



UTTAR PRADESH ELECTRICITY REGULATORY COMMISSION

PETITION NO.: 813 of 2012

FILED BY

Kanpur Electricity Supply Company Limited

IN THE MATTER OF

PETITION FOR TRUE-UP FOR THE FINANCIAL YEARS 2000-01 TO 2007-08

Lucknow

21st May, 2013



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Before

UTTAR PRADESH ELECTRICITY REGULATORY COMMISSION

Petition No.: 813 of 2012

IN THE MATTER OF:

Petition for True-up for the financial years 2000-01 to 2007-08

And

IN THE MATTER OF:

ORDER

The Commission having deliberated upon the True-up petition and also the subsequent filings by the Petitioner, and the petition thereafter being admitted on 7th February, 2013), and having considered the views received during the public hearing held, in exercise of power vested under Sections 61, 62, 64 and 86 of the Electricity Act, 2003, hereby pass this Order signed, dated and issued on 21st May, 2013.



1. BACKGROUND AND PROCEDURAL HISTORY

1.1 BACKGROUND

1.1.1 The Uttar Pradesh Electricity Regulatory Commission (UPERC) was formed under U.P. Electricity Reform Act, 1999 by Government of Uttar Pradesh (GoUP) in one of the first steps of reforms & restructuring process of the power sector in the State. Thereafter, in pursuance of the reforms & restructuring process the erstwhile Uttar Pradesh State Electricity Board (UPSEB) was unbundled into the following three separate entities through the first reforms transfer scheme dated 14th January, 2000:

- Uttar Pradesh Power Corporation Limited (UPPCL): vested with the function of Transmission and Distribution within the State.
- Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL): vested with the function of Thermal Generation within the State
- Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL): vested with the function of Hydro Generation within the State.

1.1.2 Through another Transfer Scheme dated 15th January, 2000, assets, liabilities and personnel of Kanpur Electricity Supply Authority (KESA) under UPSEB were transferred to Kanpur Electricity Supply Company Limited (KESCO), a company registered under the Companies Act, 1956.

1.1.3 After the enactment of the Electricity Act, 2003 (EA 2003) the need was felt for further unbundling of UPPCL (responsible for both Transmission and Distribution functions) along functional lines. Therefore, the following four new distribution companies (hereinafter collectively referred to as 'Discoms') were created vide Uttar Pradesh Transfer of Distribution Undertaking Scheme, 2003 dated 12th August, 2003 to undertake distribution and supply of electricity in the areas under their respective zones specified in the scheme:



- Dakshinanchal Vidyut Vitran Nigam Limited (Agra Discom or DVVNL)
- Madhyanchal Vidyut Vitran Nigam Limited (Lucknow Discom or MVVNL)
- Pashchimanchal Vidyut Vitran Nigam Limited (Meerut Discom or PVVNL)
- Purvanchal Vidyut Vitran Nigam Limited (Varanasi Discom or PuVVNL)

1.1.4 Under this scheme, the role of UPPCL was specified as “Bulk Supply Licensee” as per the license granted by this Commission and as “State Transmission Utility” under sub-section (1) of Section 27-B of the Indian Electricity Act, 1910 as notified by the State Government.

1.1.5 Subsequently, the Uttar Pradesh Power Transmission Corporation Limited (UPPTCL), a Transmission Company (Transco), was incorporated under the Companies Act, 1956 by an amendment in the ‘Object and Name’ clause of the Uttar Pradesh Vidyut Vyapar Nigam Limited. The Transco is entrusted with the business of transmission of electrical energy to various utilities within the State of Uttar Pradesh. This function was earlier vested with UPPCL. Further, Government of Uttar Pradesh (GoUP), in exercise of power under the Section 30 of the EA 2003, vide notification No. 122/U.N.N.P/24-07 dated 18th July, 2007 notified Uttar Pradesh Power Transmission Corporation Limited as the “State Transmission Utility” of Uttar Pradesh. Subsequently, on 23rd December 2010, the Government of Uttar Pradesh notified the Uttar Pradesh Electricity Reforms (Transfer of Transmission and Related Activities Including the Assets, Liabilities and Related Proceedings) Scheme, 2010 which provided for the transfer of assets and liabilities from UPPCL to UPPTCL with effect from 1st April, 2007.

1.1.6 Thereafter, on 21st January, 2010, as the successor distribution companies of UPPCL (a deemed licensee), the Discoms which were created through the notification of the UP Power Sector Reforms (Transfer of Distribution Undertakings) Scheme, 2003 and were issued fresh distribution licenses which replaced the UP Power Corporation Ltd (UPPCL) Distribution, Retail & Bulk Supply License, 2000.



1.2 DISTRIBUTION & TRANSMISSION TARIFF REGULATIONS

1.2.1 Uttar Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Distribution Tariff) Regulations, 2006 (hereinafter referred to as the “Distribution Tariff Regulations”) were notified by the Commission on 6th October, 2006. These Regulations are applicable for the purposes of ARR filing and Tariff determination to all the distribution licensees within the State of Uttar Pradesh from FY 2007-08 onwards.

1.2.2 Similarly, the Uttar Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006 (hereinafter referred to as the “Transmission Tariff Regulations”) were notified by the Commission on 6th October, 2006. These Regulations are applicable for the purposes of ARR filing and Tariff determination of the transmission licensees within the State of Uttar Pradesh from FY 2007-08 onwards.

1.2.3 The Distribution Tariff Regulations and Transmission Tariff Regulations have been collectively referred to as ‘Tariff Regulations’ in this order.

1.2.4 Prior to the framing of the Tariff Regulations, the Commission determined the tariff of KESCO based on past trends and principles established on a case to case basis which have been recorded in each Tariff Orders.

1.3 FILING OF TRUE UP PETITION

1.3.1 The Hon’ble Appellate Tribunal for Electricity (APTEL) in its judgment dated 21st October, 2011 in Appeal No. 121 of 2010 and I.A. No. 83 of 2010 had directed this Commission to initiate the true-up exercise up to FY 2006-07 immediately in respect of the distribution companies namely DVVNL, MVVNL, PVVNL, PuVVNL, KESCO and the transmission utility namely UPPTCL.



1.3.2 Further the Commission in an order dated 29th March, 2012 in respect of hearing held on 27th March, 2012 in the matter of Aggregate Revenue Requirement (ARR) and Tariff for FY 2010-11, FY 2011-12 and FY 2012-13 by the State owned distribution companies namely – DVVNL, MVVNL, PVVNL, PuVVNL and KESCO and the state owned transmission utility namely UPPTCL, had directed the distribution and transmission licensees to file the true-up petitions up to FY 2007-08. The relevant extract of the Commission's order is reproduced below:

“The Commission also directs all the Petitioners to file individual detailed True-up Petitions up to FY 2007-08 along with copies of audited accounts accompanied with schedules and CAG report for each of the previous financial years.”

1.3.3 Accordingly, KESCO (hereinafter also referred to as the 'Petitioner') had filed a petition for True-up for the financial years 2000-01 to 2007-08 on 19th June, 2012.

1.4 PRELIMINARY SCRUTINY OF THE PETITION

1.4.1 Subsequent to receipt of the True-up petition, a preliminary scrutiny of the Petition was carried out by the Commission. Certain deficiencies were observed in the True-up application filed by the Petitioner. Hence, a detailed deficiency note was sent to the Petitioner vide Letter No. UPERC/D(T)/2012-1371 dated 18th December, 2012, directing it to provide the required information by 2nd January, 2013. Further, a reminder was sent to the Petitioner vide Letter No. UPERC/Secy./D(Tariff)/13-1570 dated 14th January, 2013, to submit the response to the deficiency note.

1.4.2 Thereafter, the Petitioner in a letter dated 17th January, 2013 had requested the Commission to grant extension of time limit by two weeks for submission of replies.



1.4.3 In response to the deficiency note, KESCO provided some of the critical data required by the Commission for acceptance / admission of the petition vide Letter No. 3083/PA(C)/ARR/True-up Petition 2000-01 to 2007-08 dated 19th January, 2013.

1.5 ADMITTANCE OF THE TRUE-UP PETITION

1.5.1 The Commission through its admittance order dated 7th February, 2013, directed the Petitioner to publish, within 3 days from the date of issue of that order, the Public Notice detailing the salient information and facts of the True-up petitions in at least two daily newspapers (one English and one Hindi) for two successive days for inviting views / objections from all stakeholders and public at large. The Commission had also directed the Petitioner to upload the response to the deficiency note on their website.

1.6 PUBLICITY OF THE PETITION

1.6.1 The Public Notice detailing the salient features of the True-up petition appeared in daily newspapers as detailed below inviting objections from the public at large and all stakeholders:

▪ The Pioneer	:	11 th February, 2013
▪ Hindustan	:	10 th February, 2013
▪ Amar Ujala (Hindi)	:	11 th February, 2013
▪ Dainik Jagran (Hindi)	:	10 th February, 2013
▪ Hindustan Times (English)	:	12 th February, 2013



2 PUBLIC HEARING PROCESS

2.1 OBJECTIVE

- 2.1.1** The Commission, in order to achieve the twin objective i.e. to observe transparency in its proceedings and functions and to protect interest of consumers has always attached importance to the views / comments / suggestions / objections / representations of the public. The process gains significant importance in a “cost plus regime”, where the entire cost allowed to the licensee gets transferred to the consumer. The consumers therefore have a locus-standi to comment on the True-up Petition filed by the licensee.
- 2.1.2** The Commission invited comments / suggestions from consumers and all other stakeholders on the True-up Petition. To provide an opportunity and to obtain feedback from the consumers and stakeholders, a public hearing was held by the Commission at Lucknow on 11th March, 2013.
- 2.1.3** No written views / suggestions / comments / objections / representations on the True-up petition were received from the public. Some oral submissions were made by Mr. Avadhesh Kumar Verma, Chairman, Uttar Pradesh Rajya Vidyut Upbhokta Parishad (UPRVUP) regarding the matter of large outstandings of the distribution companies including KESCO.
- 2.1.4** The Commission while disposing the True-up petition filed by the Petitioner has taken into consideration the oral views received from Mr. Avadhesh Kumar Verma. The Commission while disposing this True-up petition has also referred to the objections received on Petition No. 809 of 2012 and the Commission’s views on the same recorded in the Order on Petition No. 809 of 2012.



2.2 LIST OF ATTENDEES:

2.2.1 The list of persons who attended the public hearing is given below:

S No	Name	Designation	Organization
1	Mr. A.K. Arora	Resident Officer	Noida Power Company Limited (NPCL)
2	Mr. Avadhesh Kumar Verma	Chairman	UPRVUP
3	Mr. Bhushan Rastogi	Consultant	M/s Bhushan Rastogi & Associates
4	Mr. Ravindra Kumar	Chief Engineer	KESCO
5	Mr. Z.M. Farooqi	Consultant	M/s Prudential Project Syndicate



3 TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2000-01

KESCO has sought the final Truing up of expenditure and revenue for FY 2000-01 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2000-01, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

3.1 POWER PURCHASE QUANTUM AND COST FOR FY 2000-01

The Commission, in the Tariff Order for FY 2000-01, had approved a power purchase quantum of 2219 MU and total power purchase expenses of Rs. 429.89 crores. The Petitioner, in its true-up petition has submitted that the actual power purchase expenses for FY 2000-01 are Rs. 524.54 crores (including Rs. 15.30 crores towards late payment surcharge on power purchase) towards power procurement of 2368.55 MU. The actual T&D loss has been reported at 32.85% as compared to 25.19% approved by the Commission in the Tariff Order.

The Petitioner has claimed the power purchase cost under truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 25.19%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2000-01 are Rs. 470.86 crores.

The Commission has concurred with the philosophy considered by the Petitioner wherein the efficiency target of T&D loss level has been considered as controllable parameter and thereupon the power purchase cost consequent to under-achievement of T&D loss has been disallowed. In the KESCO Tariff Order for FY 2000-01, the Commission had treated



difference between the aggregate income and expenditure as the amount payable towards cost of bulk power purchased and determined the bulk supply tariff as Rs. 1.94 per kWh. Based on the trued up ARR for FY 2000-01, the difference between aggregate income and expenditure is Rs. 474.54 crores. Considering the actual power purchase quantum of 2368.55 MU, it translates to a bulk supply tariff of Rs. 2.00 per kWh. Considering the allowable power purchase quantum of 2126.16 MU and the trued up bulk supply tariff of Rs. 2.00 per kWh, the allowable power purchase cost has been assessed at Rs. 425.98 crores.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

Table 3-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2000-01

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase	MU	2219.00	2368.55	2368.55	
Energy Sales	MU	1660.00	1590.55	1590.55	1590.55
T&D Loss	%	25.19%	32.85%	32.85%	25.19%
Power Purchase Cost	Rs Crore	429.89	524.54	524.54	
Power Purchase Cost per unit	Rs/kWh	1.94	2.21	2.21	2.00
Allowable Power Purchase Input	MU			2126.16	2126.16
Allowable Power Purchase Cost at pooled cost	Rs Crore			470.86	425.98

3.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, Administrative and General (A&G) expenses and Repair and Maintenance (R&M) expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2000-01, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:



3.2.1 Employee Expenses

The Petitioner has submitted that the actual gross employee expenses for FY 2000-01 were Rs. 46.77 crores as against Rs. 37.07 crores approved by the Commission in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 0.93 crores. Thus the net employee expenses as per audited accounts are Rs. 45.84 crores as against Rs. 37.07 crores approved in the Tariff Order.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order for all the years before the formulation of the Tariff Regulations. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only from FY 2007-08 onwards after the formulation of Tariff Regulations. Thus, the Commission has approved gross employee expenses of Rs. 37.07 crores and capitalisation thereof amounting to Rs. 0.93 crores.

3.2.2 A&G Expenses

The Petitioner has submitted that the actual gross A&G expenses for FY 2000-01 were Rs. 1.35 crores as against Rs. 1.95 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 0.06 crores. Thus the net A&G expenses as per audited accounts are Rs. 1.29 crores as against Rs. 1.95 crores approved in the Tariff Order. The Petitioner has also claimed efficiency gains of Rs. 0.33 crores.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order for all years before the formulation of Tariff Regulations. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only from FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross A&G expenses of Rs. 1.35 crores and capitalisation thereof amounting to Rs. 0.06 crores.



3.2.3 Repair and Maintenance Expenses

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2000-01 were Rs. 12.01 crores as against Rs. 7.93 crores approved by the Commission in the Tariff Order.

The Commission has considered R&M expenses as controllable expenses and accordingly disallowed R&M expenses over the extent approved in the Tariff Order for all years before the formulation of Tariff Regulations. Thus, the Commission has allowed Rs. 7.93 crores towards R&M expenses.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

Table 3-2: APPROVED O&M EXPENSES FOR FY 2000-01 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	37.07	46.77	46.77	37.07
Repair & Maintenance Expenses	7.93	12.01	12.01	7.93
Administrative and General Expenses	1.95	1.35	1.68	1.35
Gross Operation and Maintenance Expenses	46.95	60.13	60.46	46.35
Less: Capitalisation				
Employee Cost Capitalized	0.00	0.93	0.93	0.93
A&G Expenses Capitalized	0.00	0.06	0.06	0.06
Total Capitalization	0.00	0.99	0.99	0.99
Net Operation and Maintenance Expenses	46.95	59.15	59.48	45.37

3.3 INTEREST AND FINANCE CHARGES

3.3.1 Interest on Long Term Loans

The Petitioner has claimed net interest expenses of Rs. 15.49 crores as against Rs. 15.40 crores approved in the Tariff Order.



Interest cost is an uncontrollable cost as the interest rate regime is determined by various external factors and the actual loans taken are consequential to the capital expenditure undertaken by the licensee.

From the audited accounts for the financial years 2000-01 to 2007-08, the Commission has derived the actual capital investments undertaken by KESCO over the true up period. The details are provided in the table below:

Table 3-3: CAPITAL INVESTMENTS FROM FY 2000-01 TO 2007-08 (Rs. Crores)

Particulars	Derivation	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening WIP as on 1st April	A	0.10	1.37	6.99	10.28	6.17	10.85	22.63	65.13
Investments	B	5.24	12.36	9.93	7.65	28.99	43.11	65.59	47.78
Employee Expenses Capitalisation	C	0.93	2.63	1.58	1.57	1.33	0.00	9.75	1.67
A&G Expenses Capitalisation	D	0.06	0.18	0.14	0.11	0.10	0.00	0.49	0.02
Interest Capitalisation	E	0.00	0.00	0.00	0.00	0.40	1.18	3.34	5.58
Total Investments	F= A+B+C+D+E	6.33	16.55	18.63	19.60	36.99	55.13	101.80	120.18
Transferred to GFA (Total Capitalisation)	G	4.96	9.56	8.36	13.43	26.15	32.50	36.67	13.01
Closing WIP	H= F-G	1.37	6.99	10.28	6.17	10.85	22.63	65.13	107.17

The normative tariff approach considers a gearing of 70:30. Considering this approach, 70% of the capital expenditure undertaken in any year would be financed through loan and balance 30% would be funded through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants would be separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner also reveal the amounts received as consumer contributions, capital subsidies and grants.

The table below summarises the amounts received towards consumer contributions, capital grants and subsidies over the period from FY 2000-01 to 2007-08:



Table 3-4: CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES RECEIVED OVER THE PERIOD FROM FY 2000-01 TO 2007-08 (Rs. Crores)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance of Consumer Contributions, Grants and Subsidies towards Cost of Capital Assets	36.79	43.27	39.68	49.23	58.18	64.69	80.69	87.91
Additions during the year	6.48	-	9.55	11.60	10.02	25.03	16.76	18.79
Less: Amortisation	-	3.59	-	13.82	16.58	19.65	23.49	27.66
Closing Balance	43.27	39.68	49.23	47.01	51.62	70.06	73.96	79.04

The financing of the capital investment is depicted in the table below:

Table 3-5: FINANCING OF THE CAPITAL INVESTMENTS FROM FY 2000-01 TO 2007-08 (Rs. Crores)

Particulars	Derivation	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Investment	A	5.24	12.36	9.93	7.65	28.99	43.11	65.59	47.78
Less:									
Consumer Contribution	B	6.48	-	9.55	11.60	10.02	25.03	16.76	18.79
Investment funded by debt and equity	C=A-B	-	12.36	0.38	-	18.97	18.08	48.83	28.99
Debt Funded	70%	-	8.65	0.26	-	13.28	12.66	34.18	20.29
Equity Funded	30%	-	3.71	0.11	-	5.69	5.42	14.65	8.70

Thus from the above tables it is seen, that KESCO has made an investment of Rs. 5.24 crores in FY 2000-01. However the consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 6.48 crores. Thus, there is no allowable long term debt for FY 2000-01.



From the information submitted by the Petitioner in response to the deficiency note, it is revealed that Rs. 15.49 crores claimed as interest on long term loan is towards interest accrued and due but not paid on Transfer Scheme loan from UPPCL of Rs. 110.00 crores. The Commission has entirely disallowed this loan of Rs. 110 crores, as till date, there has been no payment of interest and no repayment of principal component of this loan. Hence no amounts are allowed towards interest on long term loans for FY 2000-01.

3.3.2 Finance Charges

The Petitioner has claimed Rs. 32.50 crores towards finance charges as against Rs. 6.45 crores approved in the Tariff Order for FY 2000-01. The finance charges have been claimed towards items such as interest on General Provident Fund (GPF) trust, Letter of Credit (LC) charges, discount to consumers, etc.

As the discounts / rebates to consumers are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission has approved the actual expenses incurred towards discount to consumers.

Further, the interest on GPF trust, interest on consumer security deposits, etc have also been allowed based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 32.50 crores for FY 2000-01.

3.3.3 Interest on Working Capital

The Commission in the Tariff Order for FY 2000-01 had considered two and half month's sale of power as working capital requirement as reduced by

- a) Operation and Maintenance stores equivalent to 70 days R&M expenses
- b) One month of O&M expenses

An interest rate of 15% was allowed towards interest on working capital.

The Commission while determining the true-up have considered a similar philosophy and rate of interest and have computed the eligible interest on working capital based on true-up sale of power, R&M expenses and O&M expenses.



During truing up, the Commission has assessed the working capital requirement of Rs. 118.69 crores and thus approves interest on working capital of Rs. 17.80 crores as provided in the table below:

Table 3-6: APPROVED INTEREST ON WORKING CAPITAL (Rs. Crores)

Particulars	Approved in True-up
Working Capital Requirement equivalent to two and half month's sale of power	123.99
Less:	5.30
<i>O&M stores equivalent to 70 days R&M expenses</i>	1.52
<i>One month's O&M Expenses</i>	3.78
Net Working Capital	118.69
Rate of Interest on Working Capital	15.00%
Interest on Working Capital	17.80

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2000-01:

Table 3-7: APPROVED INTEREST AND FINANCE CHARGES (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
A: Interest on Long Term Loans				
Gross Interest on Long Term Loan	15.40	15.49	15.49	-
Less: Interest Capitalisation	0.00	0.00	0.00	-
Net Interest on Long Term Loans	15.40	15.49	15.49	-
B: Finance and Other Charges				
Interest on GPF Funds	-	6.77	6.77	6.77
Discount to Consumers on sale of energy	5.41	24.67	24.67	24.67
Interest on Consumer Security Deposits	1.04	1.07	1.07	1.07
Total Finance Charges	6.45	32.50	32.50	32.50
C: Interest on Working Capital	16.23	-	-	17.80



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Total (A+B+C)	38.08	47.99	47.99	50.31

3.4 PRELIMINARY EXPENSES

The Petitioner has claimed certain other expenses not specifically allowable under any head of the ARR to the tune of Rs. 0.001 crores. Such minor expenses are towards preliminary expenses.

As such expenses were not approved in the Tariff Order for FY 2000-01, the Commission has not considered such expenses for admissibility in the true-up as well.

3.5 DEPRECIATION

In the Tariff Order for FY 2000-01, the Commission had considered depreciation to the extent of Rs. 12.48 crores on a gross fixed asset base of Rs. 248 crores.

The actual depreciation expense charged in the audited accounts is Rs. 19.97 crores. However the depreciation has been computed at the rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the KESCO has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2000-01. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 20.13 crores as depicted in the table below:

Table 3-8: DEPRECIATION CLAIMED FOR FY 2000-01 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Buildings	17.73	0.00	(0.73)	18.46	7.67%	1.39
Plants & Machinery	33.77	0.51	-	34.28	7.67%	2.61



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Transformers	10.28	-	-	10.28	7.67%	0.79
Transmission Lines	188.57	3.68	0.14	192.11	7.67%	14.60
Furniture & Fixtures	-	-	0.76	0.76	7.67%	0.03
Office Equipments	10.02	0.00	4.71	5.31	7.67%	0.59
Vehicles	-	-	(3.22)	3.22	7.67%	0.12
Grand Total	260.37	4.20	1.66	264.43		20.13

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies in respect of financial years 2003-04 onwards as depicted in the table below:

Table 3-9: DEPRECIATION ON ASSETS CREATED OUT OF CONSUMER CONTRIBUTIONS, CAPITAL GRANTS AND SUBSIDIES (Rs. Crores)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Depreciation charged on assets created out of consumer contributions, capital grants and subsidies	3.86	2.76	3.07	3.83	4.18

However such details are not provided in the audited accounts for FY 2000-01, 2001-02 and 2002-03. Hence the Commission is deprived of any realistic figures in respect of depreciation charged on assets created out of consumer contribution, capital subsidies and grants. Looking at the table above, the Commission has assessed that Rs. 4.00 crores each in FY 2000-01, 2001-02 and 2002-03 should be applied as a reduction towards depreciation on assets created out of consumer contributions, capital grants and subsidies.



Thus the approved depreciation for FY 2000-01 is Rs. 16.13 crores as depicted in the table below:

Table 3-10: APPROVED DEPRECIATION FOR FY 2000-01 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	12.48	19.97	20.13	20.138
Less: Adhoc reduction towards amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy				4.00
Net Allowable Depreciation	12.48	19.97	20.13	16.13

3.6 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2000-01. In the audited financial statements for FY 2000-01, there has been recognition net prior period expense claimed is Rs. 3.54 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2000-01.

3.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Petitioner has claimed Rs. 16.34 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business



expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2000-01 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

3.8 REVENUE SIDE TRUING UP

3.8.1 NON TARIFF INCOMES

The Petitioner has submitted that the actual non-tariff income during FY 2000-01 was Rs. 3.39 crores as compared to Rs. 3.35 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

3.8.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2000-01 is Rs. 595.14 crores as compared to Rs. 545.42 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

3.9 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2000-01 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2000-01 after final truing up is summarised in the Table below:



Table 3-11: ARR FOR FY 2000-01 AFTER FINAL TRUING UP (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	429.89	524.54	470.86	425.98
Employee Expenses	37.07	46.77	46.77	37.07
Repair and Maintenance Expenses	7.93	12.01	12.01	7.93
A&G Expenses	1.95	1.35	1.68	1.35
Gross Interest on Long Term Loans	15.40	15.49	15.49	-
Finance Charges	6.45	32.50	32.50	32.50
Interest on Working Capital	16.23	-	-	17.80
Other Expenses	0.25	0.00	0.00	-
Depreciation	12.48	19.97	20.13	16.13
Prior Period Expenses	-	3.54	3.54	-
Provision for Bad and Doubtful Debts	8.93	20.81	16.34	-
Gross Expenditure	536.58	676.98	619.32	538.76
Less: Employee Capitalisation	0.00	0.93	0.93	0.93
Less: A&G Capitalisation	0.00	0.06	0.06	0.06
Less: Interest Capitalisation	-	-	-	-
Total Capitalisation	-	0.99	0.99	0.99
Net Expenditure	536.58	675.99	618.33	537.77
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	3.35	3.39	3.39	3.39
Annual Revenue Requirement	533.23	672.61	614.95	534.39
Revenue from Tariff including Delayed Payment Surcharge	545.42	595.14	595.14	595.14
GoUP Subsidy	-	-	-	-
Net Revenue Gap	-12.19	77.47	19.81	-60.75

The treatment of revenue gap for FY 2000-01 has been discussed in succeeding Section 13.



4 TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2001-02

The Petitioner has sought the final truing up of expenditure and revenue for FY 2001-02 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2001-02, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

4.1 POWER PURCHASE QUANTUM AND COST FOR FY 2001-02

The Commission, in the Tariff Order for FY 2001-02, had approved a power purchase quantum of 2400 MU and total power purchase expenses of Rs. 460.80 crores. The Petitioner, in its true-up petition has submitted that the actual power purchase expenses for FY 2001-02 are Rs. 537.15 crores (including Rs. 42.57 crores towards late payment surcharge on power purchase) towards power procurement of 2575.95 MU. The actual T&D loss has been 33.71% as compared to 31.25% approved by the Commission in the Tariff Order.

The Petitioner has claimed the power purchase cost under truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 31.25%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2001-02 are Rs. 517.94 crores.

The Commission has concurred with the philosophy considered by the Petitioner, wherein the efficiency target of T&D loss level, has been considered as controllable parameter, and thereupon the power purchase cost consequent to under-achievement of T&D loss has been disallowed. The Commission in the KESCO Tariff Order for FY 2001-02 had determined the bulk supply tariff at Rs. 1.92 per kWh with the following break-up:



		Cost (Rs. Per Unit)
1.	Cost of Power	Rs. 1.620
2.	Transmission Loss @ 5%	Rs. 0.085
3.	Cost of Transmission	Rs. 0.118
4.	Return on Capital	Rs. 0.098
5.	TOTAL	Rs. 1.921 or Rs. 1.92

The Commission in its Order on Petition No. 809 of 2012 has determined the trued up power purchase rate of Rs. 1.61 per kWh for FY 2001-02. On the basis of average trued up price of Rs. 1.61 per kWh, the cost of transmission loss per unit of energy delivered to KESCO is estimated as Rs. 0.08 per kWh. Further, as the transmission function is embedded in the UPPCL in FY 2001-02, the Commission had allocated the ARR of UPPCL among the transmission and distribution business in the ratio of 21:79. Given the fact that separate accounts for transmission and distribution business are not available for FY 2001-02, the Commission has allocated the trued up expenses of UPPCL in the same ratio of 21:79 between the transmission and distribution function. Considering this, the trued up cost of transmission has been computed at Rs. 0.12 per kWh. No return on capital has been claimed by UPPCL in Petition No. 809 of 2012.

Thus, the trued up power purchase price for KESCO has been determined as Rs. 1.82 per kWh for FY 2001-02.

Considering the allowable power purchase quantum of 2483.82 MU and the trued up power purchase rate of Rs. 1.82 per kWh, the allowable power purchase cost has been assessed at Rs. 452.96 crores.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

Table 4-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2001-02

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase	MU	2400.00	2575.95	2575.95	
Energy Sales	MU	1650.00	1707.63	1707.63	1707.63



Particulars	Unit	Tariff Order	Actual as per audited	True-up Petition	Approved
T&D Loss	%	31.25%	33.71%	31.25%	31.25%
Power Purchase Cost	Rs Crore	460.80	537.15	537.15	
Power Purchase Cost per unit	Rs/kWh	1.92	2.09	2.09	1.82
Allowable Power Purchase Input	MU			2483.82	2483.82
Allowable Power Purchase Cost at pooled cost	Rs Crore			517.94	452.96

4.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2001-02, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

4.2.1 Employee Expenses:

The Petitioner has submitted that the actual gross employee expenses for FY 2001-02 were Rs. 45.93 crores as against Rs. 48.20 crores approved by the Commission in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 2.63 crores. Thus, the net employee expenses as per audited accounts are to the tune of Rs. 43.29 crores. Actual expenses being lower than approved expenses; the Petitioner has also claimed efficiency gains of Rs. 2.45 crores.

Considering the details submitted by the Petitioner, the Commission has accepted the actual gross employee expenses for FY 2001-02 amounting to Rs.45.93 crores as per audited accounts under the truing up exercise. The capitalisation has been considered at actual as per audited accounts amounting to Rs. 2.63 crores. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only from FY 2007-08 onwards after the formulation of Tariff Regulations.



4.2.2 A&G Expenses:

The Petitioner has submitted that the actual gross A&G expenses for FY 2001-02 were Rs. 2.84 crores as against Rs. 1.70 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 0.18 crores. Thus the net A&G expenses as per audited accounts are Rs. 2.65 crores as against Rs. 1.70 crores approved in the Tariff Order.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only from FY 2007-08 onwards after the formulation of Tariff Regulations.

Thus, the Commission has approved gross A&G expenses of Rs. 1.70 crores and capitalisation thereof amounting to Rs. 0.18 crores.

4.2.3 Repair and Maintenance Expenses:

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2001-02 were Rs. 16.06 crores as against Rs. 10.52 crores approved by the Commission in the Tariff Order.

The Commission has considered R&M expenses as controllable expenses and accordingly disallowed R&M expenses over the extent approved in the Tariff Order for all years before the formulation of the Tariff Regulations. Thus, the Commission has allowed Rs. 10.52 crores towards R&M expenses.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

Table 4-2: APPROVED O&M EXPENSES FOR FY 2001-02 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
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Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	48.20	45.93	48.38	45.93
Repair & Maintenance Expenses	10.52	16.06	16.06	10.52
Administrative and General Expenses	1.70	2.84	2.84	1.70
Gross Operation and Maintenance Expenses	60.42	64.83	67.28	58.15
Less: Capitalisation				
Employee Cost Capitalized	0.00	2.63	2.63	2.63
A&G Expenses Capitalized	0.00	0.18	0.18	0.18
Total Capitalisation	0.00	2.82	2.82	2.82
Net Operation and Maintenance Expenses	60.42	62.01	64.46	55.33

4.3 INTEREST AND FINANCE CHARGES

4.3.1 Interest on Long Term Loans:

The Petitioner has claimed net interest expenses of Rs. 16.57 crores as against Rs. 13.20 crores approved in the Tariff Order.

From Table 3-3, it can be seen that the Petitioner has made a capital expenditure of Rs. 12.36 crores in FY 2001-02. Considering a debt equity ratio of 70:30, Rs. 8.65 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 3.71 through equity. Allowable depreciation has been considered as normative loan repayment.

There is no allowable opening loan as the Transfer Scheme Loan of Rs. 110.00 crores has been disallowed by the Commission as till date, there has been no payment of interest and no repayment of principal component of this loan.

Considering the aforementioned, no amounts are allowed towards gross interest on long term loans.



4.3.2 Finance Charges:

The Petitioner has claimed Rs. 19.64 crores towards finance charges as against Rs. 6.80 crores approved in the Tariff Order for FY 2001-02. The finance charges have been claimed towards items such as interest on consumer security deposits, discount to consumers, etc.

As the discounts / rebates to consumers are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred towards discount to consumers.

The interest on consumer security deposit amounting to Rs. 1.15 crores has been allowed based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 19.64 crores for FY 2001-02.

4.3.3 Interest on Working Capital:

The Commission had not allowed any amounts towards interest on working capital in the Tariff Order for FY 2001-02. Accordingly, the Commission does not allow any amounts towards interest on working capital in truing up.

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2001-02:

Table 4-3: APPROVED INTEREST AND FINANCE CHARGES (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
A: Interest on Long Term Loans				
Gross Interest on Long Term Loan	13.20	16.57	16.57	-
Less: Interest Capitalisation	-	-	-	-
Net Interest on Long Term Loans	13.20	16.57	16.57	-
B: Finance and Other Charges				
Interest on GPF Funds	5.70	-	-	-



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Bank Charges	-	0.001	0.001	0.001
Discount to Consumers on sale of energy	-	18.49	18.49	18.49
Interest on Consumer Security Deposits	1.10	1.15	1.15	1.15
Total Finance Charges	6.80	19.64	19.64	19.64
C: Interest on Working Capital	-	-	-	-
Total (A+B+C)	20.00	36.21	36.21	19.64

4.4 DEPRECIATION

In the Tariff Order for FY 2001-02, the Commission had considered depreciation to the extent of Rs. 19.17 crores on a gross fixed asset base of Rs. 262.00 crores.

The actual depreciation expense charged in the audited accounts is Rs. 20.30 crores. However the same has been computed at the depreciation rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the KESCO has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2001-02. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 20.68 crores as depicted in the table below:

Table 4-4: DEPRECIATION CLAIMED FOR FY 2001-02 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Buildings	18.46	0.22	-	18.68	7.68%	1.43
Plants & Machinery	34.28	5.42	-	39.70	7.68%	2.84
Transformers	10.28	-	-	10.28	7.68%	0.79
Transmission Lines	192.11	3.89	-	196.00	7.68%	14.90
Furniture & Fixtures	0.76	0.01	-	0.77	7.68%	0.06
Office Equipments	5.31	0.02	-	5.34	7.68%	0.41



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Vehicles	3.22	-	-	3.22	7.68%	0.25
Grand Total	264.43	9.56	-	273.99		20.68

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies in respect of financial years 2003-04 onwards. However such details are not provided in the audited accounts for FY 2000-01, 2001-02 and 2002-03. Hence the Commission is deprived of any realistic figures in respect of depreciation charged on assets created out of consumer contribution, capital subsidies and grants. Looking at the Table 3-9, the Commission has assessed that Rs. 4.00 crores in FY 2001-02 should be applied as a reduction towards depreciation on assets created out of consumer contributions, capital grants and subsidies.

Thus the approved depreciation for FY 2001-02 is Rs. 16.68 crores as depicted in the table below:

Table 4-5: APPROVED DEPRECIATION FOR FY 2001-02 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	19.17	20.30	20.68	20.68
Less: Adhoc reduction towards amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy				4.00
Net Allowable Depreciation	19.17	20.30	20.68	16.68



4.5 PRELIMINARY EXPENSES

The Petitioner has claimed preliminary expenses to the tune of Rs. 0.001 crores.

As such expenses were not approved in the Tariff Order for FY 2001-02, the Commission has not considered such expenses for admissibility in the true-up as well.

4.6 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2001-02. In the audited financial statements for FY 2001-02, there has been recognition net prior period expense claimed is Rs. -1.93 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2001-02.

4.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Petitioner has claimed Rs. 20.98 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2001-02 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of



proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

4.8 REVENUE SUBSIDY FROM GOUP

The Commission in the Tariff Order for FY 2001-02 had approved Rs. 9.00 crores towards revenue subsidy from GoUP. The Petitioner has submitted that it has not received any subsidy support from the GoUP.

The Commission does not allow any deviations in the levels of the subsidy approved in the Tariff Order. Accordingly, revenue subsidy from GoUP has been considered at Rs. 9.00 crores in the true-up as well.

4.9 REVENUE SIDE TRUING UP

4.9.1 NON TARIFF INCOMES

The Petitioner has submitted that the actual non-tariff income during FY 2001-02 was Rs. 4.42 crores as compared to Rs. 5.49 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

4.9.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2001-02 is Rs. 596.54 crores as against Rs. 598.06 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.



4.10 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2001-02 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2001-02 after final truing up is summarised in the Table below:

Table 4-6: ARR FOR FY 2001-02 AFTER FINAL TRUING UP (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	460.80	537.15	517.94	452.96
Employee Expenses	48.20	45.93	48.38	45.93
Repair and Maintenance Expenses	10.52	16.06	16.06	10.52
A&G Expenses	1.70	2.84	2.84	1.70
Gross Interest on Long Term Loans	13.20	16.57	16.57	-
Finance Charges	6.80	19.64	19.64	19.64
Interest on Working Capital	-	-	-	-
Preliminary Expenses	-	0.00	0.00	-
Depreciation	19.17	20.30	20.68	16.68
Prior Period Expenses	-	-1.93	-1.93	-
Provision for Bad and Doubtful Debts	-	36.63	20.98	-
Gross Expenditure	560.39	693.19	661.16	547.43
Less: Employee Capitalisation	-	2.63	2.63	2.63
Less: A&G Capitalisation	-	0.18	0.18	0.18
Less: Interest Capitalisation	-	-	-	-
Total Capitalisation	-	2.82	2.82	2.82
Net Expenditure	560.39	690.37	658.34	544.61
Add: Return on Equity	2.60	-	-	-
Less: Non-tariff Incomes	5.49	4.42	4.42	4.42
Annual Revenue Requirement	557.50	685.95	653.91	540.19
Revenue from Tariff including Delayed Payment Surcharge	598.06	596.54	596.54	596.54
GoUP Subsidy	9.00	-	-	9.00
Net Revenue Gap	-49.56	89.41	57.38	-65.35

The treatment of revenue gap for FY 2001-02 has been discussed in succeeding Section 13.



5 TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2002-03

The Petitioner has sought the final truing up of expenditure and revenue for FY 2002-03 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2002-03, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

5.1 POWER PURCHASE QUANTUM AND COST FOR FY 2002-03

The Commission, in the Tariff Order for FY 2002-03, had approved a power purchase quantum of 2084.20 MU and total power purchase expenses of Rs. 400.17 crores. The Petitioner, in its true-up petition has submitted that the actual power purchase expenses for FY 2002-03 are Rs. 464.63 crores (including Rs. 38.95 crores towards late payment surcharge on power purchase) towards power procurement of 2217.10 MU. The actual T&D loss has been dismal at 43.51% as compared to 35.80% approved by the Commission in the Tariff Order.

The Petitioner has claimed the power purchase cost under truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 35.80%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2002-03 are Rs. 517.94 crores.

The Commission has concurred with the philosophy considered by the Petitioner, wherein the efficiency target of T&D loss level, has been considered as controllable parameter, and thereupon the power purchase cost consequent to under-achievement



of T&D loss has been disallowed. The Commission in the KESCO Tariff Order for FY 2002-03 had determined the bulk supply tariff at Rs. 1.92 per kWh with the following break-up:

	Cost (Rs. Per Unit)
1. Cost of Power	Rs. 1.64
2. Transmission Loss @ 5%	Rs. 0.09
3. Cost of Transmission	Rs. 0.13
4. Return on Capital	Rs. 0.06
5. TOTAL	Rs. 1.92

The Commission in its Order on Petition No. 809 of 2012 has determined the trued up power purchase rate of Rs. 1.64 per kWh for FY 2002-03. On the basis of average trued up price of Rs. 1.64 per kWh, the cost of transmission loss per unit of energy delivered to KESCO is estimated as Rs. 0.09 per kWh. Further, as the transmission function is embedded in the UPPCL in FY 2002-03, the Commission had allocated the ARR of UPPCL among the transmission and distribution business in the ratio of 21.2:78.8. Given the fact that separate accounts for transmission and distribution business are not available for FY 2002-03, the Commission has allocated the trued up expenses of UPPCL in the same ratio of 21.2:78.8 between the transmission and distribution function. Considering this, the trued up cost of transmission has been computed at Rs. 0.12 per kWh. No return on capital has been claimed by UPPCL in Petition No. 809 of 2012.

Thus, the trued up power purchase price for KESCO has been determined as Rs. 1.85 per kWh for FY 2002-03.

Considering the allowable power purchase quantum of 1950.76 MU and the trued up power purchase rate of Rs. 1.85 per kWh, the allowable power purchase cost has been assessed at Rs. 360.74 crores.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

Table 5-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2002-03

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
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Particulars	Unit	Tariff Order	Actual as per audited	True-up Petition	Approved
Power Purchase	MU	2084.20	2217.10	2217.10	
Energy Sales	MU	1338.00	1252.34	1252.34	1252.34
T&D Loss	%	35.80%	43.51%	35.80%	35.80%
Power Purchase Cost	Rs Crore	400.17	464.63	464.63	
Power Purchase Cost per unit	Rs/kWh	1.92	2.10	2.10	1.85
Allowable Power Purchase Input	MU			1950.76	1950.76
Allowable Power Purchase Cost at pooled cost	Rs Crore			408.82	360.74

5.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses, and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2002-03, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

5.2.1 Employee Expenses

The Petitioner has submitted that the actual gross employee expenses for FY 2002-03 were Rs. 46.68 crores as against Rs. 45.65 crores approved by the Commission in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 1.58 crores as against Rs. 1.05 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 45.10 crores as against Rs. 44.60 crores approved in the Tariff Order.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order. The capitalisation has been considered at actual as per audited accounts. Thus, the Commission has approved gross employee expenses of Rs. 45.65 crores and capitalisation thereof amounting to Rs. 1.58 crores.



5.2.2 A&G Expenses

The Petitioner has submitted that the actual gross A&G expenses for FY 2002-03 were Rs. 2.32 crores as against Rs. 1.76 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 0.14 crores as against Rs. 0.07 crores approved in the Tariff Order. Thus the net A&G expenses as per audited accounts are Rs. 2.17 crores as against Rs. 1.69 crores approved in the Tariff Order.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order. The capitalisation has been considered at actual as per audited accounts. No efficiency gains have been allowed as the framework of sharing of efficiency gains and losses was approved by the Commission only from FY 2007-08 onwards after the formulation of Tariff Regulations. Thus, the Commission has allowed gross A&G expenses of Rs. 1.76 crores and capitalisation thereof amounting to Rs. 0.14 crores.

5.2.3 Repair and Maintenance Expenses

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2002-03 were Rs. 16.51 crores as against Rs. 10.85 crores approved by the Commission in the Tariff Order.

The Commission has considered R&M expenses as controllable expenses and accordingly disallowed R&M expenses over the extent approved in the Tariff Order. Thus, the Commission has allowed Rs. 10.85 crores towards R&M expenses.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

Table 5-2: APPROVED O&M EXPENSES FOR FY 2002-03 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	45.65	46.68	46.68	45.65



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Repair & Maintenance Expenses	10.85	16.51	16.51	10.85
Administrative and General Expenses	1.76	2.32	2.32	1.76
Gross Operation and Maintenance Expenses	58.26	65.51	65.51	58.26
Less: Capitalisation				
Employee Cost Capitalized	1.05	1.58	1.58	1.58
A&G Expenses Capitalized	0.07	0.14	0.14	0.14
Total Capitalization	1.12	1.72	1.72	1.72
Net Operation and Maintenance Expenses	57.14	63.79	63.79	56.54

5.3 INTEREST AND FINANCE CHARGES

5.3.1 Interest on Long Term Loans

The Petitioner has claimed net interest expenses of Rs. 16.88 crores as against Rs. 3.17 crores approved in the Tariff Order.

From Table 3-3, it can be seen that the Petitioner has made a capital expenditure of Rs. 9.93 crores in FY 2002-03. Further, from Table 3-4 and 3-5, it can be seen that capital investment to the tune of Rs. 9.55 crores has been done through consumer contributions, capital grants and subsidies in FY 2002-03. Thus, only Rs. 0.38 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 0.26 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 0.11 through equity. Allowable depreciation for the year has been considered as normative loan repayment.

There is no allowable opening loan as the Transfer Scheme Loan of Rs. 110.00 crores has been disallowed by the Commission as till date, there has been no payment of interest and no repayment of principal component of this loan.

Considering the aforementioned, no amounts are allowed towards gross interest on long term loans.



5.3.2 Finance Charges

The Petitioner has claimed Rs. 15.81 crores towards finance charges as against Rs. 8.59 crores approved in the Tariff Order for FY 2002-03. The finance charges have been claimed towards items such as interest on electricity duty, bank charges, discount to consumers, interest on consumer security deposits, etc.

The Commission disallows the interest on electricity duty as it a charge incidental to the delay in remitting the electricity duty to the State Government.

As the discounts / rebates to consumers are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred towards discount to consumers.

The bank charges and interest on consumer security deposits have been allowed at actual based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 8.27 crores for FY 2002-03.

5.3.3 Interest on Working Capital

The Commission had not allowed any amounts towards interest on working capital in the Tariff Order for FY 2002-03. Accordingly, the Commission does not allow any amounts towards interest on working capital in truing up.

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2002-03:

Table 5-3: INTEREST AND FINANCE CHARGES (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
A: Interest on Long Term Loans				
Gross Interest on Long Term Loan	3.17	16.88	16.88	-
Less: Interest Capitalisation	-	-	-	-
Net Interest on Long Term Loans	3.17	16.88	16.88	-



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
B: Finance and Other Charges				
Interest on Electricity Duty	-	7.53	7.53	-
Bank Charges	-	0.00	0.00	0.00
Discount to Consumers on sale of energy	7.38	6.35	6.35	6.35
Interest on Consumer Security Deposits	1.21	1.92	1.92	1.92
Total Finance Charges	8.59	15.81	15.81	8.27
C: Interest on Working Capital	-	-	-	-
Total (A+B+C)	11.76	32.69	32.69	8.27

5.4 DEPRECIATION

In the Tariff Order for FY 2002-03, the Commission had considered depreciation to the extent of Rs. 20.91 crores on a gross fixed asset base of Rs. 281.11 crores.

The actual depreciation expense charged in the audited accounts is Rs. 21.04 crores. However the depreciation has been computed at the rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the KESCO has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2002-03. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 21.36 crores as depicted in the table below:

Table 5-4: DEPRECIATION CLAIMED FOR FY 2002-03 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Buildings	18.68	-	-	18.68	7.68%	1.43
Plants & Machinery	39.70	3.76	-	43.46	7.68%	3.19
Transformers	10.28	-	-	10.28	7.68%	0.79



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Transmission Lines	196.00	4.54	-	200.54	7.68%	15.23
Furniture & Fixtures	0.77	0.02	-	0.79	7.68%	0.06
Office Equipments	5.34	0.04	-	5.38	7.68%	0.41
Vehicles	3.22	-	0.11	3.11	7.68%	0.24
Grand Total	273.99	8.36	-	282.24		21.36

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies in respect of financial years 2003-04 onwards. However such details are not provided in the audited accounts for FY 2000-01, 2001-02 and 2002-03. Hence the Commission is deprived of any realistic figures in respect of depreciation charged on assets created out of consumer contribution, capital subsidies and grants. Looking at the Table 3-6, the Commission has assessed that Rs. 4.00 crores should be applied as a reduction in FY 2002-03, towards depreciation on assets created out of consumer contributions, capital grants and subsidies.

Thus the approved depreciation for FY 2002-03 is Rs. 17.36 crores as depicted in the table below:

Table 5-5: APPROVED DEPRECIATION FOR FY 2002-03 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	20.91	21.04	21.36	21.36
Less: Adhoc reduction towards amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy				4.00
Net Allowable Depreciation	20.91	21.04	21.36	17.36



5.5 PRELIMINARY EXPENSES

The Petitioner has claimed preliminary expenses to the tune of Rs. 0.001 crores.

As such expenses were not approved in the Tariff Order for FY 2002-03, the Commission has not considered such expenses for admissibility in the true-up as well.

5.6 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2002-03. In the audited financial statements for FY 2002-03, there has been recognition net prior period expense claimed is Rs. 12.71 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2002-03.

5.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Petitioner has claimed Rs. 25.74 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2002-03 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of



proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

5.8 REVENUE SIDE TRUING UP

5.8.1 NON TARIFF INCOMES

The Petitioner has submitted that the actual non-tariff income during FY 2002-03 was Rs. 3.43 crores as compared to Rs. 35.93 crores approved by the Commission in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

5.8.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2002-03 is Rs. 488.50 crores as against Rs. 512.08 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

5.9 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2002-03 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2002-03 after final truing up is summarised in the Table below:

Table 5-6: ARR FOR FY 2002-03 AFTER FINAL TRUING UP (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	400.17	464.63	408.82	360.74
Employee Expenses	45.65	46.68	46.68	45.65
Repair and Maintenance Expenses	10.85	16.51	16.51	10.85



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
A&G Expenses	1.76	2.32	2.32	1.76
Gross Interest on Long Term Loans	3.17	16.88	16.88	-
Finance Charges	8.59	15.81	15.81	8.27
Interest on Working Capital	-	-	-	-
Preliminary Expenses	-	0.00	0.00	-
Depreciation	20.91	21.04	21.36	17.36
Prior Period Expenses	-	12.71	12.71	-
Provision for Bad and Doubtful Debts	-	36.07	25.74	-
Gross Expenditure	491.10	632.66	566.83	444.63
Less: Employee Capitalisation	1.05	1.58	1.58	1.58
Less: A&G Capitalisation	0.07	0.14	0.14	0.14
Less: Interest Capitalisation	-	-	-	-
Total Capitalisation	1.12	1.72	1.72	1.72
Net Expenditure	489.98	630.94	565.11	442.91
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	35.93	3.43	3.43	3.43
Annual Revenue Requirement	454.05	627.51	561.68	439.49
Revenue from Tariff including Delayed Payment Surcharge	512.08	488.50	488.50	488.50
GoUP Subsidy	-	-	-	-
Net Revenue Gap	-58.03	139.01	73.18	-49.02

The treatment of revenue gap for FY 2002-03 has been discussed in succeeding Section 13.



6 TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2003-04

The Petitioner has sought the final truing up of expenditure and revenue for FY 2003-04 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2003-04, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

6.1 POWER PURCHASE QUANTUM AND COST FOR FY 2003-04

The Commission, in the Tariff Order for FY 2003-04, had approved a power purchase quantum of 2023 MU and total power purchase expenses of Rs. 389.40 crores. The Petitioner, in its true-up petition has submitted that the actual power purchase expenses for FY 2003-04 are Rs. 452.92 crores towards power procurement of 2346.76 MU. The actual T&D loss has been dismal at 50.52% as compared to 32.38% approved by the Commission in the Tariff Order.

The Petitioner has claimed the power purchase cost under truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 32.38%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2003-04 are Rs. 331.41 crores.

The Commission has concurred with the philosophy considered by the Petitioner, wherein the efficiency target of T&D loss level, has been considered as controllable parameter, and thereupon the power purchase cost consequent to under-achievement of T&D loss has been disallowed. The Commission in the KESCO Tariff Order for FY 2003-04 had determined the bulk supply tariff at Rs. 1.93 per kWh with the following break-up:



	Cost (Rs. Per Unit)
1. Cost of Power	Rs. 1.65
2. Transmission Loss @ 5%	Rs. 0.09
3. Cost of Transmission	Rs. 0.15
4. Return on Capital	Rs. 0.04
5. TOTAL	Rs. 1.93

The Commission in its Order on Petition No. 809 of 2012 has determined the trued up power purchase rate of Rs. 1.46 per kWh for FY 2003-04. On the basis of average trued up price of Rs. 1.46 per kWh, the cost of transmission loss per unit of energy delivered to KESCO is estimated as Rs. 0.08 per kWh. Further, as the transmission function is embedded in the UPPCL in FY 2003-04, the Commission had allocated the ARR of UPPCL among the transmission and distribution business in the ratio of 24.2:75.8. Given the fact that separate accounts for transmission and distribution business are not available for FY 2003-04, the Commission has allocated the trued up expenses of UPPCL in the same ratio of 24.2:75.8 between the transmission and distribution function. Considering this, the trued up cost of transmission has been computed at Rs. 0.12 per kWh. No return on capital has been claimed by UPPCL in Petition No. 809 of 2012.

Thus, the trued up power purchase price for KESCO has been determined as Rs. 1.66 per kWh for FY 2003-04.

Considering the allowable power purchase quantum of 1717.16 MU and the trued up power purchase rate of Rs. 1.66 per kWh, the allowable power purchase cost has been assessed at Rs. 285.67 crores.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

Table 6-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2003-04

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase	MU	2023.00	2346.76	2346.76	
Energy Sales	MU	1368.00	1161.19	1161.19	1161.19



Particulars	Unit	Tariff Order	Actual as per audited	True-up Petition	Approved
T&D Loss	%	32.38%	50.52%	50.52%	32.38%
Power Purchase Cost	Rs Crore	389.40	452.92	452.92	
Power Purchase Cost per unit	Rs/kWh	1.92	1.93	1.93	1.66
Allowable Power Purchase Input	MU			1717.16	1717.16
Allowable Power Purchase Cost at pooled cost	Rs Crore			331.41	285.67

6.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses, and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2003-04, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

6.2.1 Employee Expenses

The Petitioner has submitted that the actual gross employee expenses for FY 2003-04 were Rs. 45.92 crores as against Rs. 44.50 crores approved by the Commission in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 1.57 crores as against Rs. 1.40 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 44.36 crores as against Rs. 43.10 crores approved in the Tariff Order.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order. The capitalisation has been considered at actual as per audited accounts. Thus, the Commission has approved gross employee expenses of Rs. 44.50 crores and capitalisation thereof amounting to Rs. 1.57 crores.



6.2.2 A&G Expenses

The Petitioner has submitted that the actual gross A&G expenses for FY 2003-04 were Rs. 3.06 crores as against Rs. 2.00 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 0.11 crores. Thus the net A&G expenses as per audited accounts are Rs. 2.94 crores as against Rs. 2.00 crores approved in the Tariff Order.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order. The capitalisation has been considered at actual as per audited accounts. Thus, the Commission has approved gross A&G expenses of Rs. 2.00 crores and capitalisation thereof amounting to Rs. 0.11 crores.

6.2.3 Repair and Maintenance Expenses

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2003-04 were Rs. 18.89 crores as against Rs. 11.90 crores approved by the Commission in the Tariff Order.

The Commission has considered R&M expenses as controllable expenses and accordingly disallowed R&M expenses over the extent approved in the Tariff Order. Thus, the Commission has allowed Rs. 11.90 crores towards R&M expenses.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

Table 6-2: APPROVED O&M EXPENSES FOR FY 2003-04 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	44.50	45.92	45.92	44.50
Repair & Maintenance Expenses	11.90	18.89	18.89	11.90
Administrative and General Expenses	2.00	3.06	3.06	2.00
Gross Operation and Maintenance	58.40	67.87	67.87	58.40



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Expenses				
Less: Capitalisation				
Employee Cost Capitalized	1.40	1.57	1.57	1.57
A&G Expenses Capitalized	0.00	0.11	0.11	0.11
Total Capitalization	1.40	1.68	1.68	1.68
Net Operation and Maintenance Expenses	57.00	66.19	66.19	56.72

6.3 INTEREST AND FINANCE CHARGES

6.3.1 Interest on Long Term Loans

The Petitioner has claimed net interest expenses of Rs. 2.00 crores in FY 2003-04.

From Table 3-3, it can be seen that the Petitioner has made a capital expenditure of Rs. 7.65 crores in FY 2003-04. Further, from Table 3-4 and 3-5, it can be seen that consumer contributions, capital grants and subsidies received during the corresponding period is Rs. 11.60 crores. Thus, there is no allowable long term debt for FY 2003-04.

There is no allowable opening loan as the Transfer Scheme Loan of Rs. 110.00 crores has been disallowed by the Commission as till date, there has been no payment of interest and no repayment of principal component of this loan.

Considering the aforementioned, no amounts are allowed towards gross interest on long term loans.

6.3.2 Finance Charges

The Petitioner has claimed Rs. 14.21 crores towards finance charges as against Rs. 1.40 crores approved in the Tariff Order for FY 2003-04. The finance charges have been claimed towards items such as interest on electricity duty, bank charges, discount to consumers, interest on consumer security deposits, etc.



The Commission disallows the interest on electricity duty as it a charge incidental to the delay in remitting the electricity duty to the State Government.

As the discounts / rebates to consumers are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred towards discount to consumers.

The bank charges and interest on consumer security deposits have been allowed at actual based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 6.47 crores for FY 2003-04.

6.3.3 Interest on Working Capital

The Commission had not allowed any amounts towards interest on working capital in the Tariff Order for FY 2003-04. Accordingly, the Commission does not allow any amounts towards interest on working capital in truing up.

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2003-04:

Table 6-3: INTEREST AND FINANCE CHARGES (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
A: Interest on Long Term Loans				
Gross Interest on Long Term Loan	-	2.00	2.00	-
Less: Interest Capitalisation	-	-	-	-
Net Interest on Long Term Loans	0.00	2.00	2.00	-
B: Finance and Other Charges				
Interest on Electricity Duty	-	7.74	7.74	-
Bank Charges	-	0.003	0.003	0.003
Discount to Consumers on sale of energy	-	4.64	4.64	4.64



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Interest on Consumer Security Deposits	1.40	1.82	1.82	1.82
Total Finance Charges	1.40	14.21	14.21	6.47
C: Interest on Working Capital	-	-	-	-
Total (A+B+C)	1.40	16.20	16.20	6.47

6.4 DEPRECIATION

In the Tariff Order for FY 2003-04, the Commission had considered depreciation to the extent of Rs. 21.70 crores on a gross fixed asset base of Rs. 298.2 crores.

The actual depreciation expense charged in the audited accounts is Rs. 17.67 crores. However the depreciation has been computed at the rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the KESCO has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2003-04. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 18.09 crores as depicted in the table below:

Table 6-4: DEPRECIATION CLAIMED FOR FY 2003-04 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Buildings	18.68	-	-	18.68	6.26%	1.17
Plants & Machinery	43.46	-	-	43.46	6.26%	2.72
Transformers	10.28	1.78	-	12.07	6.26%	0.70
Transmission Lines	200.54	10.89	-	211.43	6.26%	12.89
Furniture & Fixtures	0.79	0.02	-	0.81	6.26%	0.05
Office Equipments	5.38	0.74	-	6.11	6.26%	0.36
Vehicles	3.11	-	0.04	3.08	6.26%	0.19



Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Grand Total	282.24	13.43	-	295.63		18.09

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 3.86 crores has been reduced from the allowable depreciation.

Thus the approved depreciation for FY 2003-04 is Rs. 14.23 crores as depicted in the table below:

Table 6-5: APPROVED DEPRECIATION FOR FY 2003-04 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	21.70	21.53	18.09	18.09
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		3.86		3.86
Net Allowable Depreciation	21.70	17.67	18.09	14.23

6.5 PRELIMINARY EXPENSES

The Petitioner has claimed preliminary expenses to the tune of Rs. 0.001 crores.

As such expenses were not approved in the Tariff Order for FY 2003-04, the Commission has not considered such expenses for admissibility in the true-up as well.



6.6 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2003-04. In the audited financial statements for FY 2003-04, there has been recognition net prior period expense claimed is Rs. 36.06 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2003-04.

6.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Petitioner has claimed Rs. 27.48 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2003-04 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

6.8 REVENUE SIDE TRUING UP



6.8.1 NON TARIFF INCOMES

The Petitioner has submitted that the actual non-tariff income during FY 2003-04 was Rs. 7.47 crores.

The Commission has accepted the submission of the Petitioner, under this head.

6.8.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2003-04 is Rs. 430.08 crores as against Rs. 490.00 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

6.9 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2003-04 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2003-04 after final truing up is summarised in the Table below:

Table 6-6: ARR FOR FY 2003-04 AFTER FINAL TRUING UP (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	389.40	452.92	331.41	285.67
Employee Expenses	44.50	45.92	45.92	44.50
Repair and Maintenance Expenses	11.90	18.89	18.89	11.90
A&G Expenses	2.00	3.06	3.06	2.00
Gross Interest on Long Term Loans	0.00	2.00	2.00	-
Finance Charges	1.40	14.21	14.21	6.47
Interest on Working Capital	-	-	-	-
Preliminary Expenses	-	0.00	0.00	-
Depreciation	21.70	17.67	18.09	14.23
Prior Period Expenses	-	36.06	36.06	-



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Provision for Bad and Doubtful Debts	-	58.56	27.48	-
Gross Expenditure	470.90	649.29	497.12	364.77
Less: Employee Capitalisation	1.40	1.57	1.57	1.57
Less: A&G Capitalisation	-	0.11	0.11	0.11
Less: Interest Capitalisation	-	-	-	-
Total Capitalisation	1.40	1.68	1.68	1.68
Net Expenditure	469.50	647.61	495.44	363.09
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	-	7.47	7.47	7.47
Annual Revenue Requirement	469.50	640.13	487.96	355.61
Revenue from Tariff including Delayed Payment Surcharge	490.00	430.08	430.08	430.08
GoUP Subsidy	-	-	-	-
Net Revenue Gap	-20.50	210.05	57.88	-74.47

The treatment of revenue gap for FY 2003-04 has been discussed in succeeding Section 13.



7 TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2004-05

The Petitioner has sought the final truing up of expenditure and revenue for FY 2004-05 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2004-05, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

7.1 POWER PURCHASE QUANTUM AND COST FOR FY 2004-05

The Commission, in the Tariff Order for FY 2004-05, had approved a power purchase quantum of 2107.23 MU and total power purchase expenses of Rs. 399.70 crores. The Petitioner, in its true-up petition has submitted that the actual power purchase expenses for FY 2004-05 are Rs. 482.34 crores towards power procurement of 2318.94 MU. The actual T&D loss has been dismal at 46.67% as compared to 30.47% approved by the Commission in the Tariff Order.

The Petitioner has claimed the power purchase cost under truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 30.47%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2004-05 are Rs. 369.95 crores.

The Commission has concurred with the philosophy considered by the Petitioner, wherein the efficiency target of T&D loss level, has been considered as controllable parameter, and thereupon the power purchase cost consequent to under-achievement of T&D loss has been disallowed. The Commission in its Order on Petition No. 809 of 2012 has determined the trued up power purchase rate of Rs. 2.103 per kWh for FY



2004-05. Considering the allowable power purchase quantum of 1778.62 MU and the trued up power purchase rate of Rs. 2.103 per kWh, the allowable power purchase cost has been assessed at Rs. 373.98 crores.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

Table 7-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2004-05

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase	MU	2107.23	2318.94	2318.94	
Energy Sales	MU	1465.20	1236.71	1236.71	1236.71
T&D Loss	%	30.47%	46.67%	46.67%	30.47%
Power Purchase Cost	Rs Crore	399.70	482.34	482.34	
Power Purchase Cost per unit	Rs/kWh	1.897	2.080	2.080	2.103
Allowable Power Purchase Input	MU			1778.62	1778.62
Allowable Power Purchase Cost at pooled cost	Rs Crore			369.95	373.98

7.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses, and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2004-05, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

7.2.1 Employee Expenses

The Petitioner has submitted that the actual gross employee expenses for FY 2004-05 were Rs. 45.53 crores as against Rs. 44.60 crores approved by the Commission in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune



of Rs. 1.33 crores as against Rs. 0.70 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 44.20 crores as against Rs. 43.90 crores approved in the Tariff Order.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order. The capitalisation has been considered at actual as per audited accounts. Thus, the Commission has allowed gross employee expenses of Rs. 44.60 crores and capitalisation thereof amounting to Rs. 1.33 crores.

7.2.2 A&G Expenses

The Petitioner has submitted that the actual gross A&G expenses for FY 2004-05 were Rs. 3.24 crores as against Rs. 2.00 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 0.10 crores. Thus the net A&G expenses as per audited accounts are Rs. 3.14 crores as against Rs. 2.00 crores approved in the Tariff Order.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order. The capitalisation has been considered at actual as per audited accounts. Thus, the Commission has approved gross A&G expenses of Rs. 2.00 crores and capitalisation thereof amounting to Rs. 0.10 crores.

7.2.3 Repair and Maintenance Expenses

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2004-05 were Rs. 18.41 crores as against Rs. 11.70 crores approved by the Commission in the Tariff Order.

The Commission has considered R&M expenses as controllable expenses and accordingly disallowed R&M expenses over the extent approved in the Tariff Order. Thus, the Commission has allowed Rs. 11.70 crores towards R&M expenses.



The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

Table 7-2: APPROVED O&M EXPENSES FOR FY 2004-05 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	44.60	45.53	45.53	44.60
Repair & Maintenance Expenses	11.70	18.41	18.41	11.70
Administrative and General Expenses	2.00	3.24	3.24	2.00
Gross Operation and Maintenance Expenses	58.30	67.18	67.18	58.30
Less: Capitalisation				
Employee Cost Capitalized	0.70	1.33	1.33	1.33
A&G Expenses Capitalized	0.00	0.10	0.10	0.10
Total Capitalization	0.70	1.43	1.43	1.43
Net Operation and Maintenance Expenses	57.60	65.75	65.75	56.87

7.3 INTEREST AND FINANCE CHARGES

7.3.1 Interest on Long Term Loans

The Petitioner has submitted that it has incurred Rs. 0.40 crores towards interest on long term loan. The same has been capitalised in the audited accounts. Hence there is no net claim towards interest on long term loan in FY 2004-05.

The Commission, in this true up order has considered a normative gearing of 70:30 for funding capital investment. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be funded through equity contributions. The portion of capital expenditure financed through consumer contribution, capital subsidies and grants has been treated separately as the depreciation and interest thereon would not be charged to the consumers.



From Table 3-3, it can be seen that the Petitioner has made a capital expenditure of Rs. 28.99 crores in FY 2004-05. Further, from Table 3-4 and 3-5, it can be seen that capital investment to the tune of Rs. 10.02 crores has been done through consumer contributions, capital grants and subsidies in FY 2004-05. Thus, balance Rs. 18.97 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 13.28 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 5.69 through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate of 12.21% has been considered for computing the interest.

There is no allowable opening loan as the Transfer Scheme Loan of Rs. 110.00 crores has been disallowed by the Commission as till date, there has been no payment of interest and no repayment of principal component of this loan.

Considering the above, the gross interest on long term loan is Rs. 0.14 crores. However the same has been capitalised as done in the audited accounts. Hence, there is no net claim towards interest on long term loan.

The computations for interest on long term loan are depicted below:

Table 7-3: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2004-05 (Rs Crores)

Particulars	2004-05
Opening Loan	-
Loan Additions (70% of Investments)	13.28
Less: Repayments (Depreciation allowable for the year)	11.03
Closing Loan Balance	2.25
Weighted Average Rate of Interest (%)	12.21%
Gross Interest on long term loan	0.14
Less: Interest Capitalized	0.14
Net Interest Allowed	-

7.3.2 Finance Charges

The Petitioner has claimed Rs. 15.24 crores towards finance charges as against Rs. 1.60 crores approved in the Tariff Order for FY 2004-05. The finance charges have been claimed towards items such as interest on electricity duty, bank charges, discount to consumers, interest on consumer security deposits, etc.



The Commission disallows the interest on electricity duty as it a charge incidental to the delay in remitting the electricity duty to the State Government.

As the discounts / rebates to consumers are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred towards discount to consumers.

The bank charges and interest on consumer security deposits have been allowed at actual based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 5.86 crores for FY 2004-05.

7.3.3 Interest on Working Capital

The Commission had not allowed any amounts towards interest on working capital in the Tariff Order for FY 2004-05. Accordingly, the Commission does not allow any amounts towards interest on working capital in truing up.

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2004-05:

Table 7-4: INTEREST AND FINANCE CHARGES (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
A: Interest on Long Term Loans				
Gross Interest on Long Term Loan	10.20	0.40	0.40	0.14
Less: Interest Capitalisation	-	0.40	0.40	0.14
Net Interest on Long Term Loans	10.20	-	-	-
B: Finance and Other Charges				
Interest on Electricity Duty	-	9.38	9.38	-
Bank Charges	-	0.00	0.00	0.00
Discount to Consumers on sale of energy	-	4.14	4.14	4.14
Interest on Consumer Security Deposits	1.60	1.72	1.72	1.72



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Total Finance Charges	1.60	15.24	15.24	5.86
C: Interest on Working Capital	-	-	-	-
Total (A+B+C)	11.80	15.24	15.24	5.86

7.4 OTHER MISCELLANEOUS EXPENSES

The Petitioner has claimed certain other expenses not specifically allowable under any head of the ARR to the tune of Rs. 1.28 crores. Such minor expenses towards items such as preliminary expenses and provision for loss on obsolescence of stores, etc have been bundled together under the nomenclature of 'Other Miscellaneous Expenses'.

As such expenses were not approved in the Tariff Order for FY 2004-05, the Commission has not considered such expenses for admissibility in the true-up as well.

7.5 DEPRECIATION

In the Tariff Order for FY 2004-05, the Commission had considered depreciation to the extent of Rs. 22.10 crores on a gross fixed asset base of Rs. 293.50 crores.

The actual depreciation expense charged in the audited accounts is Rs. 10.96 crores. However the same has been computed at the rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the KESCO has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2004-05. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 13.79 crores as depicted in the table below:



Table 7-5: DEPRECIATION CLAIMED FOR FY 2004-05 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Buildings						
Residential Colonies	9.84	0.03	-	9.88	4.64%	0.46
Office Building	0.73	-	-	0.73	4.64%	0.03
Building Containing at Sub-stations	8.11	-	-	8.11	4.64%	0.38
Plants & Machinery						
Plant & Machinery	56.88	22.94	22.37	57.45	4.64%	2.65
Lines, Cables, Networks etc.	210.06	3.07	-	213.14	4.64%	9.82
Office Equipments	6.11	0.01	0.71	5.42	4.64%	0.27
Computers	0.01	0.08	-	0.09	4.64%	0.00
Furniture & Fixtures	0.81	0.01	-	0.82	4.64%	0.04
Vehicles	3.08	-	-	3.08	4.64%	0.14
Grand Total	295.63	26.15	23.08	298.70		13.79

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 2.76 crores has been reduced from the allowable depreciation.

Thus the approved depreciation for FY 2004-05 is Rs. 11.03 crores as depicted in the table below:

Table 7-6: APPROVED DEPRECIATION FOR FY 2004-05 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	22.10	13.72	13.79	13.79



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		2.76		2.76
Net Allowable Depreciation	22.10	10.96	13.79	11.03

7.6 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2004-05. In the audited financial statements for FY 2004-05, there has been recognition net prior period expense claimed is Rs. 26.30 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2004-05.

7.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Petitioner has claimed Rs. 31.25 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2004-05 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful



debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

7.8 REVENUE SIDE TRUING UP

7.8.1 NON TARIFF INCOMES

The Petitioner has submitted that the actual non-tariff income during FY 2004-05 was Rs. 9.92 crores against Rs. 32.00 crores approved in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

7.8.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2004-05 is Rs. 441.32 crores as against Rs. 527.58 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

7.9 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2004-05 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2004-05 after final truing up is summarised in the Table below:

Table 7-7: ARR FOR FY 2004-05 AFTER FINAL TRUING UP (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	399.70	482.34	369.95	373.98
Employee Expenses	44.60	45.53	45.53	44.60



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Repair and Maintenance Expenses	11.70	18.41	18.41	11.70
A&G Expenses	2.00	3.24	3.24	2.00
Gross Interest on Long Term Loans	10.20	0.40	0.40	0.14
Finance Charges	1.60	15.24	15.24	5.86
Interest on Working Capital	-	-	-	-
Other Expenses	-	1.28	1.28	-
Depreciation	22.10	10.96	13.79	11.03
Prior Period Expenses	-	26.30	26.30	-
Provision for Bad and Doubtful Debts	-	123.64	31.25	-
Gross Expenditure	491.90	727.35	525.40	449.30
Less: Employee Capitalisation	0.70	1.33	1.33	1.33
Less: A&G Capitalisation	-	0.10	0.10	0.10
Less: Interest Capitalisation	-	0.40	0.40	0.14
Total Capitalisation	0.70	1.83	1.83	1.57
Net Expenditure	491.20	725.52	523.57	447.74
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	32.00	9.92	9.92	9.92
Annual Revenue Requirement	459.20	715.59	513.64	437.81
Revenue from Tariff including Delayed Payment Surcharge	527.58	441.32	441.32	441.32
GoUP Subsidy	-	-	-	-
Net Revenue Gap	-68.38	274.28	72.33	-3.50

The treatment of revenue gap for FY 2004-05 has been discussed in succeeding Section 13.



8 TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2006-07

The Petitioner has sought the final truing up of expenditure and revenue for FY 2006-07 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2006-07, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

As no Tariff Order for FY 2005-06 was issued, no true-up computations have been submitted by the Petitioner; only the actual results for the financial year have been presented. The Commission does not allow any adjustment towards FY 2005-06, however, computations in respect of GFA, CWIP, capital investment and loan balances, etc have been approved in this section as they are integral to derive the successive year's opening balances.

8.1 POWER PURCHASE QUANTUM AND COST FOR FY 2006-07

The Commission, in the Tariff Order for FY 2006-07, had approved a power purchase quantum of 2613.37 MU and total power purchase expenses of Rs. 495.76 crores. The Petitioner, in its true-up petition has submitted that the actual power purchase expenses for FY 2006-07 are Rs. 605.06 crores towards power procurement of 2510.62 MU. The actual T&D loss has been dismal at 40.00% as compared to 30.47% approved by the Commission in the Tariff Order.

The Petitioner has claimed the power purchase cost under truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 30.47%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2006-07 are Rs. 522.13 crores.



The Commission has concurred with the philosophy considered by the Petitioner, wherein the efficiency target of T&D loss level, has been considered as controllable parameter, and thereupon the power purchase cost consequent to under-achievement of T&D loss has been disallowed. The Commission in its Order on Petition No. 809 of 2012 has determined the trued up bulk supply tariff rate of Rs. 2.315 per kWh for FY 2006-07. Considering the allowable power purchase quantum of 2166.53 MU and the trued up power purchase rate of Rs. 2.315 per kWh, the allowable power purchase cost has been assessed at Rs. 501.47 crores.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

Table 8-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2006-07

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase	MU	2613.37	2510.62	2510.62	
Energy Sales	MU	1817.00	1506.32	1506.32	1506.32
T&D Loss	%	30.47%	40.00%	40.00%	30.47%
Power Purchase Cost	Rs Crore	495.76	605.06	605.06	
Power Purchase Cost / Bulk Supply Tariff per unit	Rs/kWh	1.897	2.410	2.410	2.315
Allowable Power Purchase Input	MU			2166.53	2166.53
Allowable Power Purchase Cost at Bulk Supply Tariff	Rs Crore			522.13	501.47

8.2 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses, and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2006-07, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:



8.2.1 Employee Expenses

The Petitioner has submitted that the actual gross employee expenses for FY 2006-07 were Rs. 52.56 crores as against Rs. 48.90 crores approved by the Commission in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 9.75 crores. Thus the net employee expenses as per audited accounts are Rs. 42.81 crores as against Rs. 48.90 crores approved in the Tariff Order.

The Commission has considered gross employee expenses as controllable expenses and accordingly disallowed employee expenses over the extent approved in the Tariff Order. The capitalisation has been considered at actual as per audited accounts. Thus, the Commission has approved gross employee expenses of Rs. 48.90 crores and capitalisation thereof amounting to Rs. 9.75 crores.

8.2.2 A&G Expenses

The Petitioner has submitted that the actual gross A&G expenses for FY 2006-07 were Rs. 3.54 crores as against Rs. 2.28 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 0.49 crores. Thus the net A&G expenses as per audited accounts are Rs. 3.05 crores as against Rs. 2.28 crores approved in the Tariff Order.

The Commission has considered gross A&G expenses as controllable expenses and accordingly disallowed A&G expenses over the extent approved in the Tariff Order. The capitalisation has been considered at actual as per audited accounts. Thus, the Commission has approved gross A&G expenses of Rs. 2.28 crores and capitalisation thereof amounting to Rs. 0.49 crores.

8.2.3 Repair and Maintenance Expenses

The Petitioner has submitted that the actual repair and maintenance expenses for FY 2006-07 were Rs. 14.68 crores as against Rs. 12.47 crores approved by the Commission in the Tariff Order.



The Commission has considered R&M expenses as controllable expenses and accordingly disallowed R&M expenses over the extent approved in the Tariff Order. Thus, the Commission has allowed Rs. 12.47 crores towards R&M expenses.

The summary of the O&M expenses submitted by the Petitioner and as approved by the Commission are shown in the table below:

Table 8-2: APPROVED O&M EXPENSES FOR FY 2006-07 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Employee Expenses	48.90	52.56	55.60	48.90
Repair & Maintenance Expenses	12.47	14.68	14.68	12.47
Administrative and General Expenses	2.28	3.54	3.54	2.28
Gross Operation and Maintenance Expenses	63.65	70.78	73.82	63.65
Less: Capitalisation				
Employee Cost Capitalized	-	9.75	9.75	9.75
A&G Expenses Capitalized	-	0.49	0.49	0.49
Total Capitalization	-	10.24	10.24	10.24
Net Operation and Maintenance Expenses	63.65	60.54	63.59	53.41

8.3 INTEREST AND FINANCE CHARGES

8.3.1 Interest on Long Term Loans

The Petitioner has submitted that it has incurred Rs. 3.34 crores towards interest on long term loan. The same has been capitalised in the audited accounts. Hence there is no net claim towards interest on long term loan in FY 2006-07.

The Commission, in this true up order has considered a normative gearing of 70:30 for funding capital investment. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be funded through equity contributions. The portion of capital expenditure financed through consumer contribution, capital subsidies and grants



has been treated separately as the depreciation and interest thereon would not be charged to the consumers.

From Table 3-3, it can be seen that the Petitioner has made a capital expenditure of Rs. 65.59 crores in FY 2006-07. Further, from Table 3-4 and 3-5, it can be seen that capital investment to the tune of Rs. 16.76 crores has been done through consumer contributions, capital grants and subsidies in FY 2006-07. Thus, balance Rs. 48.83 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 34.18 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 14.65 through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate of 15.99% has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 1.96 crores. However the same has been capitalised as done in the audited accounts. Hence, there is no net claim towards interest on long term loan.

The computations for interest on long term loan are depicted below:

Table 8-3: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2006-07 (Rs Crores)

Particulars	2005-06	2006-07
Opening Loan	2.25	4.07
Loan Additions (70% of Investments)	12.66	34.18
Less: Repayments (Depreciation allowable for the year)	10.84	17.85
Closing Loan Balance	4.07	20.40
Weighted Average Rate of Interest	4.59%	15.99%
Interest on long term loan	0.14	1.96
Less: Interest Capitalized	0.14	1.96
Net Interest Charged	-	-

8.3.2 Finance Charges

The Petitioner has claimed Rs. 22.89 crores towards finance charges as against Rs. 4.02 crores approved in the Tariff Order for FY 2006-07. The finance charges have been claimed towards items such as interest on electricity duty, bank charges, discount to consumers, interest on consumer security deposits, etc.



The Commission disallows the interest on electricity duty as it a charge incidental to the delay in remitting the electricity duty to the State Government.

As the discounts / rebates to consumers are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred towards discount to consumers.

The bank charges and interest on consumer security deposits have been allowed at actual based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 9.02 crores for FY 2006-07.

8.3.3 Interest on Working Capital

The Commission had not allowed any amounts towards interest on working capital in the Tariff Order for FY 2006-07. Accordingly, the Commission does not allow any amounts towards interest on working capital in truing up.

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2006-07:

Table 8-4: INTEREST AND FINANCE CHARGES (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
A: Interest on Long Term Loans				
Gross Interest on Long Term Loan	4.10	3.34	3.34	1.96
Less: Interest Capitalisation	-	3.34	3.34	1.96
Net Interest on Long Term Loans	4.10	-	-	-
B: Finance and Other Charges				
Interest on Electricity Duty	-	13.87	13.87	-
Bank Charges	-	0.03	0.03	0.03
Discount to Consumers on sale of energy	-	5.29	5.29	5.29
Interest on Consumer Security Deposits	4.02	3.70	3.70	3.70



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Total Finance Charges	4.02	22.89	22.89	9.02
C: Interest on Working Capital	-	0.03	0.03	-
Total (A+B+C)	8.12	22.92	22.92	9.02

8.4 OTHER EXPENSES

The Petitioner has claimed certain other expenses not specifically allowable under any head of the ARR to the tune of Rs. 0.72 crores. Such minor expenses towards items such as provision for fringe benefit tax, provision for loss on obsolescence of stores, etc have been bundled together under the nomenclature of 'Other Miscellaneous Expenses'.

As such expenses were not approved in the Tariff Order for FY 2006-07, the Commission has not considered such expenses for admissibility in the true-up as well.

8.5 DEPRECIATION

In the Tariff Order for FY 2006-07, the Commission had considered depreciation to the extent of Rs. 17.75 crores on a gross fixed asset base of Rs. 332.78 crores.

The actual depreciation expense charged in the audited accounts is Rs. 10.20 crores. However the same has been computed at the rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the KESCO has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2006-07. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 21.69 crores as depicted in the table below:



Table 8-5: DEPRECIATION CLAIMED FOR FY 2006-07 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Buildings						
Residential Colonies	9.88	-	-	9.88	7.15%	0.71
Office Building	0.73	-	-	0.73	7.15%	0.05
Building Containing at Sub-stations	8.11	1.15	-	9.26	7.15%	0.62
Plants & Machinery						
Plant & Machinery	57.77	34.91	32.35	60.33	7.15%	4.22
Lines, Cables, Networks etc.	215.09	0.41	-	215.50	7.15%	15.39
Office Equipments	5.44	0.13	-	5.57	7.15%	0.39
Computers	0.11	0.01	-	0.13	7.15%	0.01
Furniture & Fixtures	0.84	0.05	-	0.89	7.15%	0.06
Vehicles	3.16	-	-	3.16	7.15%	0.23
Grand Total	301.13	36.67	32.35	305.45		21.69

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.

The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 3.83 crores has been reduced from the allowable depreciation.

Thus the approved depreciation for FY 2006-07 is Rs. 17.85 crores as depicted in the table below:

Table 8-6: APPROVED DEPRECIATION FOR FY 2006-07 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	17.75	14.04	21.69	21.69



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		3.83		3.83
Net Allowable Depreciation	17.75	10.20	21.69	17.85

8.6 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2006-07. In the audited financial statements for FY 2006-07, there has been recognition net prior period expense claimed is Rs. 0.13 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses, interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2006-07.

8.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Petitioner has claimed Rs. 39.50 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2006-07 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful



debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

8.8 REVENUE SIDE TRUING UP

8.8.1 NON TARIFF INCOMES

The Petitioner has submitted that the actual non-tariff income during FY 2006-07 was Rs. 8.87 crores against Rs. 1.25 crores approved in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.

8.8.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2006-07 is Rs. 583.30 crores as against Rs. 668.00 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

8.9 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2006-07 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2006-07 after final truing up is summarised in the Table below:

Table 8-7: ARR FOR FY 2006-07 AFTER FINAL TRUING UP (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses	495.76	605.06	522.13	501.47
Employee Expenses	48.90	52.56	55.60	48.90



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Repair and Maintenance Expenses	12.47	14.68	14.68	12.47
A&G Expenses	2.28	3.54	3.54	2.28
Gross Interest on Long Term Loans	4.10	3.34	3.34	1.96
Finance Charges	4.02	22.89	22.89	9.02
Interest on Working Capital	-	0.03	0.03	-
Other Expenses	-	0.72	0.72	-
Depreciation	17.75	10.20	21.69	17.85
Prior Period Expenses	-	0.13	0.13	-
Provision for Bad and Doubtful Debts	-	33.23	39.50	-
Gross Expenditure	585.28	746.38	684.24	593.95
Less: Employee Capitalisation	-	9.75	9.75	9.75
Less: A&G Capitalisation	-	0.49	0.49	0.49
Less: Interest Capitalisation	-	3.34	3.34	1.96
Total Capitalisation	-	13.58	13.58	12.19
Net Expenditure	585.28	732.80	670.66	581.76
Add: Return on Equity	-	-	-	-
Less: Non-tariff Incomes	1.25	8.87	8.87	8.87
Annual Revenue Requirement	584.03	723.93	661.80	572.89
Revenue from Tariff including Delayed Payment Surcharge	668.00	583.30	583.30	583.30
GoUP Subsidy	-	-	-	-
Net Revenue Gap	-83.97	140.63	78.49	-10.41

The treatment of revenue gap for FY 2006-07 has been discussed in succeeding Section 13.



9 TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2007-08

The Petitioner has sought the final truing up of expenditure and revenue for FY 2007-08 based on actual expenditure and revenue as per audited accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2007-08, and has undertaken the truing up of expenses and revenue after prudence check on the data made available by the Petitioner.

9.1 POWER PURCHASE QUANTUM AND COST FOR FY 2007-08

The Commission, in the Tariff Order for FY 2007-08, had approved a power purchase quantum of 2615.61 MU and total power purchase expenses of Rs. 668.55 crores. The Petitioner, in its true-up petition has submitted that the actual power purchase expenses for FY 2007-08 are Rs. 671.48 crores towards power procurement of 2633.27 MU. The actual T&D loss has been dismal at 40.77% as compared to 28.97% approved by the Commission in the Tariff Order.

The Petitioner has claimed the power purchase cost under truing up based on the philosophy as mentioned below:

- It has first calculated the allowable power purchase input by grossing up the actual energy sales by the approved T&D loss target of 28.97%.
- The allowable power purchase input has been multiplied by the actual pooled power purchase rate as per audited accounts to derive the allowable power purchase cost for truing up.

Thus, considering the aforementioned philosophy, the total power purchase expenses claimed by the Petitioner for FY 2007-08 are Rs. 559.94 crores.

The Commission has concurred with the philosophy considered by the Petitioner, wherein the efficiency target of T&D loss level, has been considered as controllable parameter, and thereupon the power purchase cost consequent to under-achievement of T&D loss has been disallowed. The Commission in its Order on Petition No. 809 of 2012 has determined the trued up bulk supply tariff of Rs. 2.348 per kWh for FY 2007-08.



Considering the allowable power purchase quantum of 2195.83 MU and the trued up power purchase rate of Rs. 2.348 per kWh, the allowable power purchase cost has been assessed at Rs. 515.47 crores.

The table below summarises the sales, distribution losses and energy balance, power purchase quantum and cost submitted by the Petitioner and as approved by the Commission:

Table 9-1: ENERGY BALANCE AND POWER PURCHASE COST APPROVED FOR FY 2007-08

Particulars	Unit	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase	MU	2615.61	2633.27	2633.27	
Energy Sales	MU	1857.87	1559.70	1559.70	1559.70
T&D Loss	%	28.97%	40.77%	40.77%	28.97%
Power Purchase Cost	Rs Crore	668.55	671.48	671.48	
Power Purchase Cost per unit	Rs/kWh	2.556	2.550	2.550	2.348
Allowable Power Purchase Input	MU			2195.83	2195.83
Allowable Power Purchase Cost at pooled cost	Rs Crore			559.94	515.57

9.2 TRANSMISSION CHARGES

U.P. Power Transmission Corporation Limited (UPPTCL) had commenced operations with effect from 1st April, 2007. The Commission in the Tariff Order for FY 2007-08 had approved separate bulk supply tariff and transmission tariff. Subsequently, the Commission in Order on Petition No. 809 of 2012 has trued up the transmission tariff to Rs. 0.1355 per kWh.

Accordingly, the transmission charges to the tune of Rs. 29.75 crores (2195.83 MU @ Rs. 0.1355 per kWh) are being allowed in the true-up.



9.3 O&M EXPENSES

Operation and Maintenance (O&M) expenses comprise of employee related costs, A&G expenses, and R&M expenditure. The Petitioner's submissions on each of the heads of O&M expenditure for FY 2007-08, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed below:

9.3.1 The Petitioner's Submissions:

The Petitioner has submitted that the actual gross employee expenses for FY 2007-08 were Rs. 92.31 crores as against Rs. 59.53 crores approved by the Commission in the Tariff Order. The employee expenses capitalised as per audited accounts are to the tune of Rs. 1.67 crores as against Rs. 8.93 crores approved in the Tariff Order. Thus the net employee expenses as per audited accounts are Rs. 90.64 crores as against Rs. 50.60 crores approved in the Tariff Order.

Further, the Petitioner has submitted that the actual gross A&G expenses for FY 2007-08 were Rs. 3.79 crores as against Rs. 9.85 crores approved by the Commission in the Tariff Order. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 0.02 crores as against Rs. 1.48 crores approved in the Tariff Order. Thus the net A&G expenses as per audited accounts are Rs. 3.77 crores as against Rs. 8.37 crores approved in the Tariff Order. Actual expenses being lower than approved expenses, the Petitioner has also claimed efficiency gains to the tune of Rs. 2.30 crores.

The actual repair and maintenance expenses for FY 2007-08 were Rs. 31.39 crores as against Rs. 10.79 crores approved by the Commission in the Tariff Order.

The summary of the O&M expenses approved in the Tariff Order for FY 2007-08 vis-à-vis the actual O&M expenditure is shown in the table below:

Table 9-2: ACTUAL O&M EXPENSES FOR FY 2007-08 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition
Employee Expenses	59.53	92.31*	92.31*
Repair & Maintenance Expenses	10.79	31.39	31.39



Particulars	Tariff Order	Actual as per audited accounts	True-up Petition
Administrative and General Expenses	9.85	3.79	6.09
Gross Operation and Maintenance Expenses	80.17	127.49	129.79
Less: Capitalisation			
Employee Cost Capitalized	8.93	1.67	1.67
A&G Expenses Capitalized	1.48	0.02	0.02
Total Capitalization	10.41	1.69	1.69
Net Operation and Maintenance Expenses	69.76	125.80	128.10

* Gross employee expenses of Rs. 92.31 crores includes 'provision for arrear payment consequent to 6th pay revision' amounting to Rs. 37.97 crores. The details of the same have been provided by the Petitioner through an additional submission dated 10th May, 2013. A chartered accountant certificate has also been furnished by the Petitioner in this regard.

9.3.2 The Commission's Analysis:

The Tariff Regulations provide that the O&M expenses for the base year i.e., FY 2007-08 shall be calculated on the basis of historical / audited costs and past trends during the preceding five years. However, any abnormal variation during the preceding five years shall be excluded. For years subsequent to the base year, the O&M expenses for the base year would be escalated at inflation rates notified by the Central Government for different years. The inflation rate for above purpose shall be the weighted average of Wholesale Price Index and Consumer Price Index in the ratio of 60:40. Further incremental O&M expenses for the ensuing financial year (nth year) shall be allowed @ 2.50% of capital addition during the current year (n-1).

The table below provides the details of the O&M expenses for the FY 2007-08 along with the preceding five years.

Table 9-3: ACTUAL O&M EXPENSES FROM FY 2002-03 TO 2007-08 (Rs Crores)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	CAGR
Employee Expenses	46.68	45.92	45.53	45.72	52.56	54.34	3.09%
R&M Expenses	16.51	18.89	18.41	17.11	14.68	31.39	13.71%
A&G Expenses	2.32	3.06	3.24	3.60	3.54	3.79	10.35%



Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	CAGR
Gross O&M Expenses	65.51	67.87	67.18	66.42	70.78	89.52	6.44%
Less: Capitalisation							
Employee Cost Capitalized	1.58	1.57	1.33	2.22	9.75	1.67	1.19%
A&G Expenses Capitalized	0.14	0.11	0.10	0.12	0.49	0.02	-32.38%
Total Capitalization	1.72	1.68	1.43	2.34	10.24	1.69	-0.30%
Net O&M Expenses	63.79	66.19	65.75	64.09	60.54	87.83	6.60%
Abnormal Expenses:							
<i>Provision for Arrear payment due to Pay Revision</i>						37.97	
Net O&M as per audited accounts	63.79	66.19	65.75	64.09	60.54	125.80	

The Commission has analysed the actual O&M expenses of the Petitioner for the base year 2007-08, along with the preceding five years i.e., from FY 2002-03 to 2006-07. The normal O&M expenses (Excluding 'provision for arrear payment consequent to 6th pay revision') have grown at a CAGR of 6.60% over the period FY 2002-08 which is reflective of the normal inflation index over such period. The 'provision for arrear payment consequent to 6th pay revision' amounting to Rs. 37.97 crores is an abnormal item and has been treated separately.

Given this background, the Commission approves net O&M expenses of Rs. 87.83 crores for FY 2007-08 in line with audited accounts. Further, the 'provision for arrear payment consequent to 6th pay revision' amounting to Rs. 37.97 crores is allowed separately as it is uncontrollable in nature.

9.4 INTEREST AND FINANCE CHARGES

9.4.1 Interest on Long Term Loans



The Petitioner has submitted that it has incurred Rs. 5.58 crores towards interest on long term loans. The same has been capitalised in the audited accounts. Hence there is no net claim towards interest on long term loan in FY 2007-08.

The Commission, in this true up order has considered a normative gearing of 70:30 for funding capital investment. Considering this approach, 70% of the capital expenditure undertaken in any year has been considered to be financed through loan and balance 30% has been considered to be funded through equity contributions. The portion of capital expenditure financed through consumer contribution, capital subsidies and grants has been treated separately as the depreciation and interest thereon would not be charged to the consumers.

From Table 3-3, it can be seen that the Petitioner has made a capital expenditure of Rs. 47.78 crores in FY 2007-08. Further, from Table 3-4 and 3-5, it can be seen that capital investment to the tune of Rs. 18.79 crores has been done through consumer contributions, capital grants and subsidies in FY 2007-08. Thus, balance Rs. 28.99 crores have been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 20.29 crores or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 8.70 through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average rate of 9.79% has been considered for computing the interest.

Considering the above, the gross interest on long term loan is Rs. 1.76 crores. However the same has been capitalised as done in the audited accounts. Hence, there is no net claim towards interest on long term loan.

The computations for interest on long term loan are depicted below:

Table 9-4: APPROVED INTEREST ON LONG TERM LOAN FOR FY 2007-08 (Rs Crores)

Particulars	2004-05	2005-06	2006-07	2007-08
Opening Loan	-	2.25	4.07	20.40
Loan Additions (70% of Investments)	13.28	12.66	34.18	20.29
Less: Repayments (Depreciation allowable for the year)	11.03	10.84	17.85	20.50
Closing Loan Balance	2.25	4.07	20.40	20.20
Weighted Average Rate of Interest	12.21%	4.59%	15.99%	9.79%
Interest on long term loan	0.14	0.14	1.96	1.99
Less: Interest Capitalized	0.14	0.14	1.96	1.99



Particulars	2004-05	2005-06	2006-07	2007-08
Net Interest Charged	-	-	-	-

9.4.2 Finance Charges

The Petitioner has claimed Rs. 22.65 crores towards finance charges as against Rs. 7.38 crores approved in the Tariff Order for FY 2007-08. The finance charges have been claimed towards items such as interest on electricity duty, bank charges, discount to consumers, interest on consumer security deposits, etc.

The Commission disallows the interest on electricity duty as it a charge incidental to the delay in remitting the electricity duty to the State Government.

As the discounts / rebates to consumers are based on the charges and rates approved in the Rate Schedule and are consequent to the consumption pattern of different consumer categories, the Commission approves the actual expenses incurred towards discount to consumers.

The bank charges and interest on consumer security deposits have been allowed at actual based on audited accounts.

Thus, the Commission has approved finance charges amounting to Rs. 6.50 crores for FY 2007-08.

9.4.3 Interest on Working Capital

The Distribution Tariff Regulations provides for the normative interest on working capital based on the methodology outlined in the Regulations. In the Tariff Order for FY 2007-08, the Commission had allowed Rs. 4.77 crores towards interest on working capital. The Commission in this Order has assessed the working capital and interest thereon based on the trued up ARR of the Petitioner.

The Commission has approved Rs. 3.89 crores towards interest on working capital for FY 2007-08 as computed in the tables below:

Table 9-5: APPROVED INTEREST ON WORKING CAPITAL

S. No	Particulars	Rs Crore
1	One month's O & M Expenses	7.32



S. No	Particulars	Rs Crore
2	One-twelfth of the sum of the book value of materials in stores at the end of each month of such financial year.	1.34
3	Receivables equivalent to 60 days average billing on consumers	96.94
	Grand Total	105.60
Less:		
4	Total Security Deposits by the Consumers reduced by Security Deposits under section 47(1)(b) of the Electricity Act 2003	74.46
	Net Working Capital	31.15
	Rate of Interest on Working Capital	12.50%
	Interest on Working Capital	3.89

The following table summarises the interest and finance charges submitted by the Petitioner as against those approved by the Commission for FY 2007-08:

Table 9-6: INTEREST AND FINANCE CHARGES (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
A: Interest on Long Term Loans				
Gross Interest on Long Term Loan	8.54	5.58	5.58	1.99
Less: Interest Capitalisation	1.97	5.58	5.58	1.99
Net Interest on Long Term Loans	6.57	-	-	-
B: Finance and Other Charges				
Interest on Electricity Duty	-	16.15	16.15	-
Bank Charges	0.15	0.29	0.29	0.29
Discount to Consumers on sale of energy	2.29	2.80	2.80	2.80
Interest on Consumer Security Deposits	4.94	3.41	3.41	3.41
Total Finance Charges	7.38	22.65	22.65	6.50
C: Interest on Working Capital				
	4.77	0.18	0.18	3.89
Total (A+B+C)	18.72	22.83	22.83	10.39



9.5 DEPRECIATION

In the Tariff Order for FY 2007-08, the Commission had considered depreciation to the extent of Rs. 32.23 crores on a gross fixed asset base of Rs. 444.95 crores.

The actual depreciation expense charged in the audited accounts is Rs. 10.05 crores. However the same has been computed at the rates prescribed by the Companies Act, 1956.

For the purposes of computing the eligible depreciation expense in the true-up petition, the KESCO has computed the depreciation expense on the actual GFA base and at the rates approved by the Commission in the Tariff Order for FY 2007-08. Considering this philosophy, the entitlement towards depreciation has been computed by the Petitioner at Rs. 24.67 crores as depicted in the table below:

Table 9-7: DEPRECIATION CLAIMED FOR FY 2007-08 (Rs. Crores)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	True-up Petition
Buildings						
Residential Colonies	9.88	0.08	-	9.95	7.91%	0.78
Office Building	0.73	-	-	0.73	7.91%	0.06
Building Containing at Sub-stations	9.26	-	0.08	9.18	7.91%	0.73
Plants & Machinery		-	-	-		
Plant & Machinery	60.33	6.42	-	66.75	7.91%	5.03
Lines, Cables, Networks etc.	215.50	6.44	-	221.94	7.91%	17.30
Office Equipments	5.57	0.02	-	5.59	7.91%	0.44
Computers	0.13	0.04	-	0.17	7.91%	0.01
Furniture & Fixtures	0.89	0.01	-	0.90	7.91%	0.07
Vehicles	3.16	-	-	3.16	7.91%	0.25
Grand Total	305.45	13.01	0.08	318.38		24.67

The Commission concurs with the aforementioned philosophy of computing the depreciation for true-up purposes. However the Petitioner has not considered reduction of depreciation charged on assets created out of consumer contributions, capital grants and subsidies.



The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to Rs. 4.18 crores has been reduced from the allowable depreciation.

Thus the approved depreciation for FY 2007-08 is Rs. 20.50 crores as depicted in the table below:

Table 9-8: APPROVED DEPRECIATION FOR FY 2007-08 (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Gross Allowable Depreciation	32.23	14.23	24.67	24.67
Less: Equivalent amount of depreciation on assets acquired out of the consumer contribution and GoUP Subsidy		4.18		4.18
Net Allowable Depreciation	32.23	10.05	24.67	20.50

9.6 OTHER EXPENSES

The Petitioner has claimed certain other expenses towards provision for fringe benefit tax not specifically allowable under any head of the ARR to the tune of Rs. 0.03 crores.

As such expenses were not approved in the Tariff Order for FY 2007-08, the Commission has not considered such expenses for admissibility in the true-up as well.

9.7 PRIOR PERIOD EXPENSES

The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the audited accounts for FY 2007-08. In the audited financial statements for FY 2007-08, there has been recognition net prior period expense claimed is Rs. 0.67 crores.

Prior period expenses and incomes are the outcomes of omissions / errors in recording the transactions in the accounting statements. The items booked under the prior period expenses are essentially ARR items like power purchase expenses, O&M expenses,



interest and finance charges, etc. Each item of ARR has a distinct methodology of treatment in the ARR and true-up determination. In the absence of clarity and details of each item booked under prior period expenses with respect to the financial year to which they pertain, the Commission has not allowed any claims towards such items for FY 2007-08.

9.8 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Petitioner has claimed Rs. 42.51 crores towards provision for bad and doubtful debts which has been computed at 2% of the closing revenue receivables as per audited accounts. The Petitioner has submitted that such expenses are legitimate business expenses and are an accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The Commission in the Tariff Order for FY 2007-08 had disallowed the claims towards provision for bad and doubtful debts due to the absence of a clear policy and procedure for identifying and writing off receivables. Any provisioning towards bad and doubtful debts needs to be backed up with processes to identify consumers who are not paying up and then making adequate attempts to collect from such consumers. In the absence of proper policy in place for identifying and writing off receivables, the Commission disallows the claims towards provision for bad and doubtful debts.

9.9 REVENUE SIDE TRUING UP

9.9.1 NON TARIFF INCOMES

The Petitioner has submitted that the actual non-tariff income during FY 2007-08 was Rs. 15.18 crores against Rs. 2.89 crores approved in the Tariff Order.

The Commission has accepted the submission of the Petitioner, under this head.



9.9.2 REVENUE FROM SALE OF POWER

The Petitioner has submitted that the actual revenue from sale of power during FY 2007-08 is Rs. 581.67 crores as against Rs. 705.92 crores approved in the Tariff Order.

The Commission has accepted the revenue from sale of power as submitted by the Petitioner.

9.10 AGGREGATE REVENUE REQUIREMENT AND REVENUE GAP / (SURPLUS) FOR FY 2007-08 AFTER TRUING UP

The Aggregate Revenue Requirement for FY 2007-08 after final truing up is summarised in the Table below:

Table 9-9: ARR FOR FY 2007-08 AFTER FINAL TRUING UP (Rs. Crores)

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Power Purchase Expenses including Transmission Charges	668.55	671.48	559.94	545.33
Employee Expenses	59.53	92.31	92.31	54.34
Repair and Maintenance Expenses	10.79	31.39	31.39	31.39
A&G Expenses	9.85	3.79	6.09	3.79
Gross Interest on Long Term Loans	8.54	5.58	5.58	1.99
Finance Charges	7.38	22.65	22.65	6.50
Interest on Working Capital	4.77	0.18	0.18	3.89
Depreciation	32.23	10.05	24.67	20.50
Prior Period Expenses	-	0.67	0.67	-
Other Misc Expenses	-	0.04	0.04	-
Provision for Bad and Doubtful Debts	-	22.61	42.51	-
Gross Expenditure	801.64	860.74	786.02	667.72
Less: Employee Capitalisation	8.93	1.67	1.67	1.67
Less: A&G Capitalisation	1.48	0.02	0.02	0.02
Less: Interest Capitalisation	1.97	5.58	5.58	1.99
Total Capitalisation	12.38	7.27	7.27	3.68
Net Expenditure	789.26	853.47	778.75	664.04



Order on True-up for FY 2000-01 to 2007-08

Particulars	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
Less: Non-tariff Incomes	2.89	15.18	15.18	15.18
Annual Revenue Requirement	786.37	838.30	763.58	648.86
Revenue from Tariff including Delayed Payment Surcharge	705.92	581.67	581.67	581.67
Net Revenue Gap	80.45	256.63	181.91	67.20

The treatment of revenue gap for FY 2007-08 has been discussed in succeeding Section 13.



10 REVENUE GAPS AFTER TRUING UP

10.1 YEAR WISE REVENUE GAPS / (SURPLUS)

The Commission has detailed the truing up exercise in the aforementioned sections. The overall revenue gaps / (surplus) of KESCO over the period FY 2000-01 to 2007-08 combined together is depicted in the table below:

Table 10-1: YEAR WISE REVENUE GAPS/ (SURPLUS) FOR KESCO

(Rs. Crores)				
Year	Tariff Order	Actual as per audited accounts	True-up Petition	Approved
FY 2000-01	-12.19	77.47	19.81	-60.75
FY 2001-02	-49.56	89.41	57.38	-65.35
FY 2002-03	-58.03	139.01	73.18	-49.02
FY 2003-04	-20.50	210.05	57.88	-74.47
FY 2004-05	-68.38	274.28	72.33	-3.50
FY 2005-06		Not Applicable		
FY 2006-07	-83.97	140.63	78.49	-10.41
FY 2007-08	80.45	256.63	181.91	67.20
Total	-212.17	1187.48	540.97	-196.31

Thus, after final truing up, of the financial years 2000-01 to 2007-08, there is a net revenue surplus of Rs. 196.31.



11 CARRYING COST

The Petitioner's Submissions:

The Petitioner has submitted that it is eligible for carrying cost on the under-recovered amount upon final truing up; as such amounts are in the nature of deferred payments. To support its contention it has quoted the reference of the APTEL judgment in Appeal No. 117 of 2008. The Petitioner has computed the carrying cost on the yearly under-recovered amounts based on the applicable SBI PLR rate approved in relevant Tariff Orders of this Commission.

Accordingly, the Petitioner has sought a carrying cost of Rs. 402.97 crores upon a projected revenue gap of Rs. 540.97 crores.

The Commission's Analysis:

The Commission has assessed a revenue surplus of Rs. 196.31 crores instead of a revenue gap projected by the Petitioner. Hence the claim towards carrying cost does not arise. On the contrary, the excess ARR claimed by the KESCO would be clawed back along with carrying cost from future years ARR.

The Commission would decide on the issue of carrying cost while approving the mechanism and time period for recovery of true up amounts as described in Section 13.



12 DIRECTIVES

This Section deals with the Commission's directives to the Petitioner under the present True-up Order along with the time frame for compliance

TABLE 12-1: DIRECTIVES

S. N	Description of Directive	Time Period for compliance from the date of issue of the True-up Order
1	The Commission directs the Petitioner to formulate a policy for identifying and writing off fictitious arrears and submit a copy of such report before the Commission.	Within 6 months
2	The Commission directs the Petitioner to provide the break-up and details of each item booked under prior period expenses with respect to the financial year to which they pertain failing which no claims under this head would be considered	Along with the next True-up Petition.
3	The Petitioner is directed to provide the details pertaining to the accumulated regulatory depreciation claimed on each class of asset.	Along with the next True-up Petition.
4	<p>The Commission in its Letter No. UPERC/D(T)/2013-1670 dated 4th February, 2013 had directed the UPPTCL to furnish true up related information in tariff formats in respect of Petition No. 849 of 2012.</p> <p>The Petitioner is directed to furnish the true up information based on audited accounts for FY 2007-08 as well in a similar manner.</p>	Within 1 month



13 TREATMENT OF THE REVENUE SURPLUS AND WAY FORWARD

The entire amount of net recoverable surplus subsequent to final truing up of FY 2000-01 to 2007-08, amounting to Rs. 196.31 crores would be adjusted with the amount of the Aggregate Revenue Requirement of KESCO for the year 2013-14 or that for any other ensuing year or through a separate order, as may be decided by the Commission.

The decision of the Commission in this regard will be given in the Tariff Order of KESCO for the year 2013-14 or that for any other ensuing year or in a separate order.

(Meenakshi Singh)

Member

(Shree Ram)

Member

Dated: 21st May, 2013

Lucknow