PUNJAB STATE ELECTRICITY REGULATORY COMMISSION
SCO NO. 220-221, SECTOR 34-A, CHANDIGARH

Petition No.62 of 2017
Date of Order: 24.05.2018

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

In the matter of : Petition for approval of annual fixed cost of 100 MW Malana II Hydro-Electric Project and truing up for FY 2016-17 under Section 62 of the Electricity Act, 2003 read with Regulation 56 (2) and (3) of Punjab State Electricity Regulatory Commission (Conduct of Business) Regulations, 2005.

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
2. PTC India Limited, 2nd Floor, NBCC Tower, 15, Bhikaji Cama Place, New Delhi-110066.

------Respondents

ORDER

1.1 M/s Everest Power Private Limited (EPPL), the Petitioner, filed the instant Petition for approval of Annual Fixed Cost and truing up of FY 2016-17 of 100 MW Malana-II Hydro-Electric Project under Section 62 of the Electricity Act, 2003 read with Regulation 56(2) and (3) of Punjab State Electricity Regulatory Commission (Conduct of Business) Regulations, 2005.

1.2 The commercial operation of this project was declared on 12.07.2012. The Commission vide its consequential order dated 04.12.2014 in Petition No.54 of 2012, approved the capital cost of the project and determined Annual Fixed Cost for the energy supplied to PSPCL through PTC (Trading Company) for the period from 12.07.2012 to 31.03.2014. Further, EPPL sought approval of AFC for FY 2016-17 and True Up of AFC for FY 2015-16 vide its Petition No.74 of 2015 and Petition No.17 of 2017 which was approved by the Commission vide Order dated 08.08.2017 and No.18.12.2017 respectively.

1.3.1 EPPL has submitted this Tariff Petition for Truing up of AFC for FY 2016-17. EPPL has sought the following relief from the Commission to:

a) allow additional capitalization of ₹0.41 crore over and above approved deferred provisions for FY 2016-17 as per the provision of Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2005;

b) allow Audit Fees and Fee paid to Regulatory Bodies during FY 2016-17 over and above the O&M Expenses as per the PSERC Regulations, 2005, while truing up of Annual Fixed Cost for FY 2016-17;

c) allow AFC for True-up of FY 2016-17 for ₹177.34 crore;

d) 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;

e) direct PSPCL to pay transmission charges upon submission of invoice(s) of M/s ADHPL as per direction of Hon'ble CERC in this regard.

1.3.2 The Petition was admitted by the Commission vide Order dated 07.02.2018, wherein notice was issued to the respondents with the directions to file their replies within three weeks, followed by rejoinder by the petitioner, if any. The Commission noted that the subject matter involved public interest at large. The petitioner was directed to issue public notice inviting suggestions/ objections under Regulation 67 of the PSERC

(Conduct of Business) Regulations, 2005 after seeking approval of the Commission. The petition was fixed for hearing as well as public hearing on 12.04.2018. The petitioner vide letter dated 16.03.2018 (received vide e-mail dated 19.03.2018 and hard copy on 21.03.2018) submitted a copy of the publication published on 26.02.2018 in 'The Tribune', 'Dainik Tribune' and 'Punjabi Tribune' in compliance of the Order dated 07.02.2018. PSPCL (Respondent No.1) vide memo no. 6589 dated 16.03.2018 (received on 21.03.2018) submitted its reply in compliance of the Order dated 07.02.2018. The petitioner vide letter dated 10.04.2018 (received on 11.04.2018) submitted rejoinder to the reply of PSPCL. PTC India Ltd. (Respondent No.2) filed its reply vide letter dated 24.04.2018.

1.3.3 In the hearing as well as public hearing on 12.04.2018, nobody appeared except the petitioner and respondents. Vide Order dated 17.04.2018, the Commission directed the petitioner to specify the regulations on the basis of which additional capital cost over and above the deferred provisions earlier allowed by the Commission has been claimed along with the details of sources of finance of ₹0.41 crore with its break-up and justification within a week and the respondents were directed to file reply, if any, to the same. The next date of hearing was fixed for 25.04.2018. The petitioner vide letter dated 23.04.2018 submitted reply to the queries raised by the Commission vide order dated 17.04.2018.

1.3.4 In the hearing on 25.04.2018, the Commission after hearing the counsels for all the parties, reserved the Order as brought out in the interim Order dated 30.04.2018.

1.4 Capital Cost

1.4.1 The Commission vide its Consequential Order dated 04.12.2014 in Petition no.54 of 2012 approved the capital cost of the project amounting to ₹837.2855 crore for FY 2012-13 and FY 2013-14 along with deferred provisions of ₹13.5167 crore in respect of (i) Infrastructure works; ₹994.28 lakh [Land: ₹147 lakh, Buildings: ₹417.08 lakh, Communications (for roads, bridges and ropeways): ₹406.45 lakh, Miscellaneous (security camera and online mandatory release system): ₹23.75 lakh], (ii) Major Civil and Hydro Mechanical works: ₹348.56 lakh and (iii) Plant & Equipment including initial spares (transmission line and terminal equipment): ₹8.83 lakh. Subsequently, the Commission vide its Order dated 31.08.2015 in Petition no.37 of 2014 for determining the Annual Fixed Cost (AFC) for FY 2014-15 and truing up of expenses for FY 2012-13 & FY 2013-14, approved the capital cost of the project at ₹838.3025 crore, after considering the additional capitalization of ₹1.017 crore on account of land compensation deposited by EPPL with the court during FY 2013-14. The Commission in the aforesaid Order also held that the remaining deferred provisions of ₹12.4997 crore towards additional capital expenditure in respect of above listed works would be considered on merits when claimed as actual expenditure by EPPL, on submission of audited accounts for the same. Further, while determining the AFC for FY 2015-16 and truing up of AFC for FY 2014-15, the Commission in its Order dated 20.12.2016 in Petition no.55 of 2015 retained the capital cost of the project at cost approved for FY 2014-15 i.e. ₹838.3025 crore.

1.4.2 Subsequently, the Commission vide its Order dated 18.12.2017 in Petition no. 17 of 2017 for approval of the Annual Fixed Cost (AFC) and truing up for FY 2015-16, approved the capital cost of the project at ₹841.6425 crore, after considering the additional capitalization of ₹3.34 crore on account of (i) Buildings (balance works towards construction of project colony) : ₹2.27 crore, (ii) Communications (blacktopping of approach roads and procurement of snow cleaning equipment, earth moving equipment etc.) : ₹0.21 crore, (iii) Escalation (Escalation on balance infrastructure works): ₹0.60 crore, (iv) Miscellaneous (towards procurement of office Equipment, Tools & Tackles/ Machinery and Computers) : ₹0.19 crore and (v) ₹0.07 crore incurred on construction of a staff rest room at the Dam complex. The Commission in the aforesaid order also held that the remaining deferred provisions of ₹9.1597 (₹12.4997 – ₹3.34) crore would be considered on merits when claimed as actual expenditure by EPPL, on submissions of audited accounts for the same and subject to the provisions of the Regulations.

1.4.3 EPPL in this petition has submitted that it has not incurred any additional capitalization during FY 2016-17 against the balance deferred provisions of ₹9.1597 crore (wrongly mentioned as ₹9.23 crore by EPPL). EPPL submitted that it has incurred ₹0.41 crore [(i) Plant and Machinery: ₹0.02 crore, (ii) Office Equipments for project site office at corporate office: ₹0.14 crore, (iii) Computers for employees at corporate office: ₹0.03 crore and (iv) Furniture and Fixtures at project site colony: ₹0.22 crore] towards additional capitalization over and above the approved deferred provisions. EPPL further submitted that the said amount has been mentioned in the balance sheet for FY 2016-17 and has requested the Commission to allow the additional capitalization of ₹0.41 crore for FY 2016-17 as per the provisions of PSERC (Terms and Conditions for determination of Tariff), Regulations, 2005.

1.4.4 PSPCL submitted that the additional capitalization is permissible to be allowed only under specified circumstances which are provided for in the regulations. The Commission with respect to the generation norms and parameters has adopted the Regulations of the Central Commission. Accordingly, the additional capitalization is permitted only if it falls within the parameters specified in Regulation 14 of Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2014. The petitioner's project achieved COD on 12.07.2012 and as per the above regulations, the cut-off date works out to be 31.03.2015. There is threshold bar for the petitioner claiming any additional capitalization beyond 31.03.2015. Further, Regulation 14(3) deals with the additional capitalization to be incurred beyond the cut-off date. PSPCL submitted that the claims of the petitioner appears to be on the basis that the amounts have been incurred and therefore, the same should be allowed to be capitalized. PSPCL further submitted that EPPL should justify as to why such amounts are being spent for office equipment and furniture etc.

and whether this will give any benefit to the beneficiaries of power or consumers in the State of Punjab. There is no basis for claiming an amount of ₹14.00 lakhs for the year 2016-17 for office equipment as it is not a capital expenditure but is part of revenue expenditure which needs to be booked under Operation and Maintenance charges. PSPCL submitted that EPPL has to justify each and every expenditure and show to the satisfaction of the Commission that EPPL is mandated to incur the said amount of money on the plant machinery, equipment and furniture etc. PSPCL contended that the principles for permitting additional capitalization are well settled under the Regulations and the present expenses claimed by EPPL do not fall under any of the categories provided in the Regulations for allowing additional capitalization.

1.4.5 **The Commission notes that the amount of ₹0.41 crore claimed by EPPL for additional capitalization is over and above the provisions deferred by the Commission vide order dated 27.11.2013 in petition no. 54 of 2012, Consequential Order dated 04.12.2014 in petition no. 54 of 2012 (on remand by Hon'ble APTEL vide judgment dated 12.11.2014 and Order dated 18.12.2017 in petition no. 17 of 2017. The Commission vide interim Order dated 17.04.2018 after hearing the parties on 12.04.2018, directed EPPL to specify the regulations on the basis of which additional capital cost over and above the deferred provisions earlier allowed by the Commission has been claimed along with the detail of sources of finance of ₹0.41 crore with its break-up and justification. EPPL vide letter dated 23.04.2018 submitted that the amount of ₹0.41 crore has been sourced by using the internal source of income/revenue and there is no additional inclusion of funds by the shareholders and also no debt funds have been raised for the same. EPPL further submitted that the claim made by it is in compliance of the 2nd amendment to Regulation 22 dated 17.09.2012 of PSERC (Terms & Conditions for Determination of Tariff) Regulations, 2005 wherein it has been provided that the Generating Company shall obtain prior approval of the Commission**

to each project / scheme where capital expenditure is estimated to exceed ₹50 crore. It has also been provided therein that the company shall also submit detailed supporting documents including Project Report along with Cost Benefit Analysis while seeking approval of the Commission. EPPL submitted that it has incurred the amount of ₹0.02 crore under the Head 'Plant & Machinery' towards Plant and Machinery at project site, ₹0.10 crore under the Head 'Office Equipment' towards Sewage Treatment Plant and R.O. system for newly constructed colony at project site and ₹0.04 crore towards Air Conditioner and other consumer equipment for site and corporate office etc., ₹0.03 crore under the Head 'Computers' towards computers for employees at corporate office and ₹0.22 crore under the Head 'Furniture & Fixture' towards furniture and fixtures for the project colony at site for Company's employees. After considering the submissions of EPPL and PSPCL, the Commission does not find any merit in the aforesaid claims of EPPL except for ₹0.10 crore out of ₹0.41 crore having been incurred towards Sewage Treatment Plant & R.O. System for newly constructed colony at project site. The Commission observes that the said expenditure of ₹0.10 crore has been wrongly claimed by EPPL under the Head 'Office Equipment' and therefore, the Commission disallow the same under the Head 'Office Equipment'. However, the Commission is of the view that the said expenditure of ₹0.10 crore should have been claimed by EPPL under the Head 'Buildings' under the deferred provisions earlier approved by the Commission. Accordingly, the Commission allows the additional capitalization of ₹0.10 crore under the Head 'Buildings' in the deferred provisions earlier allowed by the Commission.

1.4.6 **In view of the above, the Commission holds that the remaining deferred provision of ₹9.0597 crore (₹9.1597 crore – ₹0.10 crore) would 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. Accordingly, the capital**

cost of the project for FY 2016-17 (True-up) is approved as ₹841.7425 crore [₹841.6425 crore for FY 2015-16 (True-Up) + ₹0.10 crore].

The details of balance deferred provisions at the end of FY 2016-17 are as per Table – 1.

Table – 1: Details of additional capitalization/deferred provisions

S. No.	Head of Works	Deferred Provisions [as per Order dated 04.12.2014 in petition no 54 of 2012 (₹ cr.) (A)	Additional capitalization allowed for FY 2013-14 (true-up) (₹ cr.) (B)	Balance deferred provisions at the start of FY 2015-16 (no additional capitalization allowed in FY 2014-15) (₹ cr.) (C) = (A-B)	Head of Works [as claimed by EPPL in petition for FY 2015-16 (true-up)] (D)	Balance deferred provisions at the end of FY 2015-16 (true-up) (₹ cr.) (E)	Additional capitalization allowed in FY 2016-17 (True-Up) (₹ cr.) (F)	Balance deferred provisions at the end of FY 2016-17 (True-Up) (₹ cr.) (G)=(E-F)
1.	Infrastructure Works i)Land	1.47	1.017 (land compensation deposited by EPPL with court)	0.453	i) Land	0.453	0.00	0.453
	ii)Buildings	4.1708	0.00	4.1708	ii)Buildings (balance works towards construction of project colony)	1.8308	0.10 (Incurred towards Sewage Treatment Plant and R.O System for newly constructed colony at project site)	1.7308
	iii) Communications (construction of roads, bridges and ropeways)	4.0645	0.00	4.0645	iii) Communications (blacktopping of approach roads and procurement for snow cleaning equipment, earth moving equipment etc.)	3.8545	0.00	3.8545
	iv) Miscellaneous (Purchase of Security Camera and online mandatory release system)	0.2375	0.00	0.2375	iv) Miscellaneous (towards procurement of office equipment; tools and tackles/machinery and computers)	0.0475	0.00	0.0475

S. No.	Head of Works	Deferred Provisions [as per Order dated 04.12.2014 in petition no 54 of 2012 (₹ cr.) (A)	Additional capitalization allowed for FY 2013-14 (true-up) (₹ cr.) (B)	Balance deferred provisions at the start of FY 2015-16 (no additional capitalization allowed in FY 2014-15) (₹ cr.) (C) = (A-B)	Head of Works [as claimed by EPPL in petition for FY 2015-16 (true-up)] (D)	Balance deferred provisions at the end of FY 2015-16 (true-up) (₹ cr.) (E)	Additional capitalization allowed in FY 2016-17 (True-Up) (₹ cr.) (F)	Balance deferred provisions at the end of FY 2016-17 (True-Up) (₹ cr.) (G)=(E-F)
	Total	**9.9428**	**1.017**	**8.9258**		**6.1858**	0.10	**6.0858**
2	Major Civil & Hydro Mechanical Work							
	i) Dam intake and desilting chamber	1.7556	0.00	1.7556	Dam intake and desilting chamber	1.7556	0.00	1.7556
	ii) Escalation on infrastructure and Major Works	1.7300	0.00	1.7300	Escalation (Escalation on balance infrastructure works)	1.1300	0.00	1.1300
	Total	**3.4856**	**0.00**	**3.4856**		**2.8856**	0.00	**2.8856**
3.	Plant & equipment including initial spares (transmission line and terminal equipment)	0.0883	0.00	0.0883		0.0883	0.00	0.0883
	Total (1+2+3)	**13.5167**	**1.017**	**12.4997**		**9.1597**	**0.10**	**9.0597**

1.5 Transmission Charges payable to ADHPL

1.5.1 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."

1.5.2 Further, on the Review Petition (C) No. 1365 of 2017 filed by M/s. AD Hydro Power Ltd. in the said Civil Appeal, the 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."

1.5.3 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.

1.5.4 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."

1.5.5 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. PSPCL submitted that EPPL has prayed herein for directions to PSPCL to pay the transmission charges on the invoices raised by AD Hydro. 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.

1.5.6 **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.**

2. **Employee cost**

2.1 EPPL had projected ₹4.04 crore as Employee Cost for the year 2016-17 in Petition No.74 of 2015. The Commission in its Order dated 08.08.2017 had approved the projected employee cost of ₹3.97 crore for FY 2016-17.

EPPL's Submission:

2.2 In the current Petition, EPPL has claimed employee cost of ₹4.18 crore on normative basis. This comprises of ₹3.99 crore on account of 'other employee cost' and ₹0.19 crore on account of terminal benefits. EPPL has submitted that actual employee cost incurred during FY 2016-17 is ₹6.79 crore.

PSPCL's Objection:

2.3 PSPCL has raised a common objection for Operation & Maintenance (O&M) expenses and has submitted that the Hon'ble Commission had passed an Order dated 08.08.2017 in Petition No. 74 of 2015 wherein the tariff for FY 2016-17 had been determined. The present petition has been filed by the petitioner seeking true up of the tariff determined in the said Order dated 08.08.2017. PSPCL claims that there is no ground for changing the principles on which the tariff was previously determined (vide Order dated 08.08.2017) and has relied on judgement of the Hon'ble APTEL dated 4.12.2007 in the case of Karnataka Power Transmission Corporation Limited v/s Karnataka Electricity Regulatory Commission and judgement dated 23.05.2007 in the case of North Delhi Power Ltd. v/s Delhi electricity Regulatory Commission.

Commission's Analysis:

2.4 Regulation 28 of PSERC (Terms and Conditions for Determination of Tariff) Regulations, 2005 provides for determination of O&M expenses.

2.5 Terminal benefits are to be allowed on actual basis. The unfunded terminal liability is to be allowed in accordance with the provisions of Regulation 33. EPPL has provided the certificate from Auditor in which it is stated that ₹2,44,349 (₹0.02 crore) and ₹2,50,995 (₹0.03 crore) were paid as full and final settlement of employees which is considered as terminal benefits. However, the payment of ₹5,00,000 (₹0.05 crore) on account of leave encashment and ₹9,88,580 (₹0.09 crore) on account of Bonus, made during FY 2016-17, relates to existing employees of the company cannot be considered as Terminal Benefits as these are part of 'other employee cost' of EPPL. Accordingly, the 'other employee cost' claimed by EPPL works out to ₹4.13 (3.99+0.05+0.09) crore. **The Commission allows terminal benefits of ₹4,95,344 (₹2,44,349+2,50,995) or ₹0.05 crore.**

2.6 The 'Other Employee Cost' approved by the Commission in Order dated 31.08.2015 was ₹3.41 crore for the whole year of FY 2012-13, which is considered as base for calculating 'Other Employee Cost' for FY 2016-17.

2.7 The Provisions of Regulation 28(3) of PSERC Regulations, 2005 provide 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. WPI increase is calculated @4.40% i.e. index of base year 2012-13 increased from 106.90 to 111.60 for FY 2016-17 {(111.60-106.90)/106.9*100} and CPI increase is calculated @28.23% i.e. index of base year 2012-13 increased from 215.17 to 275.92 for FY 2016-17 {(275.92-215.17)/215.17*100}. The combination of 0.50 of WPI + 0.50 of CPI increase will be an increase of 16.32% {(4.40+28.23)/2} which is applicable for FY 2016-17. Accordingly, the Commission allows ‘other employee cost’ of ₹3.97 (3.41*1.1632) crore. As per Audited Annual Accounts for FY 2016-17, EPPL has incurred ₹6.79 crore as Employee Cost. As per Regulation 28(3)(a)(ii) (amended), all other expenses (other than terminal benefits) under different subheads of employee cost, shall be determined by the Commission limited to increase in WPI and CPI.

Thus, the Commission allows ₹4.02 (0.05+3.97) crore as Employee Cost for FY 2016-17.

3. **Repair and Maintenance (R&M) Expenses**

3.1 EPPL had projected ₹7.38 crore as R&M cost for the year 2016-17 in Petition No. 74 of 2015. The Commission in its Order dated 08.08.2017 approved R&M cost of ₹7.08 crore for FY 2016-17.

EPPL’s Submission:

3.2 In the current Petition, EPPL submitted that ₹24.77 crore has been incurred on account of O&M expenses other than employee cost. EPPL has segregated O&M expenses other than employee cost into R&M expenses of ₹16.28 crore and A&G expenses of ₹8.49 crore, based on Audited Annual Accounts for FY 2016-17. However, EPPL has claimed ₹7.11 crore as R&M expenses on normative basis and submitted that actual R&M expenses of ₹16.28 crore has been incurred during FY 2016-17.

Commission’s Analysis:

3.3 The Commission in its Order dated 31.08.2015 had approved R&M expenses of ₹6.78 crore on Gross Fixed Assets of ₹837.28 crore (as on 31st March, 2013), for full year of FY 2012-13, which is considered as base for calculating allowable R&M expenses for FY 2016-17.

3.4 As discussed in para 2.7 of this Order, WPI increase for FY 2016-17 is 4.40%. The Gross Fixed Assets as on 01.04.2016 are ₹841.64 crore. Therefore, base R&M expenses for FY 2016-17 work out to ₹6.82 crore (6.78 / 837.28 *841.64). After applying WPI increase of 4.40% to the amount of ₹6.82 crore, the R&M expenses for EPPL work out to ₹7.12

crore for FY 2016-17. Further, as discussed in para 1.4.5 of this Order, there is an asset addition of ₹0.10 crore in FY 2016-17. However, R&M expenses on account of the said asset addition calculates to 'Nil' as the same is marginal and not countable because the figures in this Order are worked out in ₹ crore.

3.5 As per Audited Annual Accounts for FY 2016-17, EPPL has incurred ₹16.29 crore as R&M expenses. According to Regulation 28(2)(b), the base O&M expenses shall be adjusted according to variation in Wholesale Price Index (all commodities) over the year so as to determine the O&M expenses for subsequent years. Thus, the Commission limits the Repair and Maintenance expenses to normative expense of ₹7.12 crore.

Accordingly, the Commission approves ₹7.12 crore as R&M expenses for FY 2016-17 on normative basis.

4. **Administrative and General (A&G) Expenses**

4.1 In Petition no.74 of 2015, EPPL had projected ₹7.16 crore as A&G expenses for the year 2016-17. The Commission in its Order dated 08.08.2017 had approved A&G expenses of ₹6.87 crore for FY 2016-17.

EPPL's Submission:

4.2 In the current Petition, EPPL has claimed ₹7.23 crore as A&G expenses for FY 2016-17 on normative basis. Actual A&G expenses submitted by EPPL are of ₹8.49 crore in FY 2016-17, which includes ₹0.32 crore (₹0.21cr Audit Fees + ₹0.11cr Fees paid to Regulatory Bodies).

Commission's Analysis:

4.3 The A&G expenses of ₹6.58 crore on Gross Fixed Assets of ₹837.28 crore as on 31st March, 2013 were approved by the Commission for the whole of FY 2012-13 in its Order dated 31.08.2015 which is considered as base for calculating allowable A&G expenses for FY 2016-17.

4.4 As discussed in para 2.7 of this Order, WPI increase for FY 2016-17 is 4.40%. The Gross Fixed Assets as on 01.04.2016 are of ₹841.64 crore. Therefore, base A&G expenses for FY 2016-17 work out to ₹6.61 crore

(6.58/837.28*841.64). After applying WPI increase of 4.40% on the amount of ₹6.61 crore, the A&G expenses for EPPL work out to ₹6.90 crore for FY 2016-17. Further, as discussed in para 1.4.5 of this Order, there is an asset addition of ₹0.10 crore in FY 2016-17. However, A&G expenses on account of the said asset addition calculates to 'Nil' as the same is marginal and not countable because the figures in this Order are worked out in ₹ crore.

4.5 As per Audited Annual Accounts for FY 2016-17, EPPL has incurred ₹7.60 crore as A&G expenses (excluding UI Consumption charges, Contribution towards donations & CSR, Audit fee and License / ARR fee). According to Regulation 28(2)(b), the base O&M expenses shall be adjusted according to variation in Wholesale Price Index (all commodities) over the year so as to determine the O&M expenses for subsequent years. Thus, the Commission limits the Administration and General expenses to normative expense of ₹6.90 crore.

4.6 Accordingly, the Commission approves normative A&G expense of ₹6.90 crore. In addition to normative A&G expenses, the Commission allows Audit fee and Licence fee to the tune of ₹0.32 (0.21+0.11) crore as per Regulation 28 of PSERC Regulations, 2005.

Thus, the Commission allows ₹7.22 (6.90+0.32) crore as A&G expenses for FY 2016-17.

5. **Depreciation**

5.1 In Petition no.74 of 2015, EPPL had projected ₹40.79 crore as Depreciation charges for the year 2016-17.The Commission in its Order dated 08.08.2017 approved projected Depreciation charges of ₹40.79 crore for FY 2016-17.

EPPL's Submission:

5.2 In the current Petition, EPPL has claimed Depreciation Charges of ₹47.76 crore. EPPL has relied on IND-AS 109 and stated that with the adoption of IND-AS, the carrying value of the Tangible Assets as on 01.04.2015 will have the below discussed impact:

"(i) IND AS 109 requires transition costs (like processing fee etc.) incurred on origination of borrowings to be deducted from the carrying amount of borrowings on initial recognition. These costs will be recognized in the profit or loss over the tenure of the borrowing as part of interest expense. Under the previous GAAP, these transaction costs were capitalized and now under IND AS, these costs need to be adjusted from the borrowings as well as from the tangible assets. Hence, an adjustment of Rs.3.11 crore has been made from the opening carrying value of tangible assets.

(ii) Further, under the previous GAAP, leasehold land was capitalized as tangible assets. Whereas under IND-AS, lease of land is assessed as an operating lease and accordingly amortized on a straight line over the period of lease. .Hence, the amount capitalized as at April 01,2015 i.e.Rs.11.45 crore has been reclassified as prepaid rent under other non-current and current assets."

5.3 The depreciation charges of ₹47.76 crore for FY 2016-17 are calculated at the weighted average rate of 5.76%, based on the Balance Sheet of FY 2016-17 as shown in Table - 2.

Table - 2: Rate of Depreciation for FY 2016-17

(₹ Crore)

S No.	Particulars	FY 2016-17
A	Gross Block as on 01.04.2016 of assets	829.07
B	Add: Additional Expenditure during FY 2016-17	0.41
C	Closing Gross Block of assets	829.48
D	Average Gross Block of assets (A+C)/2	829.28
E	Rate of depreciation as per Balance Sheet	5.76%
F	**Depreciation Charges**	**47.76**

PSPCL's Objection:

PSPCL has raised its objection that depreciation should be allowed to the Petitioner only in terms of the Tariff Regulations of the Hon'ble Commission and not as per the actuals being claimed by the Petitioner.

Commission's Analysis:

5.4 Regulation 27 of PSERC Regulations, 2005 (as amended from time to time) provides the methodology for determining depreciation on assets. As per the Commission's Order dated 18.12.2017 (EPPL's True-Up for FY 2015-16), the depreciable amount of assets as on 31.03.2016 is ₹829.07 crore (excluding cost of land). Also, as discussed in para 1.4.5 of this Order, there is an asset addition of ₹0.10 crore during FY 2016-17. However, Depreciation on account of the said asset addition calculates to 'Nil' as the same is marginal and not countable because the figures in this Order are worked out in ₹ crore. 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 the 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. Thus, the depreciation is calculated at average rate of 4.97% for full year on the weighted average value of assets for FY 2016-17 as shown in Table - 3.

Table - 3: Depreciation Charges for FY 2016-17

(₹ Crore)

Particulars	**FY 2016-17**
Gross Block as on 01.04.2016 of assets (Net of Land)	829.07
Asset Addition during FY 2016-17	0.10
Closing Gross Block of assets as on 31.03.2017 (Net of Land)	829.17
Rate of Depreciation (%)	4.97
Depreciation charges on opening balance (829.07*4.97%)	41.20
Depreciation charges on asset addition during the year	-
Total Depreciation for FY 2016-17	**41.20**
Accumulated Depreciation upto FY 2015-16	152.18
Accumulated Depreciation upto FY 2016-17	193.38

Accordingly, the Commission approves Depreciation Charges of ₹41.20 crore for FY 2016-17.

6. **Return on Equity**

6.1 In Petition no.74 of 2015, EPPL had projected ₹38.98 crore as Return on Equity for the year 2016-17. The Commission in its Order dated 08.08.2017 had approved projected Return on Equity of ₹38.98 crore for FY 2016-17.

EPPL's Submission:

In the current petition, EPPL has claimed Return on Equity of □39.15 crore.

Commission's Analysis:

6.2 The Return on Equity is computed @ 15.50% on the paid up equity capital determined in accordance with Regulation 25 of PSERC Regulations, 2005.

6.3 The equity approved by the Commission in its Order dated 18.12.2017 (EPPL's True-Up for FY 2015-16) is ₹252.49 crore as on 31.03.2016 crore which is considered as opening balance for FY 2016-17. As discussed in para 1.4.5 of this Order, there is an asset addition of ₹0.10 crore during FY 2016-17. EPPL has submitted that the asset addition for the year has been sourced by using the internal sources of income / revenue. However, as per Regulation 24, Debt Equity ratio of 70:30 has to be considered. Thus, out of the total asset addition of ₹0.10 crore, 30% has been considered to be sourced from equity being ₹0.03 crore (0.10*30%) and balance 70% (of ₹0.10 crore i.e. ₹0.07 crore) has been considered to be sourced from normative loan. Accordingly, the closing balance of equity for FY 2016-17 works out to ₹252.52 crore.

Thus, Return on Equity is computed @15.50% on the average paid up equity capital as shown in Table - 4.

Table - 4: Return on Equity for FY 2016-17

(₹ Crore)

Particulars	**FY 2016-17**
Opening value of Equity	252.49
Addition due to Additional Capital Expenditure	0.03
Closing value of Equity	252.52
Average Equity	252.51
Rate of Equity (%)	15.50
Return on Equity	39.14

Accordingly, the Commission approves Return on Equity of ₹39.14 Crore for FY 2016-17.

7. **Interest and Finance Charges**

7.1 In Petition No. 74 of 2015, EPPL had projected ₹57.66 crore as Interest and Finance Charges for the year 2016-17. The Commission in its Order dated 08.08.2017 had approved projected Interest and Finance Charges of ₹57.66 crore for FY 2016-17.

EPPL's Submission:

7.2 In the current Petition, EPPL has claimed Interest and Finance Charges of ₹57.95 crore, which includes ₹0.70 crore on account of finance charges for FY 2016-17.

PSPCL's Objection:

PSPCL has raised its objection that the interest claimed by the Petitioner is high. Also, the actual interest rate or the State Bank of India Advance Rate, whichever is lower should be applied to compute interest on loans.

Commission's Analysis:

7.3 Regulation 26 of PSERC Regulations, 2005 (amended from time to time) explain the methodology for calculating Interest on capital loan. As per the said Regulation, the rate of interest shall be the actual rate of interest paid/payable by the Licensee or the State Bank of India Advance Rate as on April, 1 of the relevant year, whichever is lower.

7.4 The closing loan balance of ₹436.97 crore was determined by the Commission in True-Up of FY 2015-16, which is considered as the opening loan balance for FY 2016-17. As discussed in para 1.4.5 of this Order, asset addition of ₹0.10 crore has been approved for FY 2016-17. Accordingly, out of the total asset addition of ₹0.10 crore, 70% has been considered to be sourced from debt being ₹0.07 crore (0.10*70%) as normative loan. Repayment of loans of ₹41.20 crore which is equal to the depreciation allowed for the year is considered. The weighted average rate of interest @13.85% p.a. for FY 2016-17 as paid / claimed by EPPL is considered (which is lower than State Bank of India Advance Rate @14.05% as on 01.04.2016). The Interest on long term loans is calculated in Table - 5.

Table - 5: Interest on loan for FY 2016-17

(₹ Crore)

Particulars	**FY 2016-17**
Opening balance of long term loan as on 01.04.2016	436.97
Less: Repayment (normative) during the year	41.20
Loan addition during the year	0.07
Closing balance of long term loan as on 31.03.2017	395.84
Average Loan	416.41
Weighted Average Rate Interest on Loan (%)	13.85
Interest on Loan	**57.67**

7.5 EPPL has claimed □0.70 crore as finance charges for FY 2016-17. Finance charges / bank charges as per Audited Annual Accounts are ₹0.70 crore, which include ₹0.003 crore as 'Bank charges', ₹0.61 crore as interest on MAT, TDS, Service Tax etc. and ₹0.09 crore as finance charges. The Interest of ₹0.61 crore on MAT, TDS and Service Tax etc. is not allowable. However, finance charges of ₹0.093 (0.003+0.090) crore, say ₹0.09 crore are allowed based on the Audited Annual Accounts of FY 2016-17.

Accordingly, the Commission approves ₹57.76 (57.67+0.09) crore as Interest and Finance Charges on Long Term Loan for FY 2016-17.

8. **Interest on working capital**

8.1 In Petition no.74 of 2015, EPPL had projected ₹4.51 crore as Interest on Working Capital for the year 2016-17. The Commission in its Order dated 08.08.2017 had approved projected Interest on Working Capital of ₹4.47

crore for FY 2016-17.

EPPL's Submission:

8.2 In the current Petition, EPPL has claimed ₹4.69 crore on normative basis. The provision of Regulation 30 of PSERC Regulations, 2005 (as amended from time to time) provides the methodology for determining working capital and Interest rate on working capital.

Commission's Analysis:

8.3 As per the aforesaid Regulation, the working capital for FY 2016-17 is calculated at ₹32.65 crore consisting of maintenance spares of ₹2.75 crore (@ 15% of O&M expenses), operation and maintenance expenses for one month of ₹1.53 crore and receivable for two months of ₹28.37 crore.

8.4 The rate of interest on working capital shall be equal to the actual 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 lower. 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. The weighted average rate of interest paid/payable on loans by the petitioner for FY 2016-17 is 13.85%. State Bank of India Advance Rate as on 01.04.2016 is 14.05%. Therefore, by applying rate of interest of 13.85% per annum for FY 2016-17, the interest on working capital works out to be ₹4.52 crore for FY 2016-17 as shown in Table - 6.

Table - 6: Interest on Working Capital for FY 2016-17

(₹ Crore)

Particulars	**Claim of EPPL**	**Approved by the Commission**
Maintenance Spares	2.78	2.75
O & M for one month	1.54	1.53
Receivable equivalent to two months	29.56	28.37
Total working capital	33.88	32.65
Interest on Working Capital	**4.69**	**4.52**

Accordingly, the Commission approves the Interest on Working

Capital of ₹4.52 crore for FY 2016-17.

9. **Tax on Income**

EPPL's Submission:

9.1 In the current Petition, EPPL has submitted that Minimum Alternative Tax (MAT) under Section 115 JB of Income Tax Act 1961 of ₹10.20 crore (inclusive surcharge and interest on delay in payment) has been deposited / paid during FY 2016-17. EPPL has prayed the Commission to allow Income Tax paid of ₹9.40 crore being tax paid excluding delayed penal interest.

Commission's Analysis:

9.2 As per the Audited Annual Accounts of FY 2016-17, MAT has been booked at ₹9.40 crore. The Petitioner has submitted a copy of Income tax Return relating to the deposit of MAT for FY 2016-17.

9.3 Tax on income is governed by Regulation 32 of PSERC Regulations, 2005. In view of the said Regulation, maximum allowable tax on income is worked out in Table - 7:

Table – 7: Tax on Return on Equity

S. No.	Particulars	Rate / Amount
1	MAT Rate (including surcharge & cess)	21.3416%
2	ROE Rate	15.50%
3	ROE Rate grossed up (Pre Tax)	19.71%
4	Average Equity	252.51 cr
5	Pre Tax ROE (4)*(3)	49.77 cr
6	**Tax on ROE (5)*(1)**	**10.62 cr**

Thus, tax on return on equity (as per Regulation 32) works out to ₹10.62 crore, which is more than the tax paid by EPPL during FY 2016-17. **Accordingly, the Commission approves the Income Tax paid of ₹9.40 crore by the petitioner during FY 2016-17 .**

10. **Other Income / Non Tariff Income**

10.1 The Commission in its Order dated 08.08.2017 against Petition no. 74 of 2015 had approved Other Income of ₹0.16 crore in projections of FY 2016-17.

EPPL's Submission:

10.2 In the current Petition, EPPL has claimed Non-Tariff Income of ₹0.14 crore as other income.

Commission's Analysis:

10.3 As per Audited Annual Accounts of EPPL for FY 2016-17, other income amounting to ₹0.14 crore has been booked and the same is approved.

Accordingly, the Commission allows ₹0.14 crore as Non-Tariff Income for FY 2016-17 based on Audited Annual Accounts of EPPL.

11. **True up of Annual Fixed Charges for FY 2016-17**

Considering the above income and expenditure, the resultant Annual Fixed Cost for FY 2016-17 is worked out and shown in Table - 8.

Table - 8: Annual Fixed Charges for FY 2016-17

(₹ Crore)

Sr. No	Items of Expense	FY 2016-17			
		Claimed by EPPL during projection (FY 2016-17)	Approved by the Commission in its Order dated 08.08.2017	Claimed by EPPL for True Up (FY 2016-17)	Approved by the Commission (FY 2016-17)
1.	Employee Expenses	4.04	3.97	4.18	4.02
2.	Repair and Maintenance Expenses	7.38	7.08	7.11	7.12
3.	Administrative and General Expenses	7.16	6.87	7.23	7.22
4.	Depreciation	40.79	40.79	47.76	41.20
5.	Return on Equity	38.98	38.98	39.15	39.14
6.	Interest and Financial Charges	57.66	57.66	57.95	57.76
7.	Interest on Working Capital	4.51	4.47	4.69	4.52
8.	Income Tax	8.17	8.17	9.40	9.40
9.	**Total expenses**	**168.70**	**167.99**	**177.47**	**170.38**
10	Less: Non Tariff Income	0.11	0.16	0.14	0.14
11	**Annual Fixed Charges**	**168.59**	**167.83**	**177.33**	**170.24**

EPPL shall be entitled for computation and payment of capacity charges and energy charges in accordance with Regulation-31 of Central Electricity Regulatory Commission (Terms and Conditions of tariff) Regulations, 2014 (as amended from time to time), since the same are not specified in the PSERC Tariff Regulations.

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

12.1 The Commission in its order dated 18.12.2017 while deciding the AFC for FY2015-16 (True Up) 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.

12.2 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".

12.3 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.

This Petition stands disposed off accordingly.

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

Chandigarh
Dated: 24.05.2018