

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

**Petition No. 16 of 2017
Date of order:10.07.2018**

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

In the matter of: Petition under section 181(2) read with section 61 and 62 of the Electricity Act, 2003 for amendments in the Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and Retail Supply Tariff) Regulations, 2014.

AND

In the matter of: Punjab State Power Corporation Limited, The Mall, Patiala.

ORDER

Punjab State Power Corporation Limited (PSPCL) has filed the present petition under section 181(2) read with section 61 and 62 of the Electricity Act, 2003 seeking amendments in the Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and Retail Supply Tariff) Regulations, 2014. PSPCL has submitted that it is very difficult to comply with certain parameters of norms defined under some of the Regulations in day to day implementation and has requested to revisit and amend Regulations 5.3, 6.3, 12.5, 21, 24, 25, 26, 28, 31.2, 36, 40, 45.3, and insertion of new regulation for incentive / disincentive that the variable cost of power

purchased as approved by the Commission shall be taken into consideration.

ii) The petition was admitted by the Commission vide Order dated 11.05.2017. PSPCL vide memo no. 4672 dated 15.05.2017 sought amendments in the petition and the Commission vide Order dated 14.06.2017 directed PSPCL to file the amended petition by 15.06.2017. PSPCL vide memo no. 4772 dated 20.06.2017 submitted the amended petition and the Commission vide Order dated 12.07.2017 admitted the same and directed PSPCL to submit the proposed amendments in the form as required to be incorporated in the Regulations by 10.08.2017 and in compliance of the Order, PSPCL vide memo no. 4980 dated 14.08.2017 submitted the amended petition. The Commission vide Order dated 09.10.2017 noticed that the submissions of PSPCL in the amended petition are at variance with the details otherwise submitted in the petition and the same need to be rectified. PSPCL was directed to publish public notice inviting suggestions and objections from public and stakeholders by 18.10.2017 further directing PSPCL to file its comments/reply to the suggestions / objections received from public and stakeholders by 15.11.2017. The Commission vide letter dated 25.10.2017 directed PSPCL to ensure that the public notice must appear in the press on 27.10.2017 and the last date of submission of objections should be 15.11.2017 instead of 08.10.2017. PSPCL submitted the amended petition vide memo no. 8109 dated 13.10.2017 and published the public notice on 27.10.2017. In response to the public notice, an objection (Objection No.1) has been received from PSTCL vide memo no. 3784 dated 14.11.2017. During hearing on 29.11.2017 the Commission raised certain observations/ queries on various

amendments in the Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and Retail Supply Tariff) Regulations, 2014 as proposed by PSPCL and directed to inform the same to PSPCL in writing, PSPCL sought one month's time to submit the requisite clarifications/ justifications. The observations by the Commission were intimated to PSPCL vide letter dated 04.12.2017. PSPCL has submitted its reply to the objection vide memo no. 8340 dated 15.12.2017 filed by PSTCL. Vide memo no. 8491 dated 01.03.2018 , PSPCL sought 2 weeks time for submitting the complete reply as per the query raised by the Hon'ble Commission vide Order dated 01.12.2017. In compliance of Order dated 01.12.2017 , PSPCL vide memo no. 8613 dated 06.04.2018 has filed para wise submissions with respect to the various observations of the Commission. During hearing on 18.05.2018, PSPCL sought more time to clarify the issue of proposed amendment of Regulation 5.3 and 6.3 of Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and Retail Supply Tariff) Regulations, 2014 pertaining to allocation statements and the petition was fixed for 22.05.2018. During hearing on 22.05.2018 PSPCL stated that they are satisfied with the existing Regulation 5.3 and 6.3 of Punjab State Electricity Regulatory Commission (Terms and Conditions for Determination of Generation, Transmission, Wheeling and Retail Supply Tariff) Regulations, 2014 and hence they are not pressing for any amendment in this regard. After hearing the officials of PSPCL the Commission reserved the Order vide Order dated 24.05.2018.

iii) **Observations and Decision of Commission**

The Commission has examined the submissions made in the petition, additional submissions, objections received in response to the public notice and other documents placed on record by the petitioner during the course of hearing of the matter. The findings and decision of the Commission are as under:

1. Proposed Amendment in Regulation 5.3 (Segregation of ARR of Generation and Distribution Businesses):

The Existing Regulation reads as under:

“5.1 The distribution licensee shall segregate the accounts of the Company into generation business and distribution business. The distribution licensee, based on segregated accounts, shall submit separate ARRs for generation and distribution businesses. The ARR for generation shall be used to determine generation tariff and the ARR for distribution business to determine wheeling charges and retail tariffs.

5.2. For such period until accounts are segregated, distribution licensee shall prepare an Allocation Statement to apportion costs and revenues to respective businesses.

5.3. The Allocation Statement shall be considered by the Commission only if it is approved by the Board of Directors and validated by a certificate of the Statutory Auditors of the distribution licensee, and it shall be accompanied with an explanation of the methodology which shall be consistent over the control period.”

PSPCL's Submission

PSPCL has submitted that the allocation statement should be approved by BoDs only and not by statutory auditors as the same is not under the scope of the statutory audit. The Board of

Directors is the competent body to approve the method of segregation of allocation.

In view of the above, PSPCL has proposed the following amendment:

“5.3 The Allocation Statement shall be considered by the Commission only if it is approved by the Board of Directors of the licensee, and it shall be accompanied with an explanation of the methodology which shall be consistent over the control period.”

Commission’s View

PSPCL during the hearing on 22.05.2018 has expressed its satisfaction with regard to the existing Regulation 5.3 and 6.3 of PSERC MYT Regulations pertaining to Allocation Statement. The utility has not pressed for any amendment in this regard. The same has been recorded in Commission’s order dated 24.05.2018. This issue is disposed off accordingly.

2. Proposed Amendment in Regulation 6.3 (Segregation of Wheeling and Retail Supply Business):

The Existing Regulation reads as under:

“6.1. The distribution licensee shall segregate the accounts of the distribution business into wheeling business and retail supply business. The ARR for wheeling business shall be used to determine Wheeling Charges and the ARR for retail supply business to determine Retail Supply Tariffs.

6.2. For such period until accounts are segregated, the distribution licensee shall prepare an Allocation Statement to apportion costs and revenues to respective businesses.

6.3. The Allocation Statement, approved by the Board of Directors and validated by the certificate of the Statutory Auditors of the

distribution licensee, shall be accompanied with an explanation of the methodology which shall be consistent over the control period.

PSPCL's Submission

PSPCL has submitted that the allocation statement should be approved by BoDs only and not by statutory auditors as the same is not under the scope of the statutory audit. The Board of Directors is the competent body to approve the method of segregation of allocation.

In view of the above, PSPCL has proposed the following amendment:

*“6.3 The Allocation Statement, **approved by the Board of Directors of the licensee**, shall be accompanied with an explanation of the methodology which shall be consistent over the control period.”*

Commission's View

PSPCL during the hearing on 22.05.2018 has expressed its satisfaction with regard to the existing Regulation 5.3 and 6.3 of PSERC MYT Regulations pertaining to Allocation Statement. The utility has not pressed for any amendment in this regard. The same has been recorded in Commission's order dated 24.05.2018. This issue is disposed off accordingly.

3. Proposed Amendment in Regulation 12.5 (True Up):

The Existing Regulation reads as under:

“12.1 Truing up of the ARR of the previous year shall be carried out along with the Annual Performance Review and will be adjusted in the ARR of the next year of the control period.

12.2. Truing up of uncontrollable items and normative items shall be carried out at the end of each year of the control period.

12.3. *Truing up of controllable items would be done in accordance with Regulation 8.*

12.4. *Truing-up exercise will be undertaken only when audited accounts for the year(s) under consideration have been made available. The approved aggregate gain or loss for each business on account of controllable items will be subject to provisions of Regulation 30.*

12.5. *In case of any change in the approved amounts (positive or negative) during the True-up exercise, the Commission shall adjust the approved carrying cost by the interest allowed on the working capital requirement of the current year.*

12.6. *The Commission may allow/recover the carrying cost for the trued up amount at the interest rate mentioned in Regulation 25.1. Provided that no carrying cost shall be permitted for the period of delay in filing of true up on account of non submission of audited accounts due to the fault of the utility: Provided that if the Commission determines an over recovery by the licensee during the True-up, carrying cost for such trued up amount shall be recovered from the Applicant.”*

PSPCL's Submission

PSPCL has submitted that the carrying cost needs to be allowed as a separate item of expenses during the true up of the year so that the gap between revenue from the existing tariff and revenue as per aggregate revenue requirement is increased to the extent of carrying cost.

In view of the above, PSPCL has proposed the following amendment:

“12.5 In case of any change in the approved amounts (positive or negative) during the True-up exercise, the Commission shall consider the approved carrying cost as separate item of expense.”

Commission’s View

The Commission is of the considered view that the carrying cost determined, is fully allowable to the Petitioner. Accordingly, **the Commission approves the proposed amendment**, which shall be effective from the date such amendment is notified by the Commission. Further, it is also clarified that the carrying cost shall not be considered as part of ARR / NRR of the utility and shall be considered separately.

4. Proposed Amendment in Regulation 21 (Depreciation):

The Existing Regulation reads as under:

“For the purpose of tariff, depreciation shall be computed 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.”

PSPCL's Submission

PSPCL has submitted that the Regulation 21.1 is not in line with the standard accounting practice. The depreciation under straight line method is always calculated on the historical cost for the purpose of accounts. If the value base for the purpose of depreciation is taken as Capital Cost of the asset as admitted by

PSERC, then PSPCL will have to maintain two set of records for the assets, which is not feasible.

With respect to proviso (regarding deduction of consumer contributions, govt. grants/subsidies) to Regulation 21.1, it is submitted that Accounting Standard 12, lays two views for recognition of Govt. grants and consumer contributions , which are:-

- a. Capital Approach
- b. Income Approach

Under income approach, cash grants received towards an asset is to be transferred to 'Deferred Grants'. Such deferred grants are to be transferred to profit and loss account every year in the ratio of the depreciation of the asset.

PSPCL gets consumer contributions for thousands of capital works to be executed during various financial years at different times at different accounting units and also gets government grants for the various schemes under which the capital works are to be executed at different places at different times. It is not feasible for the PSPCL to attribute (deduct from the cost of specific capital work) a portion of Govt. Grant from the specific asset to provide the depreciation i.e. to adopt Capital approach, thus, income approach is being followed.

Further, with respect to the condition that the remaining depreciable value as on 31st March of the year closing after a period of 12 years from the effective date of commercial operation of the station/line shall be spread over the balance useful life of the assets' is concerned, it is submitted that implementation of this principle is not possible for the assets held by PSPCL till date as the same are not recorded age-wise at many accounting units.

In view of the above, PSPCL has proposed the following amendment:

“For the purpose of tariff, depreciation shall be computed in the following manner:

*21.1. The value base for the purpose of depreciation shall be the **historical cost of the assets i.e.; as per book value of licensee.** 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 historical** cost while computing depreciable value of the asset; **Provided further that Govt. grants and consumer contribution shall also be recognized as defined under (AS) 12.***

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 of asset created or held by the beneficiaries till 31.3.2017.** However, for **the asset coming in to existence on or after 01.04.2017** 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.”

Commission’s View

(On Regulation 21.1)

The Commission has the mandate to approve the capital expenditure and capitalization of the utility after prudence check. The very purpose of approval of Capital Investment Plan will be forfeited in case the proposed amendment is approved by the Commission.

Accordingly, the proposed amendment on historical cost of the assets is not approved by the Commission.

Further, the Accounting Standards (AS) have been replaced by Indian Accounting Standards (IND AS) notified by the Ministry of Corporate Affairs. Thus, the proposed amendment regarding recognition of Govt. grant and consumer contribution as per Accounting Standard-12 is required to be suitably modified in terms of IND AS-20. The Commission notes that the IND AS is uniform accounting norms applicable on Companies in India. Thus, the PSERC Regulation also needs to be suitably modified to incorporate the accounting methodology prescribed by IND AS-20.

Accordingly, the proposed amendment regarding applicability of Accounting Standards (with suitable modifications) is approved by the Commission.

(On Regulation 21.5)

The Commission observes that the proposed amendment will be arbitrary and unjustified. PSPCL itself has admitted in its submission that this amendment is proposed because PSPCL is unable to correctly ascertain useful life of its old assets. Further, PSERC Regulations have to be uniform and cannot be modified for the benefit of any particular utility. Accordingly, **the proposed amendment for segregating assets for period before and after 31.03.2017 is not approved by the Commission.**

5. Proposed Amendment in Regulation 24 (Interest on Loan Capital):

The Existing Regulation reads as under:

“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-capitalization 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.”*

PSPCL's Submission

The Petitioner has submitted that PSPCL, Govt of India and Govt. of Punjab, have signed MOU under UDAY Scheme on 04.03.2016 according to which, 75% of PSPCL's loans pertaining to Distribution Business amounting to Rs.15628.26 crore have been taken over by the GoP by issuing special GoP Bonds for 10 / 15 years. PSPCL has repaid the loans of the equivalent amount to PFC / REC / Banks as per the UDAY Scheme and now GoP loans appear in the books of PSPCL. The GoP loans are for a period of 10 / 15 years at the same rate of interest on which the bonds are issued resulting into a significant reduction in interest cost of PSPCL. GoI launched UDAY scheme with the objective of operational and financial turnaround of the state distribution utilities. As PSPCL and GoP have adopted the scheme, the interest on GoP loan of ₹ 15628.26 crore appearing in the books of PSPCL needs to be allowed in the tariff in order to make the utility financially viable in line with the objective of UDAY scheme. The

GoP loan should not be included in the normal capex and working capital loans to provide one time relief as per the spirit of the UDAY Scheme.

In view of the above, PSPCL has proposed the following amendment:

*“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) by the Govt. owned licensee and for all other 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) by the Govt. owned licensee and for all other 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 **Petitioner** has submitted that clause 24.3. related to repayment of loan **be omitted***.*

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.*

24.6 **Any special provision made by Central /state Government on account of restructure licensee loan/dues shall be treated separately as per agreements made by licensee and respective government.”**

Commission’s View

(On Regulation 24.1)

The Regulation proposed by PSPCL appears to be specific to Public Sector Utilities (PSUs), whereas the PSERC Regulations are applicable to all including Private Licensees and are not exclusively for PSUs. As already discussed in this Order, the PSERC Regulations have to be uniform for all and there cannot be separate parameters / yardsticks for PSUs and Private Companies. Accordingly, **the proposed amendment is not approved by the Commission.**

(On Regulation 24.3)

The Commission observes that the petitioner has not given any justification for the proposed amendment. The existing Regulation is in order and requires no modification. Accordingly, **the proposed amendment is not approved by the Commission.**

(On Regulation 24.6)

PSPCL’s submission of treating any special provision made by Central / State Government to restructure licensee loan/dues, as a

separate item, is devoid of merits and cannot be considered as a pass through expense.

The Commission has the mandate to examine the original purpose / nature of loans availed by the utility and to conduct necessary prudence check. The loans originally availed by the utility as long term loans / working capital loans, shall remain as so, even after conversion under UDAY Scheme, i.e. the nature of loan cannot be altered as there are specific Regulations for interest on long term loans and interest on working capital loans.

In view of the above, **the proposed amendment is not approved by the Commission.**

6. Proposed Amendment in Regulation 25.1 (Rate of interest on working Capital):

The Existing Regulation reads as under:

“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.

25.2 Interest on security deposits made by the consumers with a licensee, if any, shall be considered at the rate specified by the Commission from time to time.”

PSPCL's Submission

Apart from financial institutions, PSPCL is also arranging working capital loans and capital investment funding from commercial banks and/or market borrowings. The interest rates are determined on a number of factors like, market forces, financial position of the utility/state, rating, and liquidity position of Banks/FIS etc. The utilities on their part always make an effort to raise loans at most competitive rates. As such PSPCL submits that the allowable interest rate may not be normative but the actual interest rate at which the funds are borrowed by the utility. The interest on any adjustment such as liability for RBI Bonds etc. made against subsidy payable by GoP may also be allowed by the Commission. Further, PSPCL has submitted that the GoP loan under UDAY in the books of PSPCL should be treated as a separate item and not included in the normal capex and working capital loans to provide one time relief as per the spirit of the UDAY Scheme.

In view of the above, PSPCL has proposed the following amendment:

“25.1. The rate of interest on working capital shall be payable on actual rate of interest paid/ payable on loans borrowed by the Govt. owned licensee/SLDC, subject to prudent check. For all other the rate of interest on working capital shall be equal to the weighted average rate of interest paid/ payable on loans 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 has not taken working capital loan from any outside agency or has exceeded the working capital loan amount worked out on the normative figures.

25.2 Any special provision made by central /state Government on account to restructure licensee loan/dues shall be treated separately as per agreements made by licensee and respective government.”

Commission’s View

(On Regulation 25.1)

As discussed above in this Order, the Commission reiterates that the PSERC Regulations have to be uniform for all and there cannot be separate parameters / yardsticks / Regulations for Government and Private Companies. Accordingly, **the proposed amendment is not approved by the Commission.**

(On Regulation 25.2)

PSPCL’s submission of treating any special provision made by Central / State Government to restructure licensee loan/dues, as a separate item, is devoid of merits and cannot be considered as a pass through expense.

The Commission has the mandate to examine the original purpose / nature of loans availed by the utility and to conduct necessary prudence check. The loans originally availed by the utility as long term loans / working capital loans, shall remain as so, even after conversion under UDAY Scheme, i.e. the nature of loan cannot be altered as there are specific Regulations for interest on long term loans and interest on working capital loans.

In view of the above, **the proposed amendment is not approved by the Commission.**

7. Proposed Amendment in Regulation 26 (Operation and Maintenance (O&M) Expenses):

The Existing Regulation reads as under:

“26.1. The O&M expenses for the nth year of the Control Period shall be approved based on the formula shown below:

$$\mathbf{O\&M_n = (R\&M_n + EMP_n + A\&G_n) \times (1-X_n)}$$

Where,

- *R&M_n – Repair and Maintenance Costs of the Applicant for the nth year;*
- *EMP_n – Employee Cost of the Applicant for the nth year;*
- *A&G_n – Administrative and General Costs of the Applicant for the nth year;*

The above components shall be computed in the manner specified below:

(i) $R\&M_n + A\&G_n = K * GFA * (WPI_n / WPI_{n-1})$

Where,

- *‘K’ is a constant (expressed in %) governing the relationship between R&M and A&G expenses and Gross Fixed Assets (GFA) for the nth year. The value of “K” will be specified by the Commission in the MYT order.*
- *‘GFA’ is the average value of the Gross Fixed Assets of the nth year.*
- *‘WPI_n’ means the average rate (on monthly basis) of Wholesale Price Index (all commodities) over the year for the nth year.*

(ii) $EMP_n = (EMP_{n-1}) * (INDEX_n / INDEX_{n-1})$

- *INDEX_n - Inflation Factor to be used for indexing the Employee Cost.*

- This will be a combination of the Consumer Price Index (CPI) and the Wholesale Price Index (WPI) of nth year and shall be calculated as under:-

$$\mathbf{INDEX_n = 0.50 * CPI_n + 0.50 * WPI_n}$$

'WPI_n' means the average rate (on monthly basis) of Wholesale Price Index (all commodities) over the year for the nth year.

'CPI_n' means the average rate (on monthly basis) of Consumer Price Index (Industrial workers) over the year for the nth year.

Note 1: The O&M expenses of BBMB for the entire Control Period shall be projected separately based on the latest actual payout. The Commission shall true up the O&M expenses of BBMB during the Annual Performance Review based on the actual payout. The O&M expenses of BBMB shall be treated as uncontrollable cost item. However, when CERC determines the tariff in respect of generating plants/units, transmission system and SLDC of BBMB, the Commission shall consider the same.

Note 2: For the purpose of estimation, the same WPI_n and CPI_n values shall be used for all years of the Control Period. However, the Commission will consider the actual values of the WPI_n and CPI_n at the end of each year during the Annual Performance Review exercise and true up the Employee cost on account of this variation. Further, the Commission will consider the actual values of the WPI_n at the end of each year during the Annual Performance Review exercise and true up the R&M and A&G Expenses on account of this variation.

Note 3: O&M expenses shall be allowed on normative basis and shall not be trued up: Provided, if actual O&M expenses are less than 90% of the normative expenses, the Commission shall true

up the O&M expenses during the Annual Performance Review for that year on actual basis.

Note 4: Terminal Liabilities such as death-cum-retirement gratuity, pension, commuted pension, leave encashment, LTC, medical reimbursement including fixed medical allowance in respect of pensioners will be approved as per the actual paid by the Applicant.

Note 5: O&M expenses made on account of extraordinary situations (if any) shall be submitted to Commission for its approval. Such expenses shall be filed separately and will not be subjected to provisions of Regulation 30. The approved amount by the Commission shall be trued up in the Annual Performance Review.

Note 6: Exceptional increase in employee cost on account of pay revision etc. will be considered separately by the Commission.

Note 7: 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 by the Commission.

Note 8: O&M expenses of assets taken on lease/hire-purchase and those created out of the consumers' contribution shall be considered in case the generating company or the licensee has the responsibility for its operation and maintenance and bears O&M expenses.

Note 9: With regard to unfunded past liabilities of pension and gratuity, the Commission will follow the principle of "pay as you go". The Commission shall not allow any other amount towards creating fund for meeting unfunded past liability of pension and gratuity.

Note 10: O&M expenses for gross fixed assets added during the year, if not accounted already, shall be considered from the date of commissioning on pro-rata basis.

(iii) *Xn is an efficiency factor for nth year*

The value of Xn shall be determined by the Commission in its first MYT order for the Control Period.”

PSPCL's Submission

Employee Cost is the most important constituent of O&M expenses. Employee cost includes the cost incurred on working employees as well as retirees. WPI index used is grossly inadequate considering the average rise in salaries and other expenses. Employee expenses are driven primarily by retail inflation, i.e. CPI. The Dearness Allowances in the salaries of the employees is linked to CPI Industrial Workers index numbers. PSERC MYT Regulations, 2014 has linked employee expenses to 50% CPI and 50% WPI Index. The employee expense forecast will be approved for a period of three years. Correspondingly, the escalation factor considered should also be based on longer-term data and should not rely only on short-term data. It is a State Government owned entity and is liable to follow the statutory provisions of the rules and Regulations as laid down by the State Government.

In view of the above, PSPCL requests the Commission to allow employee expenses as projected by PSPCL **on actual basis**.

In view of the above, PSPCL has proposed the following amendment:

“R&M and A&G expenses shall be allowed as per normative. The components shall be computed in the manner specified below:

*(i) $R&M_n + A&G_n = K * GFA * (WPI_n / WPI_{n-1})$*

Where, 'K' is a constant (expressed in %) governing the relationship between R&M and A&G expenses and Gross Fixed Assets (GFA) for the nth year. The value of "K" will be specified by the Commission in the MYT order.

'GFA' is the average value of the Gross Fixed Assets of the nth year.

'WPI_n' means the average rate (on monthly basis) of Wholesale Price Index (all commodities) over the year for the nth year.

.... (ii) $EMP_n = (EMP_{n-1}) * (INDEX_n / INDEX_{n-1})$

INDEX_n - Inflation Factor to be used for indexing the Employee Cost. This will be a combination of the Consumer Price Index (CPI) and the Wholesale Price Index (WPI) of nth year and shall be calculated as under:-

$$INDEX_n = 0.50 * CPI_n + 0.50 * WPI_n$$

'WPI_n' means the average rate (on monthly basis) of Wholesale Price Index (all commodities) over the year for the nth year. 'CPI_n' means the average rate (on monthly basis) of Consumer Price Index (Industrial workers) over the year for the nth year

The employee expenses for the government owned licensees shall be allowed on actual basis."

Commission's View

While allowing / approving any expenditure, the Commission conducts a prudence check to verify the authenticity and requirement of such expenditure. Allowing any expenditure on actual basis shall curtail the right of the Commission to check the authenticity and necessity of any given expense. Further, as previously discussed, PSERC Regulations are required to be uniform for all and there cannot be separate parameters / yardsticks / Regulations for Government and Private Companies.

Further, the Commission notes that the actual employee cost of PSPCL in recent True-ups has been lower than normative, and accordingly, PSPCL has been allowed actual employee cost in recent years. Thus, **the proposed amendment of allowing actual employee cost is not approved by the Commission, being devoid of merit.**

8. Proposed Amendment in Regulation 28 (Non-Tariff Income):

The Existing Regulation reads as under:

“28.1. Following components of income shall be treated as non tariff income for the generation, transmission and distribution business, as applicable:

- a. Meter/metering equipment/service line rentals;*
- b. Service charges;*
- c. Customer charges;*
- d. Revenue from late payment surcharge;*
- e. Miscellaneous charges (except PLEC charges);*
- f. Incentives from CGSs;*
- g. Miscellaneous receipts;*
- h. Interest on advances to suppliers/contractors;*
- i. Interest on staff loans and advances;*
- j. Income from trading;*
- k. Income from staff welfare activities;*
- l. Excess found on physical verification;*
- m. Interest on investments, fixed and call deposits and bank balances;*
- n. Net recovery from penalty on coal liaison agents;*
- o. Prior period income;*

p. *Income from open access charges i.e. application fee, cross subsidy surcharge, additional surcharge, transmission and/or wheeling charges, scheduling charges etc.;*

q. *Any other income not included above.*

28.2. *The Applicant shall submit full details of its forecast of non-tariff 31 income to the Commission as a part of ARR filing.*

28.3. *The amount received by the Applicant on account of non-tariff Income shall be deducted from the aggregate revenue requirement in calculating the net revenue requirement of Applicant's business."*

PSPCL's Submission

PSPCL prays to the Hon'ble Commission to not to consider the amount against the Late Payment Surcharge as a part of the Non-Tariff Income. Further, PSPCL submits that the interest on working capital is allowed on normative basis which is lower and does not include the actual interest which PSPCL has to fund on account of late payment. Thus, when the late payments are received from the consumers, the loans taken to fund the gap and the delay in the receipt in payment is to be accounted and the same is not allowed in the revenue requirements. However, when the consumer pays the late payment surcharge for the delay in the payment, instead of the same being available to set off the costs incurred by PSPCL, the late payment surcharge is included in the non-tariff income to reduce the revenue requirements. There is no compensation to the PSPCL on account of interest accrued on delayed payments against bills issued to the consumer. Accordingly, considering the Late Payment Surcharge as Non-Tariff/other Income adversely impacts the cash flow position of the PSPCL and it is requested

that the income from late payment surcharge may not be treated as a part of non-tariff income.

On the same analogy, the rebate for timely payment of power purchase should not be considered in the non-tariff income.

In view of the above, PSPCL has proposed the following amendment:

“28.1. Following components of income shall be treated as non tariff income for the generation, transmission and distribution business, as applicable:

- a. Meter/metering equipment/service line rentals;*
- b. Service charges;*
- c. Customer charges;*
- d. ----omitted----*
- e. Miscellaneous charges (except PLEC charges);*
- f. Incentives from CGSs;*
- g. Miscellaneous receipts;*
- h. Interest on advances to suppliers/contractors;*
- i. Interest on staff loans and advances;*
- j. Income from trading;*
- k. Income from staff welfare activities;*
- l. Excess found on physical verification;*
- m. Interest on investments, fixed and call deposits and bank balances;*
- n. Net recovery from penalty on coal liaison agents;*
- o. Prior period income;*
- p. Income from open access charges i.e. application fee, cross subsidy surcharge, additional surcharge, transmission and/or wheeling charges, scheduling charges etc.;*

q. *Any other income not included above **excluding rebate for timely payment of power purchase.***"

Commission's View

With respect to late payment surcharge, the Commission agrees that the entire amount of late payment surcharge should not be included in the non-tariff income. The same shall be first adjusted from the interest on working capital being separately allowed. The balance amount should then be considered as non-tariff income. The proposed amendment will have to be suitably modified. Accordingly, **the Commission decides to partially approve the proposed amendment of late payment surcharge.**

The Commission observes that the suppliers of power provide a rebate on total power purchase bill in case the purchasing entity makes payment within the prescribed short period. Obtaining such rebates can substantially help in reducing the overall Power Purchase cost of the utility. In case no incentive is provided for the same, it may decide not to make such timely payments. This will result in increasing the ARR and therefore burdening the consumer. **Thus, in order to encourage the licensee for making timely payments and availing the rebate(s) for the same resulting in lower cost of Power Purchase to the consumers, the Commission decides to consider 50% of the 'rebate for timely payment of power purchase' received by the licensee as non-tariff income revenue in the ARR.**

9. Proposed Amendment in Regulation 31 (Billing and Payment of Charges and Late Payment Surcharge):

The Existing Regulation reads as under:

“31.1. All bills for capacity charges, energy charges, transmission charges and other charges shall be raised on monthly basis and payments shall be made by the beneficiaries on monthly basis.

31.2. In case, the payment of any bill for charges payable under these Regulations is delayed by a beneficiary beyond a period of 30 days from the date of billing, a late payment surcharge at the rate of 1.25% per month or part thereof on the unpaid amount shall be levied by the generating company or transmission licensee, as the case may be.”

PSPCL’s Submission

The period of applicability of late payment surcharge claimed by Transmission Company on account of transmission charges and other charges should be limited to 60 days instead of 30 days and Regulation 31 of Regulation 2014 needs to be amended accordingly in terms of applicability of charges against delayed payment in line with Regulation of CERC.

In view of the above, PSPCL has proposed the following amendment:

*“In case, the payment of any bill for charges payable under **these Regulations is delayed by a beneficiary beyond a period of 60 days from the date of billing**, a late payment surcharge at the rate of 1.25% per month or part thereof on the unpaid amount shall be levied by the generating company or transmission licensee, as the case may be.”*

Commission’s View

The Commission notes that the claim of PSPCL seems to be genuine for the reason that as per the said Regulation (Interest in Working Capital), the transmission utility is entitled to interest on

working capital consisting of receivables equivalent to two months of fixed cost calculated on normative target availability.

Further, as per existing Regulation 31.2 of PSERC MYT Regulations, 2014, the transmission utility is also entitled to claim late payment surcharge beyond 30 days but up to 60 days from the date of billing. Thus, it becomes an additional benefit on account of surcharge / interest for one month for the transmission utility.

As per CERC Regulations, 2014 (notified on 21.02.2014 for a period of five years from 01.04.2014 to 31.03.2019), Regulation 45 specifies as under:

***“45. Late payment surcharge:** In case the payment of any bill for charges payable under these regulations is delayed by a beneficiary of long term transmission customer / DIC's as the case may be, beyond a period of 60 days from the date of billing, a late payment surcharge at the rate of 1.50% per month shall be levied by the generating company or the transmission licensee, as the case may be.”*

In view of the above, **the Commission approves the proposed amendment in Regulation 31.2 for modifying the period for levy of late payment surcharge from 30 days to 60 days from the date of billing.**

It is also clarified that this proposed amendment will have no impact on Regulation 31.1.

10. REGULATION No. 36 - NORMS FOR PERFORMANCE PARAMETERS:

The existing Regulation reads as under:

“The norms for performance parameters for a generating company i.e. availability, load factor, station heat rate, specific oil consumption, auxiliary consumption etc. shall be as per the CERC norms or as determined by the Commission.....”

PSPCL’s Submissions:

The Commission fixes the various norms for performance parameters of own thermal station like Station Heat Rate, Plant Load Factor, Auxiliary consumption etc. as per provisions of CERC Regulations.

a) However in the current scenario, because of large number of start/ stops, frequent backing downs, running of Units below optimum load and poor coal quality, there has been a sharp rise in the actual heat rate for PSPCL Thermal Plants. Further, due to ageing of the thermal units the Station Heat Rate is prone to get increased. By giving due consideration for ageing of thermal Units of Punjab and their operation on account of cyclic power demand conditions of the state of Punjab the Station Heat Rate should be allowed on higher side. The main equipments thermal units are of BHEL design and make. BHEL also acknowledges the variation in heat rate of turbine due to ageing. It is further submitted that the matter regarding fixing of higher Station Heat Rate by giving due consideration to the ageing of the units has been considered by various State Electricity Regulatory Commissions. This issue also finds support in the recent issued Notification No. L-1/18/2010-CERC dated 06.04.2016 of the Central Electricity Regulatory Commission which provides for compensation in Station Heat

Rate, Auxiliary Energy (Power) Consumption and Secondary Fuel Oil Consumption under Clause 6.3B. In the circumstances, it is respectfully submitted that the SHR, Auxiliary consumption, specific oil consumption, should be allowed as per actual due to reasons mentioned above.

b) The Commission is allowing Coal Consumption by taking into account the GCV of Received Coal, which is not justified for PSPCL Thermal Stations. PSPCL plants are located very far away from the coal mines (approximately 1450 KMs for GGSSTP) and further has to maintain coal stock of 30 days as per CEA guidelines to avoid shortage of coal arising out of any situation like rail blockage/mine problem in order to supply the power to state uninterruptedly. PSPCL Plants are maintaining the coal stock accordingly and in view of less running of the plant this coal stock is further piling up. This is maintained through the year. Coal is stored/stacked in the open coal yard. This long storage of coal results in deterioration of the GCV and Station Heat Rate of the Plants is also affected due to less GCV of coal fed to the boiler. In view of above, the Coal GCV to be considered for allowing Coal Consumption should be taken that of Bunkered Coal (on as fired basis) instead of Received Coal (on as fired basis) or else a significant drop in GCV of received coal and bunkered coal may be allowed as it was allowed earlier as per the study conducted by the Commission itself.

c) The Commission should fix single value of Heat Rate for GHTP station as a whole, instead of separate heat rates for stage-I & II.

In view of above, PSPCL has requested that above regulation may be amended as under:

“The norms for performance parameters for a generating company i.e. availability, load factor, station heat rate, specific oil consumption, auxiliary consumption etc. shall be as per the CERC norms or as determined by the Commission:

Provided that a generating unit which undergoes Renovation and Modernization, the Commission shall specify a separate set of norms to be adopted during the renovation and modernization period and for the subsequent period. These norms shall be specified by the Commission on case to case basis as part of the Renovation and Modernization Capital Investment approval. Consequently, the generation tariff shall be determined accordingly by the Commission.”

Provided that, the Commission shall consider the ageing of plants while determining the performance parameters for respective generating station.

Provided that, Commission shall consider the actual performance parameters as achieved by respective plants under actual run scenario after prudent check.

Provided that for the plant which has a mixer of units with different capacities, the approved S.H.R for that plant as a whole would be the weighted average of approved heat rate of all the units of that Plant.

Provided that the Commission shall specify the relaxed performance parameters for the plants operating below the technical minimum schedule for operation as determined by CERC due to frequent stop/start after reserve outage and running of units under backing down.

Provided that the Coal GCV shall be allowed on received basis as per CERC norms. However, a significant drop in GCV

of received coal shall be allowed after prudent check by the Commission.

Commission's View:

The Commission refers to the PSERC's existing MYT Regulations which provide that, the norms for performance parameters for a generating company i.e. availability, load factor, station heat rate, specific oil consumption, auxiliary consumption etc. shall be as per the CERC norms or as determined by the Commission.....” and observes as under:

a) Ageing of the thermal units

The Commission is in agreement with the PSPCL, that ageing of the thermal units affect its operating parameters such as Station Heat Rate. So does the CERC, who determines the operating norms after considering various parameters including aging of the plants and provides different performance parameters for stations of different vintages i.e. CERC has specified separate SHR for thermal generating stations having COD prior to 01.04.2009, on/after 01.04.2009 till 31.03.2014, after 31.03.2014 and also separate SHR for vintage plants like Badarpur TPS, Talchar TPS and Tanda TPS. **The same CERC norms are being followed by PSERC. Thus, no further amendment is required to be incorporated.**

Further, regarding PSPCL's request for relaxed performance parameters for the plants operating below the technical minimum schedule for operation as notified by CERC vide 6th amendment to CERC Grid code Regulations, **the Commission observes that the CERC's amendment referred by PSPCL is amendment in the Indian Electricity Grid Code (not in Tariff Regulations) and amendments to the State Grid Code are being considered**

separately by the Commission, PSPCL may submit its proposal regarding the same, as and when, the discussion/staff paper regarding the same is published.

Further, PSPCL's prayer for acceptance of actual performance achieved by its Thermal Plants is not justifiable, as it would result in shifting of financial liability on account of lower performance of the Generating Stations on the consumers and will further breed in-efficiency.

b) Norms for GCV

CERC in its Tariff Regulations, 2014 has provided the norms for GCV on as received basis. Since, the Commission is also following CERC Tariff Regulations, PSPCL's prayer, that the Coal GCV to be considered for allowing Coal Consumption should be taken that of Bunkered Coal instead of Received Coal or else a significant drop in GCV of received coal and bunkered coal may be allowed as being allowed earlier as per the study conducted by the Commission itself, cannot be acceded to. However, it has been gathered that CERC is in process of revising its Regulations, as and when notified by CERC, the same shall be followed by the Commission.

c) For considering the Station Heat Rate (SHR) of the GHTP as a whole

The Commission notes that, CERC in its Tariff regulations provide different SHR for Thermal Stations commissioned prior to 01.04.2009 and that commissioned after 01.04.2009. **Thus, PSPCL's request to fix single value of Heat Rate for GHTP station as a whole cannot be accepted as Stage-I of GHTP was commissioned prior to 01.04.2009 and Stage-II of GHTP was commissioned after 01.04.2009. As such, they are covered**

under different provisions of CERC Tariff Regulations.

11. REGULATION 40 – Landed Cost of Fuel

The existing Regulation reads as under:

“The landed cost of fuel for the month shall include price of fuel corresponding to the grade and quality of fuel inclusive of royalty, taxes and duties as applicable, transportation cost by rail/road or any other means, and, for the purpose of computation of energy charge, and in case of coal shall be arrived at after considering normative transit and handling losses as percentage of the quantity of indigenous coal dispatched by the coal supplying company as 1.0% (one) percent or actual, whichever is less:

Provided that no transit and handling losses shall be permissible in case of coal which is priced on FOR destination basis.”

PSPCL’s Submissions:

PSPCL has submitted that its thermal stations are at farthest place from coal mines. PSPCL has observed from the past trends that the coal transit losses are inconsistent for all three plants due to the various reasons which are not within its control.

Accordingly, PSPCL prays the Commission that the above regulation may be amended as under:

“The landed cost of fuel for the month shall include price of fuel corresponding to the grade and quality of fuel inclusive of royalty, taxes and duties as applicable, transportation cost by rail/road or any other means, and, for the purpose of computation of energy charge, and in case of coal shall be arrived at after considering normative transit and handling losses as percentage of the quantity of indigenous coal dispatched by the coal supplying company as 1.0% (one) percent or on normative basis:

Provided that no transit and handling losses shall be permissible in case of coal which is priced on FOR destination basis.”

Commission’s View:

The Commission observes that, PSPCL’s request to allow transit loss of coal at ‘normative basis’ instead of allowing ‘transit loss at 1% or actual whichever is lower’, is logical. **The Commission decides to follow the norms for the same as specified in the CERC Tariff Regulations.**

12. REGULATION 45.3 – Distribution Loss

The Existing Regulation reads as under:

“The distribution licensee shall file the distribution loss trajectory in the business plan commensurate with the Capital Investment Plan for distribution business. The Commission after verification and evaluation of the same shall approve the loss trajectory for each year of the Control Period.”

PSPCL’s Submissions:

PSPCL has submitted that the existing regulation provides that the Commission shall fix the loss trajectory for each year of the control period. In this regard, it is submitted that for the loss trajectory, the actual figures for the control period as approved by the Commission may be considered and the loss trajectory for the control period may be revised and accordingly, the loss trajectory for the next control period may be fixed accordingly. Otherwise, it would be very difficult to meet with the targets as per the loss trajectory.

Accordingly, PSPCL has requested that the above regulation may be amended as under:

“The distribution licensee shall file the distribution loss trajectory in

the business plan commensurate with the Capital Investment Plan for distribution business. The Commission after verification and evaluation of the same shall approve the loss trajectory for each year of the Control Period.”

Provided that, the Commission shall review the distribution loss trajectories after the completion of each Control Period and restate the trajectory based on performance of licensee.

Commission’s View:

As per the existing regulation, the Commission is required to fix the loss trajectory for each year of the control period. While doing so, the Commission does examine the performance of the utility. As such, no amendment in the Regulation is warranted.

13. Proposal for New Regulation (Consideration of Variable cost for working out incentive/disincentive for over/ under achievement of T&D losses)

PSPCL’s Submission:

PSPCL has submitted that the Commission while calculating the amount of any incentive/disincentive takes the rate of average power purchase cost worked out by it including the fixed charges of total contracted capacity which are to be paid irrespective of quantity of power purchase and has requested that the insertion of new regulation as below may be considered:

“For incentive/disincentive, the variable cost of power purchased as approved by the commission shall be taken into consideration.”

Commission’s View:

The Commission notes that PSPCL in its previous ARR’s used to claim incentive for over achievement of T&D Losses on the basis

of average cost of power purchase and the same methodology was adopted by the Commission for calculating the incentive/disincentive in the previous Tariff Orders. However, the Commission in the Tariff Order for FY 2018-19, while truing up the costs of FY 2016-17, decided to disallow the short term power purchase to the extent of higher T&D losses of PSPCL for FY 2016-17. Now, PSPCL has submitted another methodology i.e. consideration of the variable cost of power purchase for working out the incentive/disincentive. **Since, there are different schools of thought regarding the issue, it needs wider consultation/deliberations with the various stakeholders. Moreover, the Commission has already initiated the process for revising its existing MYT Regulations to be made applicable for the 2nd MYT Control Period. PSPCL may submit its proposal along with objections /suggestions regarding the same, if any, as and when the discussion/staff paper containing draft revised Regulations are published.**

The Commission decides to amend the existing MYT Regulations to the above extent and the process of notification for the same will be initiated separately. Further, these amended Regulations shall be effective with effect from 01.10.2018 i.e. H2 of FY 2018-19.

The Petition is disposed off accordingly.

-Sd/-
(Anjuli Chandra)
Member

-Sd/-
(S.S. Sarna)
Member

-Sd/-
(Kusumjit Sidhu)
Chairperson

Chandigarh
Dated:10.07.2018