 The Commission determines R&M and A&G expenses for FY 2018-19 and FY 2019-20 based on baseline value, K factor and addition of Gross Fixed Assets as under:

**Table 2.10: R&M and A&G Expenses determined and approved by the Commission from FY 2018-19 to FY 2019-20.**

(Rs. Crore)

| S. No. | Particulars | FY 2018-19 | FY 2019-20 |
|---|---|---|---|
| I | II | IV | V |
| 1. | Opening GFA | 844.39 | 845.90 |
| 2. | Addition during the year | 1.51 | 4.31 |
| 3. | Closing GFA | 845.90 | 850.21 |
| 4. | Average GFA | 845.15 | 848.06 |
| 5. | K factor | 1.71% | 1.71% |
| 6. | R&M and A &G expenses (4*5) | 14.45 | 14.50 |
| 7. | WPI Increase | 4.26% | 8.52% |
| 8. | R&M and A&G after WPI increase | 15.07 | 15.74 |
| 9. | Audit and License fee | 0.19 | 0.19 |
| 10. | Allowable R&M & A&G expenses | 15.26 | 15.93 |

**The Commission approves R&M and A&G expenses of Rs.14.65 crore for FY 2017-18, Rs.15.26 crore for FY 2018-19 and Rs.15.93 crore for FY 2019-20.**

**Accordingly, the Commission approves the O&M Expenses of Rs. 19.02 Crore (Rs. 14.65 + Rs. 4.37) for FY 2017-18, Rs. 19.83 Crore (Rs. 15.26 + Rs. 4.57) for FY 2018-19 and Rs. 20.7 Crore (Rs. 15.93 + Rs. 4.77) for FY 2019-20.**

## 3 Depreciation

**EPPL's Submission:**

3.1 Depreciation has been calculated annually as per straight line method over the useful life of the asset at the rate of depreciation specified by the Central Electricity Regulatory Commission from time to time.

3.2 The rate of depreciation considered as @ 4.97% as per True-up for FY 2016-17. The claim of depreciation charges, originally claimed, are revised vide memo no EPPL/PSERC/190412 dated 12.04.2019 due to change in capital investment plan. The same is tabulated as under:

**Table 2.11 : Depreciation claimed by EPPL for FY 2017-18 to FY 2019-20**

***(Rs. Crore)***

| **Particulars** | **FY 2017-18 Projections** | **FY 2018-19 Projections** | **FY 2019-20 Projections** |
|---|---|---|---|
| Opening Gross Fixed Assets ( Excluding Land Cost) | 829.17 | 833.43 | 837.89 |
| Additional Capitalization (Excluding Land Cost) | 4.26 | 7.01 | 9.81 |
| Less: De-capitalization of Runners | - | (-)2.55 | (-)2.24 |
| Net Additional capitalization | 4.26 | 4.46 | 7.57 |
| Closing Gross Fixed Assets | 833.43 | 837.89 | 845.46 |
| Average Gross Fixed Assets | 831.30 | 835.66 | 841.68 |
| Rate of depreciation as per balance sheet | 5.76% | 5.76% | 5.76% |
| Depreciation charges | 47.88 | 48.13 | 48.48 |
| Rate of Depreciation | 4.97% | 4.97% | 4.97% |

| Particulars | FY 2017-18 Projections | FY 2018-19 Projections | FY 2019-20 Projections |
|---|---|---|---|
| claimed as approved for FY 2016-17 | | | |
| **Depreciation Charges claimed** | **41.32** | **41.53** | **41.83** |

EPPL has prayed that PSERC allow depreciation of Rs.41.32 crore for FY 2017-18, Rs. 41.53 crore for FY 2018-19 and Rs.41.83 crore for FY 2019-20 as per the provision of PSERC MYT Regulations ,2014.

**PSPCL's Objection:**

3.3 The depreciation should be allowed to the Petitioner only in terms of the Tariff Regulations of the Hon'ble Commission and not as per the actual being incurred by the Petitioner.

**Commission's Analysis:**

3.4 As regards the Depreciation, Regulation 21 of PSERC MYT Regulations, 2014 has been amended vide notification dated 03.02.2016 as under:

*"21. Depreciation:*

*For the purpose of tariff determination, depreciation shall be calculated in the following manner:*

*21.1. The value base for the purpose of depreciation shall be the capital cost of the assets admitted by the Commission:*

*Provided that land other than the land held under lease and the land for reservoir in case of hydro generating station shall not* *be a depreciable asset and its cost shall be excluded from the capital cost while computing depreciable value of the asset;*

*Provided further that depreciation shall be calculated after deduction of consumer contributions, capital subsidies/ Government grants.*

*21.2. The cost of the asset shall include additional capitalization.*

*21.3. The cost shall include foreign currency funding converted to equivalent rupees at the exchange rate prevalent on the date when foreign currency shall actually be availed but not later than the date of commercial operation.*

*21.4. Depreciation for generation and transmission assets shall be calculated annually as per straight line method over the useful life of the asset at the rate of depreciation specified by the Central Electricity Regulatory Commission from time to time.*

*21.5. Depreciation for distribution assets and other assets not specified by CERC shall be at the rates notified by the Commission:*

*Provided that the total depreciation during the life of the asset shall not exceed 90% of the original cost;*

*Provided that the remaining depreciable value as on 31st March of the year closing after a period of 12 years from date of* *commercial operation/ put in use of the asset shall be spread over the balance useful life of the assets;*

*Provided further that in case of hydro generating stations, the salvage value shall be as provided in the agreement signed by the developers with the State Government for creation of the site.*

*21.6. Depreciation shall be chargeable from the first year of commercial operation/asset is put in use. In case of commercial operation of the asset/put in use of asset for part of the year, depreciation shall be charged on pro rata basis."*

The Commission determines Gross Fixed Assets (net of land and land rights) as under:-

**Table 2.12 Gross Fixed Assets (net of Land and land Rights) determined by the Commission for FY 2017-18 to FY 2019-20**

**(Rs. Crore)**

| S.No. | Particulars | FY 2017-18 | FY 2018-19 | FY 2019-20 |
|---|---|---|---|---|
| 1. | Opening GFA | 829.17 | 831.82 | 833.33 |
| 2. | Net Additions | 2.65 | 1.51 | 4.31 |
| 3. | Closing GFA | 831.82 | 833.33 | 837.64 |
| 4. | Average GFA | 830.50 | 832.58 | 835.48 |

As per the Commission's Order dated 24.05.2018 (EPPL's True-Up for FY 2016-17), the depreciable amount of assets as on 31.03.2017 is Rs.829.17 crore (excluding cost of land).

The Commission observed in para 5.4 of Petition No. 62 of 2017 that the Petitioner had adopted the Indian Accounting Standards (IND-AS) which has resulted in a change in the carrying value of the tangible assets as on 01.04.2015 and thereafter. The Commission decided in the said order as under:

> *"The Petitioner during the year under consideration i.e. FY 2016-17 has adopted the Indian Accounting Standards (IND-AS) which has resulted to change in the carrying value of the tangible assets as on 01.04.2015 and thereafter. However, the said changes are merely on account of revised disclosure/recognition requirements warranted by IND-AS. The closing value of assets determined by the Commission in the true-up of FY 2015-16 and methodology being adopted by the Commission for working out the rate of depreciation on the tangible assets will not change as the same are determined based on the relevant PSERC Regulations.*
>
> *Accordingly, based on the methodology used in the preceding years for computing the average rate of depreciation, the average rate of depreciation @4.97%(excluding value of land) is worked out for FY 2016-17."*

The Commission decided to adopt same rate of depreciation i.e. 4.97% for determination of depreciation for control period FY 2017-20

**Table-2.13 Depreciation charges determined by the Commission from FY 2017-18 to FY 2019-20.**

**(Rs. Crore)**

| **Particulars** | **FY 2017-18** | **FY 2018-19** | **FY 2019-20** |
|---|---|---|---|
| Opening Gross Block of assets(Net of Land and land rights) | 829.17 | 831.82 | 833.33 |
| Asset addition during the year | 2.65 | 1.51 | 4.31 |
| Closing Gross Block | 831.82 | 833.33 | 837.64 |
| Depreciation on opening balance for full year @ 4.97% | 41.21 | 41.34 | 41.42 |
| Depreciation charges on addition of assets for six months | 0.07 | 0.04 | 0.10 |
| **Depreciation for the Year** | **41.28** | **41.38** | **41.52** |
| Accumulated Depreciation up to previous year | 193.38 | 234.65 | 276.03 |
| Accumulated Depreciation at end of Year. | 234.65 | 276.03 | 317.56 |

**Accordingly, the Commission approves Depreciation Charges of Rs.41.28 crore for FY 2017-18, Rs.41.38 crore for FY 2018-19 and Rs. 41.52 crore for FY 2019-20.**

**4 Return on Equity**

**EPPL's Submission:**

4.1 In the Current Petition, EPPL has submitted that total equity invested in the project is Rs.318.10 crore However, EPPL claimed Return on equity claimed as Rs. 252.52 crore (i.e. 30% of Rs.841.74 crore) based on approved project cost for FY 2016-17.

4.2 EPPL has considered additional capitalization as per Capital Investment Plan Order dated 30.07.2018 for calculating Return on Equity while arriving at the AFC for the control period. EPPL claimed the return on equity of Rs. 39.24 crore for FY 2017-18, Rs.40.11 crore for FY 2018-19 and Rs. 40.95 crore for FY 2019-20 However, EPPL in reply to the observations of PSERC vide its letter No. EPPL/PSERC/190412 dated 12.04.2019 has revised its additional capitalization and claimed the Return on Equity as under :

**Table-2.14 : Return on Equity as claimed by EPPL from FY 2017-18 to FY 2019-20**

***(Rs Crore)***

| **Particulars** | **FY 2017-18 Projections** | **FY 2018-19 Projections** | **FY 2019-20 Projections** |
|---|---|---|---|
| Opening Capital Cost | 841.74 | 846.00 | 850.46 |
| Additional Capitalization | 4.26 | 7.01 | 9.81 |
| Less: De-capitalization of Runners | - | 2.55 | 2.24 |
| Closing Capital Cost | 846.00 | 850.46 | 858.03 |
| Equity (30% of the Opening capital cost) | 252.52 | 253.80 | 255.14 |
| Addition during the year (30% of Additional Capital Expenditure) | 1.28 | 2.10 | 2.94 |
| Less: De-capitalization in Runners(30% of De-capitalization amount) | - | 0.77 | 0.67 |
| Closing Balance of | 253.80 | 255.13 | 257.41 |

| Particulars | FY 2017-18 Projections | FY 2018-19 Projections | FY 2019-20 Projections |
|---|---|---|---|
| Equity | | | |
| Average Equity (Considered for computing ROE) | 253.16 | 254.47 | 256.28 |
| Rate of return on Equity | 15.5% | 15.5% | 15.5% |
| **Return on Equity** | **39.24** | **39.44** | **39.72** |

**PSPCL's Objection:**

4.3 PSPCL submitted that interest on loan, interest on working capital, tax on income and return on equity, the norms and parameters have already been decided by the Hon'ble Commission in the order dated 27.11.2013 and upheld by the Appellate Tribunal in the judgement dated 12.11.2014. The same also stand settled in the Order dated 13.08.2015. Therefore, the same has to apply.

**Commission's Analysis:**

4.4 Regulation 20 of PSERC MYT Regulations, 2014 provides for recovery of Return on Equity which is reproduced hereunder:

*"20. RETURN ON EQUITY*

*Return on Equity shall be computed at the rate of 15.5% on the paid up equity capital determined in accordance with regulation 19: Provided that assets funded by consumer contributions, capital subsidies/Govt. grants shall not form part of the capital base for the purpose of calculation of Return on Equity."*

Regulation 19 of PSERC MYT Regulations, 2014 provides for Debt-Equity Ratio which is reproduced hereunder:

***"19. DEBT EQUITY RATIO***

*19.1. Existing Projects - In case of the capital expenditure projects having Commercial Operation Date prior to the effective date, the debt-equity ratio shall be as allowed by the Commission for determination of tariff for the period prior to the effective date:*

*Provided that the Commission shall not consider the increase in equity as a result of revaluation of assets (including land) for the purpose of computing return on equity.*

*…………………..."*

*19.2. New Projects – For capital expenditure projects declared under commercial operation on or after the effective date:*

*a. A Normative debt-equity ratio of 70:30 shall be considered for the purpose of determination of Tariff;*

*b. In case the actual equity employed is in excess of 30%, the amount of equity for the purpose of tariff determination shall be limited to 30%, and the balance amount shall be considered as normative loan;*

*c. In case, the actual equity employed is less than 30%, the actual debt-equity ratio shall be considered;*

*d. The premium, if any raised by the Applicant while issuing share capital and investment of internal accruals created out of free reserve, shall also be reckoned as paid up capital for the purpose of computing return on equity subject to the normative debt-equity ratio of 70:30, provided such premium amount and* *internal accruals are actually utilized for meeting capital expenditure of the Applicant's business.*

*19.3. Renovation and Modernization: Any approved capital expenditure incurred on Renovation and Modernization including the approval in the Capital Investment plan shall be considered to be financed at normative debt-equity ratio of 70:30. If the actual equity employed is less than 30% then the actual debt equity ratio shall be considered."*

4.5 The equity approved by the Commission in its Order dated 24.05.2018(EPPL's True Up for FY 2016-17) is Rs.252.52 crore as on 31.03.2017 which is considered as opening balance for FY 2017-18. As per Regulation 20 of PSERC MYT Regulations, 2014, Debt Equity ratio of 70:30 has to be considered. Equity of Rs. 0.80(30% of Rs.2.65 crore of assets addition of FY 2017-18)crore, Rs 0.45( 30% of Rs.1.51 crore of asset addition of FY 2018-19)crore, and Rs.1.29(30% of Rs.4.31 crore of asset addition of FY 2019-20) crore have been considered for determining return on equity for the respective years.

4.6 Thus, Return on Equity @ 15.50% on the average paid up equity capital is worked out as under :

**Table-2.15: Return on Equity for FY 2017-18 to FY 2019-20 determined by the Commission**

**(Rs. crore)**

| S.No | Particulars | FY2017-18 | FY2018-19 | FY2019-20 |
|---|---|---|---|---|
| 1. | Equity at the opening of Financial Year | 252.52 | 253.32 | 253.77 |
| 2. | Addition of equity during year | 0.80 | 0.45 | 1.29 |

| S.No | Particulars | FY2017-18 | FY2018-19 | FY2019-20 |
|---|---|---|---|---|
| 3. | Equity at the closing of year | 253.32 | 253.77 | 255.06 |
| 4. | Average Equity | 252.92 | 253.55 | 254.42 |
| 5. | Rate of Return (%) | 15.50 | 15.50 | 15.50 |
| 6. | Return on Equity | 39.20 | 39.30 | 39.43 |

**Accordingly, the Commission approves Return on Equity of Rs.39.20 crore for FY 2017-18, Rs.39.30 crore for FY 2018-19 and Rs.39.43 crore for FY 2019-20.**

5. **Interest and Finance Charges**

**EPPL's Submission:**

5.1 The interest expenditure on account of long-term loans depends on the outstanding loans, repayments, and prevailing interest rates on the outstanding loans. EPPL has considered outstanding loans as on March 31, 2017 as opening loan balance for FY 2017-18. The proposed additional capitalization/capital investment have been considered for the Control period. The interest expenses worked out based on repayment of loans and applicable interest rate on such loans.

5.2 Interest on Long Term Loan and Finance Charges amounts to Rs. 51.86 crore for FY 2017-18, Rs.44.60 crore for FY 2018-19 and Rs.39.84 for FY 2019-20 have been claimed.

5.3 The closing loan for FY 2016-17 of Rs 395.84 crore, is considered as the opening balance of gross normative loan for FY 2017-18.

5.4 EPPL has claimed additional capitalization as per Capital Investment Plan Order dated 30.07.2018 for calculating Interest on Long Term Loan.

5.5 Further, EPPL submitted that the principle of 'actual interest rate' or 'SBI Advance Rate', whichever is the lower has been followed while calculating the interest on loan. The weighted average rate of interest has been determined @ 13.35 % p.a. for FY 2017-18 whereas the State Bank of India Advance Rate is 13.85 % p.a. as on 1st April, 2017.EPPL claimed interest on loan of Rs. 51.86 crore for FY 2017-18, Rs. 45.88 crore for FY 2018-19 and Rs. 42.11 crore for FY 2019-20. However, EPPL in reply to the observations of PSERC vide its letter No. EPPL/PSERC/190412 dated 12.04.2019 has revised its claim of interest on long term loan as under:

**Table- 2.16: Interest on Long Term Loan claimed by EPPL for FY 2017-18 to FY 2019-20**

***(Rs. Crore)***

| **Particulars** | **FY 2017-18 Projections** | **FY 2018-19 Projections** | **FY 2019-20 Projections** |
|---|---|---|---|
| Opening Capital Cost | 841.74 | 846.00 | 850.46 |
| Additional Capitalization | 4.26 | 7.01 | 9.81 |
| Less: De-capitalization on Runners | - | 2.55 | 2.24 |
| Closing Capital Cost | 846.00 | 850.46 | 858.03 |
| Gross Normative Loan on Opening Capital Cost (A) | 589.22 | 592.20 | 595.32 |
| Less: Cumulative Repayment (B) | 193.30 | 234.62 | 276.15 |
| Net Loan Opening (A-B)=C | 395.92 | 357.58 | 319.17 |
| Less: Repayment during the year (D) | 41.32 | 41.53 | 41.83 |

| Particulars | FY 2017-18 Projections | FY 2018-19 Projections | FY 2019-20 Projections |
|---|---|---|---|
| Addition due to additional Capitalization during the Year (‘E) | 2.98 | 4.91 | 6.87 |
| Less: De-capitalization on Runners(F) | - | 1.79 | 1.57 |
| Closing Loan Balance of Year (C-D+E-F) | 357.58 | 319.17 | 282.64 |
| Average Loan | 376.75 | 338.38 | 300.91 |
| Weighted Average Rate of Interest on Loan | 13.35% | 13.18% | 13.24% |
| **Interest on Loan** | **50.30** | **44.60** | **39.84** |

5.6 EPPL has also claimed Rs. 1.56 crore towards finance charges for FY 2017-18 as under:

**Table- 2.17: Finance Charges claimed by EPPL for FY 2017-18**
**(Rs. Crore)**

| S. No | Particulars | Amount |
|---|---|---|
| A. | Bank Charges | 0.025 |
| B. | Finance Charges | 0.82 |
| C. | Interest on MAT, TDS, Service Tax etc | 0.34 |
| D. | Others | 0.38 |
| | **Total (A+B+C)** | **1.56** |

EPPL prayed the Commission to allow Interest on Loan of Rs. 51.86(Rs. 50.30+ Rs.1.56) crore for FY 2017-18, Rs. 44.60 crore for FY 2018-19 and Rs. 39.84 crore for FY 2019-20 as per the provision of PSERC MYT Regulations, 2014.

**PSPCL's Objection:**

5.7 PSPCL submitted that interest on loan, interest on working capital, tax on income and return on equity, the norms and parameters have already been decided by the Hon'ble Commission in the order dated 27.11.2013 and upheld by the Appellate Tribunal in the judgement dated 12.11.2014. The same also stand settled in the Order dated 13.08.2015. Therefore, the same has to apply.

**Commission's Analysis:**

5.8 Regulation 24 of PSERC MYT Regulations, 2014 provides for Interest on Loan Capital which is reproduced hereunder:

> ***"24. INTEREST ON LOAN CAPITAL***
>
> *24.1. For existing loan capital, interest and finance charges on loan capital shall be computed on the outstanding loans, duly taking into account the actual rate of interest and the schedule of repayment as per the terms and conditions of relevant agreements. The rate of interest shall be the actual rate of interest paid/payable (other than working capital loans) on loans by the licensee or the State Bank of India Advance Rate as on April 1 of the relevant year, whichever is less.*
>
> *24.2. Interest and finance charges on the actual loan capital for new investments shall be computed on the loans, duly taking into account the actual rate of interest and the schedule of repayment as per the terms and conditions of relevant agreements. The rate of interest shall be the actual*

*rate of interest paid/payable (other than working capital loans) on loans by the licensee or the State Bank of India Advance Rate as on April 1 of the relevant year, whichever is less.*

*24.3. The repayment for each year of the tariff period shall be deemed to be equal to the depreciation allowed for the corresponding year. In case of de-capitalisation of assets, the repayment shall be adjusted by taking into account cumulative depreciation made to the extent of de-capitalisation.*

*24.4. The Commission shall allow obligatory taxes on interest, finance charges (including guarantee fee payable to the Government) and any exchange rate difference arising from foreign currency borrowings, as finance cost.*

*24.5. The interest on excess equity treated as loan shall be serviced at the weighted average interest rate of actual loan taken from the lenders."*

5.9 The Closing loan balance of Rs.395.84 crore was determined by the Commission in True-Up of FY 2016-17, which is considered as the opening loan balance for FY 2017-18. Asset addition of Rs.2.65 crore for FY 2017-18, Rs.1.51 crore for FY 2018-19 and Rs.4.31 crore for FY 2019-20 has been approved in this Order. 70% of asset addition has been considered to be sourced from debt i.e. Rs.1.86 crore(2.65*70%) for FY 2017-18, Rs.1.06 crore(1.51*70%) for FY 2018-19 and Rs.3.02 crore(4.31*70%) for FY 2019-20 as normative loan. Repayment of loan equal to depreciation allowed has been considered on normative basis as per Regulation 24.3 of PSERC MYT Regulations, 2014. The Petitioner claimed the weighted average rate of interest 13.35% for FY 2017-18. The weighted average rate of interest projected as @13.18% and @13.24% for FY 2018-19 and FY 2019-20 respectively. The interest on long term loans is calculated in the Table-2.18.

**Table 2.18: Interest on Long Term Loan determined by the Commission for FY 2017-18 to FY 2019-20**

**(Rs. crore)**

| | **Particulars** | **FY 2017-18** | **FY 2018-19** | **FY 2019-20** |
|---|---|---|---|---|
| 1. | Opening balance of loan | 395.84 | 356.43 | 316.11 |
| 2. | (+)Loan addition during year | 1.86 | 1.06 | 3.02 |
| 3. | (-):Repayment(normative) during the year | 41.27 | 41.38 | 41.53 |
| 4. | Closing balance of loan | 356.43 | 316.11 | 277.60 |
| 5. | Average Loan | 376.14 | 336.27 | 296.86 |
| 6. | Weighted Average Rate interest on Loan (%) | 13.35% | 13.18% | 13.24% |
| **7.** | **Interest on Loan** | **50.21** | **44.32** | **39.30** |

EPPL has claimed Rs.1.56 crore as finance charges for FY 2017-18 as per Audited Annual Accounts which includes Rs.0.02 crore as

'Bank charges', Rs.0.82 crore as finance charges, Rs.0.34 crore as interest on MAT,TDS, Service Tax etc. and Rs.0.38 crore as Misc. Charges. The interest on MAT, TDS, Service Tax etc. of Rs.0.34 crore and other Misc. Expenses of Rs.0.38 crore is not allowable. However, finance charges of Rs. 0.84 crore (0.02+0.82) are allowed based on the Audited Annual Accounts of FY 2017-18.

**Accordingly, the Commission approves Rs.51.05(50.21+0.84) crore for FY 2017-18, Rs.44.32 crore for FY 2018-19 and Rs.39.30 crore for FY 2019-20 crore as Interest and Finance Charges on Long Term Loan.**

6 **Interest on working capital**

**EPPL's Submission:**

6.1 As per PSERC regulations, the rate of interest on working capital shall be equal to the weighted average rate of interest paid/ payable on loans by the generating company or the State Bank of India Advance rate as on April 1 of the relevant year, whichever is less. The interest on working capital is payable on normative basis notwithstanding that the generating company has not taken working capital loan from any outside agency or has exceeded the working capital loan amount worked out on normative basis.

6.2 The Weighted Average Rate of Interest is computed @ 13.35%,13.18% and 13.24% per annum for FY 2017-18, FY 2018-19 and FY 2019-20 respectively. The State Bank of India Advance Rate as on 01.04.2017 is 13.85 % p.a.

6.3 EPPL has calculated the interest on working capital for MYT Control Period as per PSERC MYT Regulations 2014. Interest on Working capital is projected for control period from FY 2017-18 to FY 2019-20 by applying the rate of interest of @ 13.35 % p.a., 13.18% p.a. and 13.24 % p.a. on components of Working capital i.e. (maintenance spares @ 15% of O&M expenses, O&M expenses for one month and Receivables @ 2 month Annual Fixed Cost) as given in table below.

**Table- 2.19 : Interest on Working Capital claimed by EPPL for FY 2017-18 to FY 2019-20**

***(Rs. crore)***

| S. No | Particulars | FY 2017-18 Projections | FY 2018-19 Projections | FY 2019-20 Projections |
|---|---|---|---|---|
| 1 | Maintenance Spares (15% of the O&M Expenses) | 5.09 | 5.46 | 5.90 |
| 2 | Receivables (Two months fixed cost) | 29.68 | 29.25 | 29.06 |
| 3 | O&M Expenses for one month | 2.83 | 3.04 | 3.28 |
| **4** | **Total Working Capital** | **37.60** | **37.75** | **39.24** |
| 5 | Rate of interest | 13.35% | 13.18% | 13.24% |
| **6** | **Interest on Working Capital** | **5.02** | **4.98** | **5.07** |

EPPL prayed to the Commission to allow Interest on working Capital of Rs.5.02 crore for FY 2017-18, Rs.4.98 crore for FY 2018-19 and Rs.5.07 crore for FY 2019-20 as per the provision of PSERC MYT Regulations 2014.

**PSPCL's Objection:**

6.4 PSPCL submitted that interest on loan, interest on working capital, tax on income and return on equity, the norms and parameters have already been decided by the Hon'ble Commission in the order dated 27.11.2013 and upheld by the Appellate Tribunal in the judgement dated 12.11.2014. The same also stand settled in the Order dated 13.08.2015. Therefore, the same has to apply and no deviation can be given.

**Commission's Analysis:**

6.5 Regulation 34.1 (c) of PSERC MYT Regulations, 2014 provides for Components of Interest on Working Capital Loan in respect of Hydro based Generating stations which is reproduced hereunder:

***"34. INTEREST ON WORKING CAPITAL***

***34.1.Components of Working Capital***

*a……..*

*b……..*

a. *Hydro based generating stations: The Working Capital shall cover the following:*

   i. *Maintenance spares @ 15% of operation and maintenance expenses;*

   ii. *Operation & maintenance expenses for 1 month;*

   iii. *Receivables equivalent to 2 months of fixed cost.*

***34.2 Rate of Interest***

*The rate of Interest on Working Capital shall be as per regulation 25.1"*

Further, Regulation 25.1 as amended vide 03.02.2016 determines the rate of interest on working capital & security deposit which is reproduced hereunder:

***"25. RATE OF INTEREST ON WORKING CAPITAL & SECURITY DEPOSIT***

*25.1. The rate of interest on working capital shall be equal to the weighted average rate of interest paid/ payable on loans by the licensee/generating company/SLDC or the State Bank of India Advance Rate as on April 1 of the relevant year, whichever is less. The interest on working capital shall be payable on normative basis notwithstanding that the licensee/generating company/SLDC has not taken working capital loan from any outside agency or has exceeded the working capital loan amount worked out on the normative figures."*

6.6 The Commission has determined the working capital requirement in accordance with the above mentioned Regulation. Rate of interest on working capital is calculated as per provisions contained in Regulaltions-25.1 of MYT Regulations-2014(Amended vide No. PSERC/Reg./111 dated 03.02.2016). Hence, interest on working capital worked out based on average rate of interest of the respective years. The Commission determines interest on working capital as under:-

**Table 2.20: Interest on Working Capital approved by the Commission for FY 2017-18 to FY 2019-20**

**(Rs. Crore)**

| S.No. | Particulars | FY 2017-18 | FY2018-19 | FY2019-20 |
|---|---|---|---|---|
| 1. | Maintenance spares@15% of O&M expenses | 2.85 | 2.97 | 3.10 |
| 2. | O&M expenses for one month | 1.59 | 1.65 | 1.72 |
| 3. | Receivable equivalent to Two months | 25.66 | 24.79 | 24.13 |
| 4. | Working capital requirement | 30.10 | 29.41 | 28.96 |
| 5. | Weighted average rate(%) | 13.35% | 13.18% | 13.24% |
| 6. | Interest on working capital | 4.02 | 3.88 | 3.83 |

**Thus, the Commission approves working capital requirement of Rs.30.10 crore for FY 2017-18, Rs.29.41 crore for FY 2018-19 and Rs.28.96 crore for FY 2019-20 and interest thereon of Rs.4.02 crore, Rs.3.88 crore and Rs.3.83 crore for FY 2017-18, FY 2018-19 and FY 2019-20.**

**7 Tax on Income**

**EPPL's Submission:**

7.1 EPPL submitted that it is liable to pay Minimum Alternate Tax (MAT) for the control period during FY 2017-18 to FY 2019-20 @21.3416% as per the provisions of the Income Tax Act. Accordingly, the computed value of tax limited to Tax on ROE claimable under PSERC Tariff Regulations and recoverable from PSPCL Rs. 7.30 crore for FY 2017-18, Rs.8.64 crore for FY 2018-19 and Rs. 8.82 crore for FY 2019-20.

7.2 EPPL further stated that Minimum Alternative Tax (MAT) under Section 115 JB of Income Tax Act, 1961 payable by EPPL for the FY 2016-17 amounts to Rs. 7.30 crore. As per the audited accounts for FY 2017-18, Rs. 7.30 crore been paid as MAT.

EPPL prayed the Commission to allow MAT Rs. 7.30 crore for FY 2017-18, Rs. 8.64 crore for FY 2018-19 and Rs. 8.82 crore for FY 2019-20 as per PSERC MYT Regulations 2014.

**PSPCL's Objection:**

7.3 PSPCL submitted that EPPL has amended the claimed income tax to Rs. 7.30 crore for FY 2017-18, Rs. 8.64 crore for FY 2018-19 and Rs. 8.82 crore for FY 2019-20 to pay the Minimum Alternate Tax (MAT) at the rate of 21.3416%. The income taX be allowed based on the tax rate considering the previous tax as paid by the Petitioner, subject to prudence check by the Commission.

**Commission's Analysis:**

7.4 Regulation 23 of PSERC MYT Regulations, 2014 provides for income tax which is reproduced hereunder:

***"23. INCOME TAX***

*23.1 Obligatory taxes, if any, on the income of the generating company or the licensee or the SLDC from its core/licensed business shall be computed as an expense and shall be recovered from the customers/consumers:*

*Provided that tax on any income other than the core/licensed business shall not constitute a pass through component in tariff and tax on such other income shall be payable by the generating company or the licensee or the SLDC.*

*23.2 Tax on income, if actually liable to be paid, shall be limited to tax on return on equity allowed, excluding incentives.*

*23.3 Tax on income shall be considered at income tax rate including surcharge, cess etc. as applicable during the relevant year in accordance with the provisions of Income Tax Act, 1961 duly amended from time to time.*

*23.4 The benefits of tax holiday and the credit for carrying forward losses applicable as per the provisions of the Income Tax Act, 1961 shall be fully passed on to the customers/consumers.*

*23.5 The penalty, if any, arising on account of delay in deposit of tax or short deposit of tax amount shall not be claimed by the generating company or the licensee or the SLDC, as the case may be.”*

7.5 As per the Audited Annual Accounts of EPPL for FY 2017-18, the Current Tax is Rs.7.30 crore and is minus Rs.7.24 crore as MAT

Credit entitlement whereas the Annual Audited Accounts for FY 2016-17 has shown as current tax of Rs 9.40 crore only. Reasons for different methods of calculating tax requires justification.

7.6 The benefits of any tax Holiday has to be passed on to the consumer/customer as per PSERC MYT Regulations. EPPL has not submitted the details of tax holiday availed. Actual tax liability, after taking into account tax holidays etc., will be considered during the True up of respective years.

**The Commission directs that income tax with requisite documents may be claimed as per Regulations 23 of PSERC MYT Regulations, 2014 during true-up of respective years.**

**Other Income/Non Tariff Income**

**EPPL's Submission:**

7.7 In the Petition, EPPL has shown Non-Tariff Income of Rs.0.58 crore as Other Income for FY 2017-18. However, EPPL has not shown Non-Tariff Income for FY 2018-19 and FY 2019-20.

**Commission's Analysis**

7.8 The Non-Tariff Income has been determined as per Regulation-28 of PSERC MYT Regulations-2014(amended from time to time).

7.9 The Commission notes that Audited Annual Accounts of EPPL for FY 2017-18 has shown 'Other Comprehensive income' as Rs.0.12 crore which includes minus Rs 0.03 crore relates to Income tax payment. Income tax payment is not a minus income. The Commission determines 'Other Comprehensive Income as Rs. 0.15 crore. Other Income (net) is Rs.0.46 crore as per Audited Annual Accounts of FY

2017-18. **Accordingly, the Commissions determines Non-Tariff Income as Rs. 0.61(0.15+0.46) crore for FY 2017-18.**

**Accordingly, the Commission approves Non-Tariff Income as Rs.0.61 crore for FY 2017-18.**

**Annual Fixed Charges for 2017-18 to FY 2019-20**

The Annual Fixed Cost (AFC) from FY 2017-18 to FY 2019-20,as projected by EPPL and approved by the Commission is summarized in the following table:-

**Annual Fixed Cost for FY 2017-18 to FY 2019-20**

**(Rs. Crore)**

| Particulars | Claimed by EPPL | | | Allowed by the Commission | | |
|---|---|---|---|---|---|---|
| | FY 2017-18 | FY 2018-19 | FY 2019-20 | FY 2017-18 | FY 2018-19 | FY 2019-20 |
| Return on Equity | 39.24 | 39.44 | 39.72 | 39.20 | 39.30 | 39.43 |
| Interest on Long Term Loan | 51.86 | 44.60 | 39.84 | 51.05 | 44.32 | 39.30 |
| Interest on Working Capital | 5.02 | 4.98 | 5.07 | 4.02 | 3.88 | 3.83 |
| Depreciation | 41.32 | 41.53 | 41.83 | 41.28 | 41.38 | 41.52 |
| Operation and Maintenance Expenses | | | | | | |
| Employee Expenses | 8.15 | 9.78 | 11.74 | 4.37 | 4.57 | 4.77 |
| Repair & Maintenance | 25.77 | 26.64 | 27.61 | 14.65 | 15.26 | 15.93 |

| Particulars | Claimed by EPPL | | | Allowed by the Commission | | |
|---|---|---|---|---|---|---|
| | FY 2017-18 | FY 2018-19 | FY 2019-20 | FY 2017-18 | FY 2018-19 | FY 2019-20 |
| Expenses and Administration & General Expenses | | | | | | |
| Tax on Income | 7.30 | 8.50 | 8.56 | - | - | - |
| **Total Annual Fixed Charges** | **178.66** | **175.47** | **174.37** | **154.57** | **148.71** | **144.78** |
| Less : Non-Tariff Income | (-)0.58 | - | - | 0.61 | - | - |
| **Net Annual Fixed Charges** | **178.08** | **175.47** | **174.37** | **153.96** | **148.71** | **144.78** |

EPPL shall be entitled for computation and payment of capacity charges and energy charges in accordance with Regulation 38 and Regulation 39, PSERC, MYT Regulation, 2014.

8 **Interest on under–recovered or over-recovered fixed charges:**

8.1 The Commission in its order dated18.12.2017 while deciding the AFC for FY2015-16 (True Up) of EPPL had allowed carrying cost to EPPL in view of CERC Regulations. The Commission held that CERC Regulations [Regulation 8 (13) of CERC (Terms and Conditions of Tariff) Regulation, 2014] are squarely applicable to under recovery or over recovery of fixed charges in case of generating companies.

8.2 The Regulation 8 (13) of CERC (Terms and Conditions of Tariff) Regulation, 2014 is re-produced below for reference:-

*"The amount under-recovered or over-recovered, along with simple interest at the rate equal to the bank rate on 1st April of the respective year, shall be recovered or refunded by the generating company or the transmission licensee, as the case may be, in six equal monthly instalments starting within three months from the date of the tariff order issued by the Commission".*

8.3 Accordingly, the Commission decides to adopt the CERC Regulations for allowing interest equivalent to bank rate on under recovery or over recovery of fixed charges. Accordingly, EPPL shall be entitled to interest as per Regulation 8 (13) of CERC (Terms and Conditions of Tariff) Regulation, 2014 on under-recovered or over-recovered Annual Fixed Charges (AFC) determined by the Commission.

The petition is disposed of accordingly.

| Sd/- | Sd/- | Sd/- |
|---|---|---|
| **(Anjuli Chandra)** | **(S.S. Sarna)** | **(Kusumjit Sidhu)** |
| **Member** | **Member** | **Chairperson** |

Chandigarh
Dated: **03.09.2019**