UTTAR PRADESH ELECTRICITY REGULATORY COMMISSION

PETITION NO.: 894/2013 & 916/2013

IN THE MATTER OF

REVIEW FOR REVISION OF TRUE UP FOR FY 2008-09 TO FY 2010-11 AND TRANSMISSION TARIFF FOR FY 2013-14 APPROVED IN ORDER DATED 31ST MAY, 2013 IN PETITION NOS. 01/2013, 849/2012 AND 883/2012

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DETERMINATION OF ANNUAL REVENUE REQUIREMENT (ARR) AND TARIFF FOR FY 2014-15 ALONG WITH TRUE UP FOR FY 2011-12

OF

UTTAR PRADESH POWER TRANSMISSION CORPORATION LIMITED

ORDER UNDER SECTION 64 OF THE ELECTRICITY ACT, 2003

1st October, 2014

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UTTAR PRADESH ELECTRICITY REGULATORY COMMISSION

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DETERMINATION OF ANNUAL REVENUE REQUIREMENT (ARR) AND TARIFF FOR FY 2014-15 ALONG WITH TRUE UP FOR FY 2011-12

And

IN THE MATTER OF:

Uttar Pradesh Power Transmission Corporation Limited, Lucknow (UPPTCL)

<u>ORDER</u>

The Commission, having deliberated upon the above Petitions and also the subsequent filings by the Petitioner, and the Petitions thereafter being admitted on 3rd June, 2014, and having considered the views/comments/suggestions/objections/representations received from the stakeholders during the course of the above proceedings and also in the Public Hearings held, in exercise of powers vested under Sections 61, 62, 64 and 86 of the Electricity Act, 2003 (hereinafter referred to as 'the Act'), hereby passes this Order signed, dated and issued on 1st October, 2014. The Petitioner, in accordance with Regulation 139 of the Uttar Pradesh Electricity Regulatory Commission (Conduct of Business) Regulations, 2004, shall publish the approved Tariff within three days from the date of this Order. The Tariff so published shall become the notified Tariff and shall come into force after seven days from the date of such publication of the Tariff, and unless amended or revoked, shall continue to be in force till the issuance of the next Tariff Order.

1. BACKGROUND AND PROCEDURAL HISTORY

1.1 BACKGROUND

1.1.1 The Uttar Pradesh Electricity Regulatory Commission (hereinafter referred to as the 'UPERC' or 'the Commission') was formed under U.P. Electricity Reform Act, 1999 by the Government of Uttar Pradesh (GoUP) in one of the first steps of reforms and restructuring process of the power sector in the State. Thereafter, in pursuance of the reforms and 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 the Commission and as "State Transmission Utility" under sub-section (1) of Section 27-B of the Indian Electricity Act, 1910.

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 started functioning with effect from 26th July, 2006 and 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 powers vested under Section 30 of the Electricity Act, 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 were issued fresh distribution licenses, which replaced the UP Power Corporation Ltd (UPPCL) Distribution, Retail & Bulk Supply License, 2000.

1.1.7 UPPTCL is entrusted with the responsibilities of planning and development of an efficient and economic intra-State transmission system, providing connectivity and allowing open access for use of the intra-State transmission system in coordination, among others, licensees and generating companies. In doing so, it is guided by the provisions of the UP Electricity Grid Code, 2007, UPERC (Terms and Conditions for Open Access) Regulations, 2004, and UPERC (Grant of Connectivity to intra-State Transmission System) Regulations, 2010 as amended from time to time.

1.1.8 The Government of Uttar Pradesh (GoUP), in exercise of the powers vested under Section 31 of the Electricity Act, 2003, vide Notification No. 78/24-U.N.N.P.-11-525/08 dated 24th January, 2011 notified the "Power System Unit" as the "State Load Despatch Centre" of Uttar Pradesh for the purpose of exercising the powers and discharging the functions under Part V of the Electricity Act, 2003. SLDC shall be operated by the Uttar Pradesh Power Transmission Corporation Ltd., in its capacity as the State Transmission Utility. SLDC shall be the apex body to ensure integrated operation of the power system in the State.

1.2 TRANSMISSION TARIFF REGULATIONS

1.2.1 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.

2. PROCEDURAL HISTORY

2.1 REVIEW PETITION FILED BY THE PETITIONER

2.1.1 The Commission, vide its Order dated 31st May, 2013, approved the Annual Revenue Requirement and Tariff for UPPTCL for FY 2013-14. In the said Order, the Commission also approved the true up for FY 2008-09, FY 2009-10 and FY 2010-11. In accordance with Regulation 150 of the Uttar Pradesh Electricity Regulatory Commission (Conduct of Business) Regulations, 2004 application for review of any decision, direction or order by the Commission can be filed within 90 days of issuing such decision, direction or order by the Commission. UPPTCL filed a Petition for review of true up for FY 2008-09, FY 2009-10 and FY 2010-11 and Transmission Tariff for FY 2013-14 approved by the Commission in the above said Order on 26th June, 2013 (Petition No. 894/2013). The Commission after deliberating on the merits of the filings, admitted the Petition vide the admittance Order dated 3rd June, 2014.

2.2 ARR & TARIFF PETITION FILING BY UPPTCL

2.2.1 In accordance with Regulation 2.1.1 of the Transmission Tariff Regulations, the Transmission Licensees' are required to file their ARR / Tariff Petitions before the Commission latest by 30th November each year so that the Tariff can be determined and be made applicable for the subsequent financial year.

2.2.2 The ARR / Tariff Petition for FY 2014-15 was filed by UPPTCL under Section 64 of the Electricity Act, 2003 on 29th November, 2013 (Petition No. 916/2013).

2.3 PRELIMINARY SCRUTINY OF THE PETITIONS

2.3.1 A preliminary analysis of the ARR & Tariff Petition was conducted by the Commission, wherein it was observed that UPPTCL has submitted the provisional accounts for FY 2012-13 and audited accounts for FY 2011-12 without the supplementary audit report of the Comptroller and Auditor

General of India (CAG). The need for submission of audited accounts was also reaffirmed in the Judgment of Hon'ble Appellate Tribunal for Electricity (Hon'ble ATE) dated 21st October, 2011 in Appeal No. 121 of 2010 in the Petitioner's case.

2.3.2 A deficiency note was issued by the Commission on 22nd February, 2014, seeking clarifications on issues in regard to the Petitions filed by the Petitioner. The Commission granted time to respond on the deficiency note by 3rd March, 2014.

2.3.3 The Petitioner replied to some of the queries raised in the deficiency note on 21st March, 2014 and sought additional time for replying to other queries. Subsequently, on 4th April, 2014, 17th April, 2014 and 9th May, 2014, the Petitioner submitted the response to the datagaps raised by the Commission. The Petitioner submitted the supplementary audit report of the CAG for FY 2011-12. The Petitioner submitted that the statutory audit and CAG audit for FY 2012-13 is under progress.

2.4 ADMITTANCE OF THE PETITIONS

2.4.1 The Commission, vide its Admittance Order dated 3rd June, 2014, 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 Petitions in at least two daily newspapers (one English and one Hindi) for inviting views/objections by all stakeholders and public at large. The Commission also directed the Petitioner to upload the response to the deficiency note on its website.

2.5 PUBLICITY OF THE PETITIONS

2.5.1 The Public Notice detailing the salient features of the Petitions were published by the Petitioner in daily newspapers as detailed below, inviting objections from the public at large and all stakeholders:

- The Times of India (English) : 9th June, 2014
- Hindustan Times (English) : 9th June, 2014
- Dainik Jagran (Hindi) : 9th June, 2014
- Hindustan (Hindi) : 9th June, 2014
- Pioneer (Hindi) : 9th June, 2014

2.6 PUBLIC HEARING PROCESS IN RESPECT OF ARR / TARIFF DETERMINATION

2.6.1 The Commission also held a public hearing to encourage active participation of the stakeholders and obtain their views and suggestions.

Table 2.1: Public Hearing

S. No.	Date	Place of Hearing	Hearings in the matter of
1	30.07.2014	Lucknow	UPPTCL

3. PUBLIC HEARING PROCESS

3.1 OBJECTIVE

3.1.1 The Commission, in order to achieve the twin objectives, 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 on the true up and ARR / Tariff determination process. The process gains significant importance in a "cost plus regime", wherein the entire cost allowed to the Petitioner gets transferred to the consumer.

3.1.2 The comments of the consumers play an important role in the determination of Tariff. Factors such as quality of electricity supply and the service levels need to be considered while determining the Tariff.

3.1.3 The Commission, by holding Public Hearing in accordance with Regulation 55 of the Uttar Pradesh Electricity Regulatory Commission (Conduct of Business) Regulations, 2004, has provided the various stakeholders as well as the public at large, a platform where they were able to share their views/comments/ suggestions/objections/representations on the determination of Transmission Tariff for FY 2014-15 and truing up for FY 2011-12. This process also enables the Commission to adopt a transparent and participative approach in the process of its proceedings.

3.1.4 The Commission considers the submissions of the consumers and the response of the Petitioner before it embarks upon the exercise of determining the Tariff for FY 2014-15.

3.1.5 Besides this, the Commission, while disposing the Petitions filed by the Petitioner, has also taken into consideration the oral views/comments/ suggestions/objections/representations received from stakeholders during the Public Hearing.

3.1.6 The Commission has taken note of the views and suggestions submitted by the stakeholders who provided useful feedback on various issues and the Commission appreciates their participation in the entire process.

3.2 VIEWS / COMMENTS / SUGGESTIONS / OBJECTIONS / REPRESENTATIONS ON ARR / TARIFF AND REVIEW PETITIONS

3.2.1 The Commission has taken note of the various views / comments / suggestions / objections / representations made by the stakeholders. The following stakeholder has submitted the views / comments / suggestions / objections / representations in the Public Hearing:

- Mr. Avadhesh Kumar Verma, Chairman, Uttar Pradesh Rajya Vidyut Upbhokta Parishad (UPRVUP).

3.2.2 The list of consumers, who attended the Public Hearings and submitted their views / comments / suggestions / objections / representations, are appended at Annexure I.

3.2.3 The major issues raised therein, the replies given by the Petitioner and the views of the Commission have been summarised as detailed below:

CAPACITY ADDITION

A) *Comments / Suggestions of the Public*

3.2.4 One stakeholder submitted that the transformation capacity of 132 kV Substations of the Petitioner is only 290003 MVA. The stakeholder submitted that the Commission should direct the Petitioner to increase capacity of the network. The stakeholder submitted that a time bound capacity addition target should be specified to the Petitioner.

B) ***The Petitioner's response:***

3.2.5 The Petitioner submitted that it is planning to increase the capacity of 132 kV and 220 kV network and the funds for the same are proposed to be availed from the World Bank. The Petitioner submitted that Right of Way is the major hurdle in the capacity addition of its transmission network.

C) ***The Commission's view:***

3.2.6 The Commission directs the Petitioner that the capital investment plan should be commensurate with the anticipated load growth, improvement in voltage profile, improvement in quality of supply and system reliability. The Commission directs the Petitioner to claim the capital investment plan henceforth, strictly in accordance with applicable Tariff Regulations for the Petitioner. The Commission directs the Petitioner to take adequate measures at the planning stage itself, so as to mitigate the Right of Way issues.

3.2.7 The Commission also directs the Petitioner to submit the detailed road map for augmentation of Transmission capacity within 1 month of this Order.

4. REVIEW OF TRUE UP FOR FY 2008-09, FY 2009-10 AND FY 2010-11 AND TRANSMISSION TARIFF FOR FY 2013-14

The Commission, in its Order dated 31st May, 2013 in Suo – Motu Case No. 01 of 2013, Petition No. 849/2012 and Petition No. 883/2013, approved the true up for FY 2008-09, FY 2009-10 and FY 2010-11 and considered the net gap/surplus thereon in the approval of Transmission Tariff for FY 2013-14. The Petitioner has sought the review of true up for FY 2008-09, FY 2009-10 and FY 2010-11 and Transmission Tariff for FY 2013-14. In this Section, the Commission has analysed the submissions of the Petitioner and has undertaken the review of true up for FY 2008-09, FY 2009-10 and FY 2010-11 based on the information submitted by the Petitioner and in accordance with the Uttar Pradesh Electricity Regulatory Commission (Conduct of Business) Regulations, 2004 and the Transmission Tariff Regulations.

4.1 The Petitioner's submissions

4.1.1 Review of true up for FY 2008-09

4.1.1.1 The Commission, in its Order dated 15th April, 2008 on determination of ARR for FY 2007-08 and FY 2008-09 and Tariff for FY 2008-09 approved the Transmission Tariff of Rs. 0.22/kWh for FY 2008-09.

4.1.1.2 The Petitioner, in its Review Petition, submitted that at the time of determination of Transmission Tariff for FY 2008-09, the Transfer Scheme was not finalised and in the absence of opening balances for the successor Transmission Company, the proposals submitted for approval of Transmission Tariff for FY 2008-09 were based on best estimates at that time.

4.1.1.3 The Petitioner submitted that on 23rd December, 2010, the GoUP by a notification in the official gazette issued the Transfer Scheme for UPPTCL with retrospective effect from 1st April, 2007. Prior to this notification, UPPCL had been carrying out the transmission business. The Petitioner submitted that after the segregation of accounts of UPPCL and UPPTCL with effect from the date of effectiveness of Transfer Scheme, the expenses of UPPTCL had reduced drastically for FY 2008-09.

4.1.1.4 The Petitioner submitted that its Board of Directors had adopted the Annual Accounts for FY 2008-09 on the basis of the actual expenditure incurred and accordingly, adopted the Transmission Tariff of Rs. 0.1435/kWh, subject to approval of the Commission. The Petitioner submitted that it had revised all the bills for FY 2008-09 on the basis of Transmission Tariff of Rs. 0.1435/kWh adopted by its Board of Directors and submitted the Petition for true up for FY 2008-09 on 19th November, 2012.

4.1.1.5 The Petitioner submitted that the Commission, in its Order dated 31st May, 2013, approved the trued up transmission charges of Rs. 796.60 Crore as against Rs. 1195.12 Crore approved in the Tariff Order for FY 2008-09 and thus, approved the revenue surplus of Rs. 398.52 Crore for FY 2008-09 based upon the difference of expenses approved in the Tariff Order vis-a-vis the expenses approved on true up. The Petitioner submitted that if revenue side true up had been carried out by the Commission in its Order dated 31st May, 2013, there would have been a revenue deficit of Rs. 40.08 Crore for FY 2008-09 rather than revenue surplus as determined by the Commission. The Petitioner submitted that the revenue assessment for true up has been done by multiplying the approved Transmission Tariff with the Energy (MUs) wheeled during the year.

4.1.2 Review of true up for FY 2009-10

4.1.2.1 The Petitioner submitted that the Commission, in its Order dated 31st May, 2013, assessed the revenue deficit / surplus for FY 2009-10 based upon the difference of expenses approved in the Tariff Order vis-a-vis the expenses approved in true up.

4.1.2.2 The Petitioner submitted that the revenue deficit/surplus should be calculated based upon the revenue at the Transmission Tariff approved in the Tariff Order as against the revenue at trued up Transmission Tariff, as the actual energy wheeled would vary from that approved in the Tariff Order.

4.1.2.3 The Petitioner submitted that the revenue assessment has been done by multiplying the approved Transmission Tariff with the Energy (MU) wheeled during the year and accordingly the revenue gap for FY 2009-10 is Rs. 12.03 Crore.

4.1.3 Review of True Up for FY 2010-11

4.1.3.1 The Commission, vide its Order dated 19th October, 2012 in Petition No. 739/2011 and Petition No. 793/2012, approved the ARR and Transmission Tariff for FY 2010-11, FY 2011-12, and FY 2012-13. In the said Order, the Commission ruled that as FY 2010-11 and FY 2011-12 had already elapsed, the Tariffs determined for FY 2010-11 and FY 2011-12 are only for analysis purpose. The relevant extract of the said Order is reproduced below for reference:

"7.10.4 Since the FY 2010-11 and FY 2011-12 has already lapsed, the transmission charges for the FY 2010-11 and FY 2011-12 have been recovered by the licensee based on the previous Tariff Order. Henceforth, the Commission do not find any rationale for implementation of the above tariffs in the lapsed years. The transmission tariffs determined above are only for the sake of analysis.

7.10.5 The Commission has approved the Transmission Tariff for FY 2012 - 13 based on the revenue gaps determined for FY 2010 - 11 & FY 2011 - 12 and the approved ARR for FY 2012 - 13. Any differences in the ARR and revenue gap for previous years would be subject to true up."

4.1.3.2 The Petitioner, in its Review Petition, submitted that the above paragraphs created confusion about the applicable Transmission Tariff for FY 2010-11. The Petitioner submitted that the Commission was requested to clarify about the applicable Transmission Tariff for FY 2010-11 vide its Letter No. 2047/RAU/UPPTCL dated 3rd December, 2012, as the Transmission Tariff approved in the Discom Tariff Order dated 19th October, 2012 was different from that approved for the Transmission Licensee. The Petitioner submitted that the Commission, vide its Order dated 18th December, 2012, clarified that the applicable Transmission Tariff for FY 2010-11 would be Rs. 0.126/kWh as approved in the Transmission Tariff Order for FY 2009-10 dated 31st March, 2010. The Petitioner submitted that the Commission further clarified that the discrepancies would be dealt with appropriately at the time of true up.

4.1.3.3 The Petitioner submitted that the Commission, in the true up of FY 2010-11 in its Order dated 31st May, 2013, has considered the approved Transmission Tariff as Rs. 0.1473/kWh for FY 2010-11 instead of Rs. 0.126/kWh and this had resulted in over estimation of approved Transmission Tariff against trued up Tariff of Rs. 0.1354/kWh. UPPTCL submitted that the Commission has approved revenue surplus of Rs. 71.19 Crore for FY 2010-11 on true up while there has actually been a revenue deficit of Rs. 58.40 Crore.

4.1.4 The revised true up of FY 2008-09, FY 2009-10 and FY 2010-11 submitted by the Petitioner is as shown in the Table given below:

Table 4.1: Revised true up of FY 2008-09, FY 2009-10 and FY 2010-11 submitted by the Petitioner

Particulars	FY 2008-09			FY 2009-10			FY 2010-11		
	Tariff Order dated 15 April, 2008	Petitioner's calculation as per B/S	Proposed for revision of true up	Tariff Order dated 31 March, 2010	Petitioner's calculation as per B/S	Proposed for revision of true up	Tariff Order dated 19 October, 2012	Petitioner's calculation as per B/S	Proposed for revision of true up
Wheeling Rate (Rs./kWh)	0.2157	0.1435	0.1511	0.1256	0.1260	0.1278	0.1473	0.1260	0.1354
Energy supplied to Discoms	55411.00	52719.15	52719.15	54183.00	56745.60	56892.53	62061.96	62268.45	62268.45

Particulars	FY 2008-09			FY 2009-10			FY 2010-11		
	Tariff Order dated 15 April, 2008	Petitioner's calculation as per B/S	Proposed for revision of true up	Tariff Order dated 31 March, 2010	Petitioner's calculation as per B/S	Proposed for revision of true up	Tariff Order dated 19 October, 2012	Petitioner's calculation as per B/S	Proposed for revision of true up
(MU)									
Revenue assessed (Rs. Crore)	1195.12	756.52	796.60	680.50	714.99	727.02	914.18	784.58	842.98
Deficit/(Surplus) (Rs. Crore)	-	-	40.08	-	-	12.03	-	-	58.40

4.1.5 The revised Transmission Tariff proposed by the Petitioner is shown in the Table given below:

Table 4.2: Revised Transmission Tariff proposed for FY 2013-14

Particulars	Units	Approved in the Tariff Order dated 31 May, 2013	Revised Proposed
Annual Revenue Requirement for FY 2013-14	Rs. Crore	1484.62	1484.62
Gap/(Surplus) for FY 2007-08 approved in the Order dated 21 May, 2013	Rs. Crore	20.21	20.21
Gap/(Surplus) for FY 2008-09	Rs. Crore	(389.52)	40.08
Gap/(Surplus) for FY 2009-10	Rs. Crore	46.52	12.03
Gap/(Surplus) for FY 2010-11	Rs. Crore	(71.19)	58.40
Net Annual Revenue Requirement for FY 2013-14	Rs. Crore	1081.64	1615.33
Energy delivered to Discoms	MU	80180.59	80180.59
Transmission Tariff	**Rs./kWh**	**0.135**	**0.201**

4.2 The Commission's Ruling

4.2.1 Regulation 150 of the Uttar Pradesh Electricity Regulatory Commission (Conduct of Business) Regulations, 2004 specifies as under:

"***Review of the decisions, directions and orders:***

150. *(1) The Commission may on its own or on the application of any of the persons or parties concerned, within 90 days of the making of any decision direction or order, review such decision, directions or orders and pass such appropriate orders as the Commission thinks fit.*

(2) An application for such review shall be filed in the same manner as a Petition under Chapter 2 of these Regulations."

4.2.2 The Petitioner filed the Review Petition within the timeline specified in the Uttar Pradesh Electricity Regulatory Commission (Conduct of Business) Regulations, 2004. The Commission observes that the submissions of the Petitioner regarding the revenue side true up for the period FY 2008-09 to FY 2010-11 needs consideration as there is merit in the case of the Petitioner. Hence, the Commission has revised the true up for FY 2008-09 to FY 2010-11 only to the extent of revenue side true up for the respective years.

4.2.3 The Petitioner submitted the Audited Accounts for the period FY 2008-09 to FY 2010-11. The Commission in its Order dated 31st May, 2013 in truing up of FY 2008-09 to FY 2010-11 had considered the revenue earned from Open Access and SLDC Charges for FY 2008-09 to FY 2010-11 in the revenue side true up for the respective years. The relevant extract of the said Order is reproduced below:

"***5.6 REVENUE SIDE TRUING UP***

5.6.1 NON TARIFF INCOMES

5.6.1.1 The UPPTCL has submitted that the actual non-tariff income during FY 2008-09 were Rs. 24.43 crores as compared to Rs. 14.33 crores approved by the Commission in the Tariff Order. It includes Rs. 1.49 crores towards Open Access Charges and Rs. 0.17 crores towards SLDC charges.

5.6.1.2 The Commission has accepted the submission of the Licensee, under this head."

"***6.6 REVENUE SIDE TRUING UP***

6.6.1 NON TARIFF INCOMES

6.6.1.1 The UPPTCL has submitted that the actual non-tariff income during FY 2009-10 were Rs. 63.87 crores as compared to Rs. 19.87 crores approved by the Commission in the Tariff Order. Such incomes are inclusive of non-tariff incomes such as interest income from loan to staff, rental from staff, etc as well as income from Open Access charges and SLDC charges.

6.6.1.2 The Commission has accepted the submission of the UPPTCL, under this head."

"***7.6 REVENUE SIDE TRUING UP***

7.6.1 NON TARIFF INCOMES

7.6.1.1 The UPPTCL has submitted that the actual non-tariff income during FY 2010-11 were Rs. 105.74 crores as compared to Rs. 40.30 crores approved by the Commission in the Tariff Order. Such incomes are inclusive of non-tariff incomes such as interest income from loan to staff, rental from staff, etc as well as income from Open Access charges and SLDC charges.

7.6.1.2 The Commission has accepted the submission of the UPPTCL, under this head."

4.2.4 From the above, it can be observed that only the revenue earned from Transmission Charges needs additional consideration for FY 2008-09 to FY 2010-11 in truing up for the respective years. Thus, the Commission, in this Order has revised the Revenue side true up for FY 2008-09 to FY 2010-11 after taking into consideration the revenue earned from Transmission charges for the respective years.

4.2.5 The revenue side summary for FY 2008-09 to FY 2010-11 is as shown in the Table below:

Table 4.3: Revenue Side Summary for FY 2008-09 to FY 2010-11

Particulars	Derivation	FY 2008-09	FY 2009-10	FY 2010-11
Transmission Tariff approved in the Tariff Order for the year (Rs./kWh)	**A**	0.222	0.126	0.126
Transmission Tariff as per the audited accounts (Rs./kWh)	**B**	0.1435	0.126	0.126
Transmission Tariff considered by the Petitioner for revenue assessment (Rs./kWh)	**C**	0.1435	0.126	0.126
Energy transmitted/wheeled during the year as per the audited accounts (MU)	**D**	52719.15	56745.60	62268.45
Energy transmitted/wheeled during the year as considered by the Commission in the Order dated 31 May, 2013 (MU)	**E**	52719.15	56892.53	62268.45
Energy transmitted/wheeled during the year as considered by the Petitioner for Revenue assessment (MU)	**F**	52719.15	56745.60	62268.45
Transmission Revenue as per the audited accounts (Rs. Crore)	**G**	756.52	728.52	797.73
Transmission Revenue claimed by the Petitioner for true up (Rs. Crore)	**H = C x F**	756.52	714.99	784.58
Difference (Rs. Crore)	**I = G - H**	0.00	13.53	13.15

4.2.6 Thus, the Commission has revised the net gap/(surplus) for the period FY 2008-09 to FY 2010-11 after considering the revenue from Transmission Charges for the respective years. The revised true up for FY 2008-09 to FY 2010-11 is as shown in the Table given below:

Table 4.4: Revised true up for FY 2008-09, FY 2009-10 and FY 2010-11 (Rs. Crore)

S. No.	Particulars	FY 2008-09	FY 2009-10	FY 2010-11
1	Trued up ARR approved in the Order dated 31st May, 2013 after adjusting for Non Tariff Income and Other Income	796.60	727.02	842.99
2	Revenue from Transmission Charges considered in this Order	756.52	728.52	797.73
3=1-2	**Net Gap/(Surplus) allowable**	**40.08**	**(1.50)**	**45.26**

4.2.7 The impact of revision of true up for FY 2008-09 to FY 2010-11 is as shown in the Table below:

Table 4.5: Impact of revision of true up for FY 2008-09, FY 2009-10 and FY 2010-11 (Rs. Crore)

Particulars	Approved by the Commission in the Order dated 31st May, 2013	Proposed by UPPTCL in the Review Petition	Revised approved
Gap/(Surplus) for FY 2008-09	(398.52)	40.08	40.08
Gap/(Surplus) for FY 2009-10	46.52	12.03	(1.50)
Gap/(Surplus) for FY 2010-11	(71.19)	58.40	45.26
Total	**(423.19)**	**110.50**	**83.84**
Net amount recoverable on account of revision of true up		**533.69**	**507.03**

4.2.8 The Hon'ble ATE, in its Judgment dated 9th April, 2013 in Appeal No. 242 of 2012 directed the Commission to carry out the true up for the years up to FY 2009-10 and adjust the surplus/deficit in the ARR and transmission tariff for FY 2013-14. The relevant extract of the Judgment is reproduced below:

"17. Accordingly, we dispose of the Appeal with directions to the State Commission to carry out the true up of accounts upto FY 2009-10 on priority and adjust the surplus/deficit in the ARR and transmission tariff for FY 2013-14........"

4.2.9 The Commission has allowed the net gap/(surplus) for the period from FY 2008-09 to FY 2010-11 in the ARR and Transmission Tariff for FY 2013-14 in the Order dated 31st May, 2013. The Commission, in this Order, has revised the true up for FY 2008-09 to FY 2010-11. As FY 2013-14 has already elapsed, the Commission allows the UPPTCL to recover the net amount allowed on revision of true up for FY 2008-09 to FY 2010-11 in this Order, in 6 equal monthly instalments from the date of this Order in the proportion of amount billed to the Distribution Licensees and other entities in FY 2013-14. The Commission shall consider the same while carrying out the true up for FY 2014-15.

5. ESCALATION INDEX / INFLATION RATE

5.1 Provisions of Transmission Tariff Regulations

5.1.1 Regulation 4.2 of the Transmission Tariff Regulations specifies the methodology for consideration of the O&M expenses, wherein such expenses are linked to the inflation index determined under these Regulations. The relevant provisions of the Transmission Tariff Regulations are reproduced below:

"***4.2 Operation and Maintenance Expenses***

1. *The O&M expenses for the base year shall be calculated on the basis of historical/audited costs and past trend during the preceding five years. However, any abnormal variation during the preceding five years shall be excluded. O & M expenses so calculated for the base year shall then be escalated on the basis of prevailing rates of inflation for the year as notified by the Central Government and shall be considered as a weighted average of Wholesale Price Index and Consumer Price Index in the ratio of 60:40. Base year, for these regulations means, the first year of tariff determination under these regulations.*

2. *Where such data for the preceding five years is not available the Commission may fix O&M expenses for the base year as certain percentage of the capital cost.*

3. *Incremental O&M expenses for the ensuing financial year shall be 2.5% of capital addition during the current year. O&M charges for the ensuing financial year shall be sum of incremental O&M expenses so worked out and O&M charges of current year escalated on the basis of predetermined indices as indicated in regulation 4.2.1 above.*

4. *However, the Commission may direct the utilities to bring down the O & M expenses to an efficient level i.e., by fixing norms based on the circuit kilometers of transmission lines, transformation capacity at the sub-stations, number of bays in substation etc. of similarly placed efficient utilities, within such span of time, as may be determined by the Commission.*

5. *The Commission shall examine and if satisfied shall allow inclusion in revenue requirement in the next period additional O&M expenses on account of war, insurgency, and change in laws or like eventualities for a specified period."*

5.1.2 The Commission has determined the O&M expenses for the base year, i.e., FY 2007-08 in the Order dated 21st May, 2013 in Petition No. 809 of 2012. Further, the Commission has also approved the truing up in respect of FY 2008-09, FY 2009-10 and FY 2010-11 in the Order dated 31st May, 2013 in Suo - Motu Case No. 01 of 2013, Petition No. 849/2012 and Petition No. 883/2013. In this Order, the Commission has approved the truing up in respect of FY 2011-12. The trued up O&M expenses for FY 2011-12 have been extrapolated up to FY 2014-15 at the yearly escalation index as specified under the Transmission Tariff Regulations.

5.1.3 The Commission, in accordance with the Transmission Tariff Regulations, has calculated the inflation index for the relevant year (n^{th} year) based on the weighted average index of Wholesale Price Index (WPI) and Consumer Price Index (CPI) of the corresponding year. The Commission has considered the WPI indices as available on the website of the Office of the Economic Advisor to the Government of India, Ministry of Commerce and Industry (www.eaindustry.nic.in/) and CPI indices as available on the website of the Labour Bureau Government of India (www.labourbureau.gov.in).

5.1.4 The computation of inflation index is given in the Table below:

Table 5.1: Calculation of Escalation / Inflation Index

Month	Wholesale Price Index				Consumer Price Index				Consolidated Index			
	FY 11	FY 12	FY 13	FY 14	FY 11	FY 12	FY 13	FY 14	FY 11	FY 12	FY 13	FY 14
April	139	152	164	171	170	186	205	226	151	166	180	193
May	139	152	164	171	172	187	206	228	152	166	181	194
June	140	153	165	173	174	189	208	231	153	167	182	196
July	141	154	166	176	178	193	212	235	156	170	184	199
August	141	155	167	179	178	194	214	237	156	171	186	202
September	142	156	169	181	179	197	215	238	157	173	187	204
October	143	157	169	181	181	198	217	241	158	173	188	205
November	144	157	169	182	182	199	218	243	159	174	188	206
December	146	157	169	180	185	197	219	239	162	173	189	203
January	148	159	170	179	188	198	221	237	164	174	191	202
February	148	159	171	180	185	199	223	238	163	175	192	203
March	150	161	170	180	185	201	224	239	164	177	192	204
Average	**143**	**156**	**168**	**178**	**180**	**195**	**215**	**236**	**158**	**172**	**187**	**201**
									Calculation of Inflation Index (CPI-40%, WPI-60%)			
Weighted Average of Inflation										**8.69%**	**8.75%**	**7.69%**

As depicted in the Table above, the Commission has considered an escalation / inflation index of 8.69% for FY 2011-12, 8.75% for FY 2012-13, 7.69% for FY 2013-14, and 7.69% for FY 2014-15.

6. TRUING UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2011-12

The Commission, in its Order dated 19th October, 2012 in Petition No. 739/2011 and Petition No. 793/2012, approved the ARR and Tariff for FY 2011-12 for UPPTCL. The Petitioner has sought the final truing up of expenditure and revenue for FY 2011-12 based on actual expenditure and revenue as per the Audited Accounts. In this section, the Commission has analysed all the elements of actual revenue and expenses for FY 2011-12, and has undertaken the truing up of expenses and revenue after prudence check of the data made available by the Petitioner. The Commission has allowed the true up for FY 2011-12 considering the principles laid down in the Transmission Tariff Regulations.

6.1 O&M EXPENSES

The Petitioner's Submissions

6.1.1 Operation and Maintenance (O&M) expenses comprises of employee expenses, administrative and general (A&G) expenses, and repair and maintenance (R&M) expenses.

6.1.2 The Petitioner submitted that the actual gross employee expenses were Rs. 351.46 Crore as against Rs. 390.16 Crore approved by the Commission in the Tariff Order for FY 2011-12. The employee expenses capitalised as per audited accounts are to the tune of Rs. 123.27 Crore as against Rs. 84.66 Crore approved in the Tariff Order. Thus, the net employee expenses as per audited accounts are Rs. 228.19 Crore as against Rs. 305.50 Crore approved in the Tariff Order.

6.1.3 Further, the Petitioner has submitted that the actual gross A&G expenses were Rs. 14.77 Crore as against Rs. 19.09 Crore approved by the Commission in the Tariff Order for FY 2011-12. The A&G expenses capitalised as per audited accounts are to the tune of Rs. 6.04 Crore against Rs. 3.61 Crore approved in the Tariff Order. Thus, the net A&G expenses as per audited accounts are Rs. 8.73 Crore as against Rs. 15.49 Crore approved in the Tariff Order.

6.1.4 The actual repair and maintenance expenses for FY 2011-12 were Rs. 118.80 Crore as against Rs. 93.18 Crore approved by the Commission in the Tariff Order for FY 2011-12.

6.1.5 The Petitioner submitted that it had been able to control the employee expenses and A&G expenses within the limit prescribed in the Tariff Order. The overall O&M expenses are also within the limit approved in the Tariff Order. The Petitioner submitted that the O&M expenses be trued up considering the actual expenses incurred as per Audited Accounts, as they are within the range prescribed in the Tariff Order for FY 2011-12. Further, the Petitioner requested the Commission to frame an appropriate policy for sharing of efficiency gains as the actual expenses are lower than the approved expenses.

6.1.6 Thus, the Petitioner has claimed Rs. 355.71 Crore towards net O&M expenses against Rs. 414.17 Crore approved by the Commission in the Tariff Order.

The Commission's Ruling:

6.1.7 The Commission asked the Petitioner to submit the impact of pay revision separately in the actual employee expenses for FY 2011-12. The Petitioner submitted that the pay revision impacts are embedded in the employee costs claimed for FY 2011-12 and it is not possible to segregate the impact of pay revision for all future years subsequent to its announcement in FY 2008-09. Once the pay hike is approved, the impact due to wage revision gets embedded in the salary and it would not be possible to provide its segregation in the future years. The Petitioner submitted that after the pay revision impact was embedded in the employee cost of FY 2008-09 and FY 2009-10, the

Commission had trued up the employee costs for FY 2010-11, which was inclusive of pay revision impact.

6.1.8 The Commission asked the Petitioner to submit the reasons for increase in actual R&M expenses for FY 2011-12 in comparison to that approved in the Tariff Order for FY 2011-12. The Petitioner submitted that the appropriate base for comparing the actual R&M expenses for FY 2011-12 is the trued up R&M expenses for FY 2010-11 and not the R&M expenses approved in the Tariff Order for FY 2011-12. The Petitioner submitted that the actual R&M expenses of Rs. 118.80 Crore for FY 2011-12 is 18.57% higher in comparison to the trued up R&M expenses of Rs. 100.19 Crore for FY 2010-11 and this increase is inclusive of increase in R&M expenses due to asset addition. The Petitioner submitted that it had inherited aged and complex network, which is congested at multiple locations. The Petitioner submitted that it has been endeavouring to remove congestions by increasing the capacity of existing sub-stations and building new sub-stations and lines.

6.1.9 Regulation 4.2.1 of the Transmission Tariff Regulations issued by the Commission stipulates:

"

1. *The O&M expenses for the base year shall be calculated on the basis of historical/audited costs and past trend during the preceding five years. However, any abnormal variation during the preceding five years shall be excluded. O & M expenses so calculated for the base year shall then be escalated on the basis of prevailing rates of inflation for the year as notified by the Central Government and shall be considered as a weighted average of Wholesale Price Index and Consumer Price Index in the ratio of 60:40. Base year, for these regulations means, the first year of tariff determination under these regulations."*

6.1.10 The Commission has trued up the O&M expenses for FY 2011-12 in accordance with the Transmission Tariff Regulations.

6.1.11 The Commission has determined the trued up O&M expenses for the preceding year, FY 2010-11 in its Order dated 31st May, 2013 in Suo – Motu Case No. 01 of 2013, Petition No. 849/2012 and Petition No. 883/2013 as Rs. 341.49 Crore.

6.1.12 The allowable O&M expenses for FY 2011-12 have been approved by escalating the component wise O&M expenses for FY 2010-11 by using the escalation index of 8.69 % as computed in Section 5 above.

6.1.13 Further, in addition to the O&M cost based on inflationary indices based on escalation, the Transmission Tariff Regulations provide for incremental O&M expenses on addition to assets during the year. Regulation 4.2.3 of the Transmission Tariff Regulations issued by the Commission stipulates:

"*3. Incremental O&M expenses for the ensuing financial year shall be 2.5% of capital addition during the current year. O&M charges for the ensuing financial year shall be sum of incremental O&M expenses so worked out and O&M charges of current year escalated on the basis of predetermined indices as indicated in regulation 4.2.1 above.*"

6.1.14 In accordance with the Transmission Tariff Regulations, The Commission has approved the incremental O&M expenses for FY 2011-12 as shown in the Table given below:

Table 6.1: Approved Incremental O&M Expenses for FY 2011-12 (Rs. Crore)

Particulars	Derivation	Approved
Net Addition to GFA during preceding year, FY 2010-11	A	427.15
Incremental O&M expenses for preceding year, FY 2010-11	B	68.03
Incremental O&M expenses @ 2.50% of Net GFA addition of preceding year, FY 2010-11	C=2.50% of A	10.68

Particulars	Derivation	Approved
Inflation Index	D	8.69%
Incremental O&M expenses for preceding year, FY 2010-11, escalated with the Inflation Index	E =Bx(1+D)	73.94
Incremental O&M expenses	**F= C+E**	**84.62**
Employee expenses		*57.77*
A&G expenses		*3.31*
R&M expenses		*23.53*

6.1.15 The same are allocated across the individual elements of the O&M expenses on the basis of the contribution of each element in the gross O&M expenses as approved in the subsequent paragraphs.

6.1.16 The O&M expenses approved for FY 2011-12 is as shown in the Table given below:

Table 6.2: Approved O&M expenses for FY 2011-12 (Rs. Crore)

Particulars	Tariff Order	True up Petition	Allowable
Employee expenses			
Gross employee expenses and provisions	382.86	351.46	279.71
Incremental employee expenses @ 2.50% of GFA additions of preceding year	7.30	0.00	57.77
Total employee expenses	390.16	351.46	337.48
Employee expenses capitalised	84.66	123.27	123.27
Net employee expenses	**305.50**	**228.19**	**214.21**
A&G expenses			
Gross A&G expenses	18.73	14.77	16.43
Incremental A&G expenses @ 2.50% of GFA addition of preceding year	0.37	0.00	3.31
Total A&G expenses	19.10	14.77	19.74
A&G expenses capitalised	3.61	6.04	6.04
Net A&G expenses	**15.49**	**8.73**	**13.70**
R&M expenses			
R&M expenses	90.96	118.80	88.89

Particulars	Tariff Order	True up Petition	Allowable
Incremental R&M expenses @ 2.50% of GFA addition of preceding year	2.22	0.00	23.53
Total R&M expenses	**93.18**	**118.80**	**112.42**
Total O&M expenses allowable as per Regulations	**414.17**	**355.71**	**340.33**

6.1.17 The summary of O&M expenses submitted by the Petitioner and as approved by the Commission is as shown in the Table given below:

Table 6.3: Actual Vs approved O&M expenses for FY 2011-12 (Rs. Crore)

Particulars	Tariff Order	Actual as per Audited Accounts	True-up Petition	Allowable
Employee expenses	390.16	351.46	351.46	337.48
Administrative & General expenses	19.10	14.77	14.77	19.74
Repair & Maintenance expenses	93.18	118.80	118.80	112.42
Gross Operation & Maintenance expenses	**502.44**	**485.03**	**485.03**	**469.65**
Less: Expenses capitalised				
Employee expenses capitalised	84.66	123.27	123.27	123.27
A&G expenses capitalised	3.61	6.04	6.04	6.04
Total expenses capitalised	**88.27**	**129.32**	**129.32**	**129.32**
Net Operation & Maintenance expenses	**414.17**	**355.71**	**355.71**	**340.33**

6.1.18 The Commission has trued up the O&M expenses for FY 2011-12 in accordance with Transmission Tariff Regulations. The Transmission Tariff Regulations do not provide for sharing of gains and losses on account of variation in O&M expenses. Hence, the Commission has not carried out the sharing of gains and losses on account of variation in O&M expenses for FY 2011-12.

6.2 INTEREST AND FINANCE CHARGES

6.2.1 Interest on Long Term Loans

The Petitioner's Submissions

6.2.1.1 The Petitioner has claimed gross interest expenses of Rs. 496.67 Crore as against Rs. 294.67 Crore approved in the Tariff Order for FY 2011-12.

6.2.1.2 The Petitioner submitted that interest cost is an uncontrollable cost as the interest regime is determined by various factors and the actual loans taken are consequential to the capital expenditure undertaken by the Petitioner.

6.2.1.3 The Petitioner submitted that it had derived the actual capital investments in FY 2011-12 considering the CWIP and GFA balances as per the audited accounts. The Petitioner submitted that the total capital expenditure after deduction of the capital expenditure financed through consumer contributions, capital subsidies and grants is considered to be financed through debt and equity in the ratio of 70:30.

The Commission's Ruling

6.2.1.4 Considering the CWIP and GFA balances as per audited accounts, the Commission has derived the actual capital investments undertaken by the Petitioner in FY 2011-12. The details are provided in the Table below:

Table 6.4: Approved Capital Investments in FY 2011-12 (Rs. Crore)

Particulars	Derivation	Tariff Order	True up Petition	Approved
Opening WIP as on 1st April	A	2404.70	2128.33	2128.33
Investments	B	1363.00	2336.40	2336.40
Employee expenses capitalisation	C	84.66	123.27	123.27
A&G expenses capitalisation	D	3.61	6.04	6.04

Particulars	Derivation	Tariff Order	True up Petition	Approved
Interest capitalisation in Interest on long term loans	E	84.94	189.19	189.19
Total Investments	**F=A+B+C+D+E**	**3940.91**	**4783.24**	**4783.24**
Transferred to GFA (total capitalisation)	G	941.92	742.90	742.90
Closing WIP	**H=F-G**	**2825.77**	**4040.33**	**4040.33**

6.2.1.5 The Commission has considered a normative approach with debt:equity ratio of 70:30. Considering this approach, 70% of the capital expenditure undertaken in the year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contributions, capital subsidies and grants has been separated as the depreciation and interest thereon would not be charged to the consumers. The audited accounts of the Petitioner reveal the amounts received as consumer contributions, capital subsidies and grants, as summarised in the Table below:

Table 6.5: Approved Consumer Contributions, Capital grants and Subsidies in FY 2011-12 (Rs. Crore)

Particulars	True up Petition	Approved
Opening balance of Consumer Contributions, Grants and Subsidies towards cost of Capital Assets	228.24	228.24
Addition during the year	121.89	121.89
Less: Amortisation	13.12	13.13
Closing Balance	**337.01**	**337.01**

6.2.1.6 Thus, the approved financing of the Capital Investment is as shown in the Table given below:

Table 6.6: Financing of Capital Investments in FY 2011-12 (Rs. Crore)

Particulars	Derivation	True up Petition	Approved
Investment	A	2336.40	2336.40
Less:			
Consumer Contribution	B	121.89	121.89
Investment funded by debt and equity	C=A-B	2214.51	2214.51
Debt funded	70%	1550.16	1550.16
Equity funded	30%	664.35	664.35

6.2.1.7 Thus, from the above Tables, it could be observed that UPPTCL has made investment of Rs. 2336.40 Crore in FY 2011-12. The consumer contributions, capital subsidies and grants received during the corresponding period is Rs. 121.89 Crore. Thus, balance Rs. 2214.51 Crore has been funded through debt and equity. Considering a debt equity ratio of 70:30, Rs. 1550.16 Crore or 70% of the capital investment is approved to be funded through debt and balance 30% equivalent to Rs. 664.35 Crore through equity. Allowable depreciation for the year has been considered as normative loan repayment. The actual weighted average interest rate of 11.55% has been considered for computing the interest. The opening balance of long term loan has been considered from the loan balance approved in the True up for FY 2010-11 in the Order dated 31st May, 2013.

6.2.1.8 Considering the above, the gross interest on long term loan is Rs. 496.67 Crore. The interest capitalisation has been considered at the same rate as per the Audited Accounts. The interest on long term loan approved for FY 2011-12 is as shown in the Table given below:

Table 6.7: Approved Interest on Long Term Loans for FY 2011-12 (Rs. Crore)

Particulars	Tariff Order	True up Petition	Approved
Opening Loan balance		3696.41	3696.41
Loan Addition (70% of Investments)		1550.16	1550.16

Particulars	Tariff Order	True up Petition	Approved
Less: Repayments (Depreciation allowable for the year)		339.39	339.39
Closing Loan balance		4907.18	4907.17
Weighted average rate of interest		11.55%	11.55%
Interest on Long Term Loans	**294.67**	**496.67**	**496.67**
Interest Capitalisation Rate		44.95%	44.95%
Less: Interest Capitalised	0.00	223.23	223.25
Net Interest Charged	**294.67**	**273.43**	**273.42**

6.2.2 Finance charges

The Petitioner's Submissions

6.2.2.1 The Petitioner has claimed Rs. 2.81 Crore towards finance charges for FY 2011-12. Items claimed under this head are towards items such as bank charges and guarantee fee.

The Commission's Ruling

6.2.2.2 The Commission approves the bank charges and guarantee fee as per the Audited Accounts to the extent of Rs. 2.81 Crore for FY 2011-12.

6.2.3 Interest on Working Capital

The Petitioner's Submissions

6.2.3.1 The Petitioner has claimed Interest on Working Capital of Rs. 34.17 Crore for FY 2011-12 as against Rs. 31.70 Crore approved by the Commission in the Tariff Order for FY 2011-12. The Petitioner submitted that it has computed Interest on Working Capital in accordance with the Transmission Tariff Regulations.

The Commission's Ruling

6.2.3.2 In the Tariff Order for FY 2011-12, the Commission had allowed Rs. 31.70 Crore towards Interest on Working Capital. The Transmission Tariff

Regulations provide for normative interest on working capital based on the methodology outlined in the Regulations. Accordingly, the Commission has approved Interest on Working Capital for FY 2011-12 as shown in the Table below:

Table 6.8: Approved Interest on Working Capital for FY 2011-12 (Rs. Crore)

Particulars	Tariff Order	True up Petition	Approved
One month's O&M expenses	41.57	29.64	28.36
One-twelfth of the sum of the book value of materials in stores at the end of each month	30.29	53.49	53.49
Receivables equivalent to 60 days average billing on consumers	181.72	178.07	169.66
Total Working Capital	**253.58**	**261.20**	**251.51**
Rate of Interest on Working Capital	12.50%	12.50%	12.50%
Interest on Working Capital	**31.70**	**32.65**	**31.44**

6.2.3.3 The following table summarises the interest and finance charges submitted by the Petitioner and approved by the Commission for FY 2011-12:

Table 6.9: Approved Interest and Finance Charges for FY 2011-12 (Rs. Crore)

Particulars	Tariff Order	Actual as per Audited Accounts	True up Petition	Approved
A. Interest on Long Term Loans				
Gross Interest on Long Term Loan	294.67	427.18	496.67	496.67
Less: Interest Capitalisation	0.00	189.19	223.23	223.25
Net Interest on Long Term Loans	**294.67**	**237.99**	**273.43**	**273.42**
B. Finance and Other Charges				
Guarantee Charges	0.00	2.77	2.77	2.77
Bank Charges	0.00	0.04	0.04	0.04
Total Finance Charges	**0.00**	**2.81**	**2.81**	**2.81**
C. Interest on Working Capital	**31.70**	0.00	**32.65**	**31.44**
Total (A+B+C)	**326.37**	**240.79**	**308.89**	**307.66**

6.3 DEPRECIATION

The Petitioner's Submissions

6.3.1 The actual depreciation expense charged in the Audited Accounts is Rs. 351.55 Crore. However, the same has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956.

6.3.2 The Petitioner submitted that it had computed the gross allowable depreciation for FY 2011-12 considering the depreciable GFA base as per the Audited Accounts and the rate of depreciation approved by the Commission for FY 2011-12 in the Tariff Order for FY 2011-12. The Petitioner submitted that the depreciation on assets created out of consumer contributions, capital grants and subsidies has been deducted from the gross depreciation and accordingly the net depreciation for FY 2011-12 is Rs. 339.39 Crore.

The Commission's Ruling

6.3.3 The Commission has computed the allowable depreciation expense on the GFA base as per the audited accounts for FY 2011-12 and at the rates approved by the Commission in the Tariff Order for FY 2011-12. The Commission has computed the depreciation only on the depreciable asset base and have excluded the non-depreciable assets such as land, land rights, etc.

6.3.4 Considering this philosophy, the gross entitlement towards depreciation is as shown in the Table below:

Table 6.10: Gross Allowable Depreciation for FY 2011-12 (Rs. Crore)

Sl. No.	Particulars	Opening GFA	Addition to GFA	Deduction to GFA	Closing GFA	Depreciation Rate	Allowable Gross Depreciation
1	Land & Land Rights						
	(i) Unclassified	31.21	0.44	0.00	31.65		
	(ii) Freehold Land	0.05	5.18	0.00	5.23		

Sl. No.	Particulars	Opening GFA	Addition to GFA	Deduction to GFA	Closing GFA	Depreciation Rate	Allowable Gross Depreciation
2	Buildings	248.50	29.82	0.09	278.23		
3	Other Civil Works	43.29	0.58	0.00	43.87		
4	Plant & Machinery	3928.67	542.84	68.70	4402.81		
5	Lines, Cables, Network etc.	3192.39	155.17	1.80	3345.76		
6	Vehicles	3.58	0.03	0.07	3.55		
7	Furniture & Fixtures	1.36	0.08	0.00	1.44		
8	Office Equipments	2.28	0.37	0.01	2.65		
9	Other assets	61.62	8.39	0.00	70.00		
10	**Total Fixed Assets**	**7512.95**	**742.90**	**70.66**	**8185.19**		
11	Non depreciable assets (Land & Land Rights)	31.26	5.61	0.00	36.88		
12	**Depreciable assets**	**7481.69**	**737.29**	**70.66**	**8148.32**	**4.50%**	**351.68**

6.3.5 The Commission has scrutinised the audited accounts submitted by the Petitioner and obtained the figures in respect of depreciation charged on the assets created out of consumer contributions, capital grants and subsidies. This equivalent depreciation amounting to 12.29 Crore has been reduced from the allowable depreciation for FY 2011-12.

6.3.6 Thus, the approved depreciation for FY 2011-12 is as shown in the Table given below:

Table 6.11: Net Approved Depreciation for FY 2011-12 (Rs. Crore)

S. No.	Particulars	Tariff Order	Actual as per Audited Accounts	True up Petition	Approved
1	Gross allowable Depreciation	344.86	363.84	351.68	351.68
2	Less: Equivalent amount of depreciation on assets acquired out of the Consumer Contribution	0.00	12.29	12.29	12.29
3	**Net allowable Depreciation**	**344.86**	**351.55**	**339.39**	**339.39**

6.4 PRIOR PERIOD EXPENSES

The Petitioner's Submissions

6.4.1 The Petitioner has submitted that it has identified and accounted for certain prior period incomes and expenses in the Audited Accounts for FY 2011-12. In the financial statements for FY 2011-12, there has been recognition of prior period incomes of Rs. 17.97 Crore and prior period expenses of Rs. 51.79 Crore, thereby the net prior period expense claimed is Rs. 33.83 Crore.

The Commission's Ruling

6.4.2 The Commission asked the Petitioner to submit the details of prior period expenses claimed for FY 2011-12 and rationale for including the same in the truing up. The Petitioner submitted the details of prior period expenses claimed for FY 2011-12.

6.4.3 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 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.

6.4.4 From the statement submitted by the Petitioner, it is observed that the heads under which the prior period expenses are booked are employee cost, depreciation, interest and finance charges, and administrative expenses. In accordance with the Transmission Tariff Regulations, the Commission had been allowing the prudent expenses under the above stated heads for the Petitioner on normative basis. Also, the Petitioner has not submitted the details regarding the prior period income for FY 2011-12.

6.4.5 It is to be noted that the Commission while doing Truing up of the previous years had allowed certain expenses like O&M expenses, Interest expenses, depreciation etc. on normative basis. The Petitioner in its Petition should clearly indicate that the impact of such prior period expenses / incomes plus the actual O&M expenses has not exceeded the normative expense for that year. For example, if the Commission while doing Truing up of particular year has approved actual O&M expenses of Rs. 38 Core, which is lower than the normative O&M expenses of Rs. 40 Crore for that particular year and the Petitioner in some future year claims prior period O&M expenses of Rs. 4 Crore, thus making the total O&M expenses Rs. 42 Crore (Rs. 38 Crore actual + Rs. 4 Crore prior period). The total allowable O&M Expenses in such a case cannot be more than Rs. 40 Crore, i.e., normative O&M expenses. In such a case, only Rs. 2 Crore expenses towards prior period O&M expenses is allowable after scrutiny and prudence check as Rs. 38 Crore of actual O&M has been allowed and the total amount of O&M expenses cannot exceed the normative O&M expense of Rs. 40 Crore.

6.4.6 Thus, the Petitioner is directed to file a separate Petition for approval of prior period expenses / incomes. The Petition should clearly indicate the head wise and year wise bifurcation of prior period expenses / incomes clearly indicating the impact of such expenses / incomes on various ARR components and such impact should not exceed the normative expenses for any particular year. Further, based on the data submitted by the Petitioner, the Commission after scrutiny and prudence check shall consider the expenses under the above head as it deems fit.

6.4.7 In light of the above, the Commission for the purpose of true up for FY 2011-12 in this Order has not approved the net prior period expenses claimed by the Petitioner.

6.5 RETURN ON EQUITY

The Petitioner's Submissions

6.5.1 The Petitioner has claimed Return on Equity of Rs. 58.08 Crore for FY 2011-12 as against Rs. 49.67 Crore approved by the Commission in the Tariff Order for FY 2011-12.

6.5.2 The Petitioner submitted that the Return on Equity for FY 2011-12 has been arrived by considering the following:

- Opening equity as on 1st April, 2007 based on the equity balance, which devolved upon the Petitioner in the Transmission Transfer Scheme.
- Equity additions in FY 2007-08, FY 2008-09, FY 2009-10, FY 2010-11 and FY 2011-12 equivalent to normative 30% of the capitalised assets
- A rate of 2% has been considered for computing return on eligible equity.

The Commission's Ruling

6.5.3 Under the provisions of Transmission Tariff Regulations, the Petitioner is allowed a return @ 14% on equity base; for equity base calculation, debt equity ratio shall be 70:30. Where equity involved is more than 30%, the amount of equity for the purpose of tariff shall be limited to 30%. Equity amounting to more than 30% shall be considered as loan. In case of actual equity employed being less than 30%, actual debt and equity shall be considered for determination of tariff.

6.5.4 In view of the huge gap in the recovery of cost of supply at the Discom level, the Petitioner was of the view that return on equity would only result in accumulation of receivables.

6.5.5 As such, the Petitioner has been claiming return on equity @ 2% since FY 2009-10 onwards. Return on equity has been computed on the normative equity portion (30%) of capitalised assets.

6.5.6 The Commission, while truing up the Return on Equity, has considered:

- Closing equity approved by the Commission for FY 2010-11 has been considered as the opening equity for FY 2011-12.

- Return on equity has been computed at the rate of 2% in line with the approach adopted by the Commission in the earlier Orders.

6.5.7 The approved Return on Equity for FY 2011-12 is as shown in the Table given below:

Table 6.12: Approved Return on Equity for FY 2011-12 (Rs. Crore)

Particulars	Tariff Order	True up Petition	Approved
Equity at the beginning of the year	2342.35	2792.47	2792.47
Assets Capitalised	941.92	742.90	742.90
Addition to Equity	282.58	222.87	222.87
Closing Equity	2624.93	3015.34	3015.34
Average Equity	2483.64	2903.91	2903.91
Rate of Return	2.00%	2.00%	2.00%
Return on Equity	**49.67**	**58.08**	**58.08**

6.6 REVENUE SIDE TRUING UP

The Petitioner's Submissions

6.6.1 Non Tariff Income

6.6.1.1 The Petitioner has submitted that the actual non tariff income for FY 2011-12 is Rs. 27.49 Crore as against Rs. 29.62 Crore approved in the Tariff Order. Such incomes are inclusive of non tariff income such as interest income from loan to staff, rental from staff, etc.

The Commission's Ruling

6.6.1.2 The Commission observes that the submissions of the Petitioner are in order and accordingly approved the non tariff income as submitted by the Petitioner for FY 2011-12.

6.6.2 **Revenue from Transmission of Power**

The Petitioner's Submissions

6.6.2.1 The Petitioner submitted that the transmission charges recovered in FY 2011-12 are to the tune of Rs. 942.18 Crore as per the audited accounts. Further, as part of separate function of SLDC, it has recovered Rs. 1.63 Crore as SLDC charges in FY 2011-12. Thus, the total revenue receipts of the Petitioner are to the tune of Rs. 943.81 Crore in FY 2011-12.

The Commission's Ruling

6.6.2.2 The Commission observes that the submissions of the Petitioner are in order and accordingly approves the Revenue from Transmission of Power as submitted by the Petitioner for FY 2011-12.

6.7 ANNUAL REVENUE REQUIREMENT FOR FY 2011-12 AFTER TRUING UP

6.7.1 The Annual Revenue Requirement for FY 2011-12 after final truing up is summarised in the table below:

Table 6.13: ARR for FY 2011-12 after final truing up (Rs. Crore)

Particulars	Tariff Order	Actual as per Audited Accounts	True up Petition	Approved
Employee expenses	390.16	351.46	351.46	337.48
A&G expenses	19.10	14.77	14.77	19.74
R&M expenses	93.18	118.80	118.80	112.42
Interest on Loan Capital	294.67	427.18	496.67	496.67
Interest on Working Capital	31.70	0.00	32.65	31.44
Finance Charges	0.00	2.81	2.81	2.81
Depreciation	344.86	351.55	339.39	339.39
Gross expenditure	**1173.67**	**1266.57**	**1356.55**	**1339.95**
Less: Employee expenses capitalised	84.66	123.27	123.27	123.27
Less: A&G expenses capitalised	3.61	6.04	6.04	6.04
Less: Interest expenses capitalised	0.00	189.19	223.23	223.25

Particulars	Tariff Order	Actual as per Audited Accounts	True up Petition	Approved
Net expenditure	**1085.40**	**948.06**	**1004.00**	**987.38**
Bad Debts & Provisions	0.00	42.10	0.00	0.00
Prior Period expenses	0.00	33.83	33.83	0.00
Net expenditure with provisions	**1085.40**	**1023.99**	**1037.83**	**987.38**
Add: Return on Equity	49.67	0.00	58.08	58.08
Less: Non Tariff Income	29.62	27.49	27.49	27.49
Annual Revenue Requirement	**1105.45**	**996.50**	**1068.41**	**1017.97**
Revenue from Operations		943.81	943.81	943.81
Net Gap/(Surplus)		**-**	**124.60**	**74.15**

6.7.2 Thus, the net revenue gap for FY 2011-12 is Rs. 74.15 Crore. The Commission allows the UPPTCL to recover the net gap allowed on true up for FY 2011-12 in 3 equal monthly instalments from the date of this Order in the proportion of amount billed to the Distribution Licensees and other entities in FY 2011-12. The Commission shall consider the same while carrying out the true up for FY 2014-15.

6.8 Derivation of Transmission Tariff for FY 2011-12

6.8.1 The trued up ARR for FY 2011-12 is Rs. 1017.97 Crore as against Rs. 1068.41 Crore claimed by the Petitioner.

6.8.2 Considering the actual energy handled, the Transmission Tariff for FY 2011-12 is computed as shown in the Table given below:

Table 6.14: Trued up Transmission Tariff for FY 2011-12

Particulars	Tariff Order	Actual as per Audited Accounts	True up Petition	Approved
Net ARR (Rs. Crore)	-	996.50	1068.41	1017.97
Energy Handled (MU)	-	70371.05	70367.09	70371.05
Transmission Tariff (Rs./kWh)	**0.126**	**0.1416**	**0.1518**	**0.1447**

7. ANNUAL REVENUE REQUIREMENT FOR FY 2014-15

7.1 TRANSMISSION LOSSES

7.1.1 In the Tariff Order for FY 2013-14 dated 31st May, 2013, the Commission had approved intra-State transmission losses of 3.67% and Inter-State transmission losses up to State's Transmission periphery as 1.65%.

7.1.2 The Transmission Tariff Regulations clearly state that the base line for losses will have to be based on proper loss estimation studies. In this regard, the Commission had directed the Petitioner to conduct proper loss estimate studies so as to set the base line losses in accordance with Transmission Tariff Regulations. However, the Petitioner has not submitted the same.

7.1.3 The Commission asked the Petitioner to submit its actual transmission losses for the period FY 2008-09 to FY 2011-12. The Petitioner submitted its transmission losses for the period FY 2008-09 to FY 2011-12, which are inclusive of central pool losses. The Petitioner submitted that in order to work out its actual transmission losses by excluding the central pool losses, required measures are being undertaken to ensure that all ABT metering data is captured at G-T, CTU-STU, T-D periphery. The transmission losses inclusive of central pool losses as submitted by the Petitioner is as shown in the Table given below:

Table 7.1: Actual Transmission Loss as submitted by UPPTCL

Particulars\Year	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
MU Import	56392	60679	65375	74480
MU Export	52719	56892	62268	70731
Transmission Loss (%) (inclusive of central pool losses)	6.446%	6.240%	4.751%	5.516%

7.1.4 The Petitioner has started functioning independently with effect from 26th July, 2006. The Commission has time and again directed the Petitioner to conduct a proper loss estimate study so as to set the base line losses in accordance with the Transmission Tariff Regulations. The Petitioner has not complied with this directive till date. The Commission is of the view that considerable amount of time has elapsed since the Petitioner has started functioning independently and the non-availability of actual loss levels for its Transmission System does not constitute a prudent utility practice. The Petitioner is required to follow prudent utility practices in its functioning. The Commission directs the Petitioner to comply with the earlier directive of the Commission in this regard and submit the compliance report within the stipulated time frame. The Commission cautions the Petitioner that the failure to comply with the Commission's directive might attract punitive action as deemed appropriate by the Commission.

7.1.5 In the absence of proper loss estimates, the Commission is constrained to approve the Transmission Loss as proposed by the Petitioner in its Petition for FY 2014-15. The Commission approves intra-State transmission losses of 3.67% and inter-State transmission losses up to Transmission periphery as 1.65% for FY 2014-15.

7.2 COMPONENTS OF ARR AND ANALYSIS OF EACH COMPONENT

7.2.1 The Commission has analysed all the components of the Annual Revenue Requirement (ARR) to provide suitable values for each component. The ARR for the Petitioner includes the following components:

a) Operation & Maintenance expenses
    - Employee expenses
    - Administration & General expenses
    - Repair and Maintenance expenses

b) Interest expenses
    - Interest on Loan Capital
    - Interest on Working Capital

c) Depreciation expenses

d) Other Income (Non-tariff income)

e) Special Appropriations

f) Return on Equity

g) Tax on Income

h) Any other relevant expenditure

7.2.2 In accordance with the Transmission Tariff Regulations, the Commission has analysed each component of the ARR and accordingly approved each of the components along with the justification for the same.

7.3 OPERATION & MAINTENANCE EXPENSES

The Petitioner's Submissions

7.3.1 The Petitioner submitted that the O&M expenses for FY 2014-15 have been computed by escalating the component wise O&M expenses for FY 2011-12 by using the yearly inflation indices approved by the Commission up to FY 2013-14 in the Tariff Order for FY 2013-14 and at the rate of 8.15% for FY 2014-15.

7.3.2 The Petitioner submitted that in addition to employee expenses, A&G expenses and R&M expenses, the incremental O&M expenses on addition to Gross Fixed Assets have been claimed for FY 2014-15 in accordance with the Transmission Tariff Regulations.

7.3.3 The Petitioner submitted that the increase in dearness pay may be higher than the escalation index determined as per the Transmission Tariff Regulations and requested the Commission to allow the increase in employee expenses due to increase in dearness pay in true up.

7.3.4 The Petitioner has proposed the O&M expenses of Rs. 533.23 Crore for FY 2014-15.

The Commission's Ruling

7.3.5 The Commission observed that the O&M expenses proposed by the Petitioner have been arrived at by escalating the component wise O&M expenses for FY 2012-13 as per the Provisional Accounts with the annual escalation indices approved by the Commission up to FY 2013-14 in the Tariff Order for FY 2013-14 and with 8.15% for FY 2014-15.

7.3.6 Further, the Commission observed that the incremental O&M expenses proposed by the Petitioner for FY 2014-15 pertain only to the asset addition in the preceding year and is not in accordance with the Transmission Tariff Regulations.

7.3.7 Regulation 4.2.1 of the Transmission Tariff Regulations specfies:

"1. The O&M expenses for the base year shall be calculated on the basis of historical/audited costs and past trend during the preceding five years. However, any abnormal variation during the preceding five years shall be excluded. O & M expenses so calculated for the base year shall then be escalated on the basis of prevailing rates of inflation for the year as notified by the Central Government and shall be considered as a weighted average of Wholesale Price Index and Consumer Price Index in the ratio of 60:40. Base year, for these regulations means, the first year of tariff determination under these regulations."

7.3.8 The Commission has trued up each component of O&M expenses for FY 2011-12 in the preceding section.

7.3.9 The allowable O&M expenses for FY 2014-15 have been approved by escalating the component wise O&M expenses for FY 2011-12 by using the yearly inflation indices computed in Section 5 above.

7.3.10 Further, in addition to the O&M cost based on inflationary indices based on escalation, the Transmission Tariff Regulations provide for incremental O&M expenses on addition to assets during the year. Regulation 4.2.3 of the Transmission Tariff Regulations issued by the Commission stipulates:

"3. Incremental O&M expenses for the ensuing financial year shall be 2.5% of capital addition during the current year. O&M charges for the ensuing financial year shall be sum of incremental O&M expenses so worked out and O&M charges of current year escalated on the basis of predetermined indices as indicated in regulation 4.2.1 above."

7.3.11 Based on the above, the Commission has computed the incremental O&M expenses for FY 2014-15 in accordance with Transmission Tariff Regulations as shown in the Table given below:

Table 7.2: Incremental O&M Expenses for FY 2014-15 in accordance with Transmission Tariff Regulations (Rs. Crore)

Particulars	Derivation	FY 2012-13	FY 2013-14	FY 2014-15
Net Addition to GFA during preceding year	A	672.24	456.03	1951.93
Incremental O&M expenses for preceding year	B	84.62	108.83	128.60
Incremental O&M expenses @ 2.50% of Net GFA addition of preceding year	C=2.50% of A	16.81	11.40	48.80
Inflation Index	D	8.75%	7.69%	7.69%
Incremental O&M expenses for preceding year, escalated with the Inflation Index	E =B x (1+D)	92.02	117.20	138.48
Incremental O&M expenses	**F= C+E**	108.83	128.60	187.28
Employee expenses		*74.34*	*87.71*	*126.98*
A&G expenses		*4.13*	*4.91*	*7.25*
R&M expenses		*30.35*	*35.98*	*53.05*

7.3.12 The same are allocated across the individual elements of the O&M expenses on the basis of the contribution of each element in the gross O&M expenses.

7.3.13 Thus, the normative O&M expenses computed for FY 2014-15 in accordance with the Transmission Tariff Regulations are depicted in the Table below:

Table 7.3: Normative O&M expenses for FY 2012-13 to FY 2014-15 (Rs. Crore)

Particulars	FY 2012-13			FY 2013-14			FY 2014-15	
	Tariff Order	Revised Proposed	Normative	Tariff Order	Revised Proposed	Normative	Petition	Normative
Employee expenses								
Gross employee expenses and provisions	416.14	348.54	304.20	334.48	379.03	327.58	409.93	352.77
Incremental employee expenses @ 2.50% of GFA additions of preceding year	17.30	0.00	74.34	105.15	7.31	87.71	31.50	126.98
Total employee expenses	433.44	348.54	378.54	439.64	386.34	415.29	441.43	479.75
Employee expenses capitalised	94.05	71.25	71.25	95.40	88.86	90.12	101.53	104.11
Net employee expenses	**339.39**	**277.29**	**307.29**	**344.23**	**297.48**	**325.17**	**339.90**	**375.64**
A&G expenses								
Gross A&G expenses	20.35	15.28	17.87	19.65	16.14	19.25	17.45	20.73
Incremental A&G expenses @ 2.50% of GFA addition of preceding year	0.88	0.00	4.13	6.14	0.31	4.91	1.34	7.25
Total A&G expenses	21.23	15.28	22.01	25.79	16.45	24.16	18.80	27.98
A&G expenses capitalised	4.03	7.75	7.75	4.90	3.78	4.59	4.32	5.32
Net A&G expenses	**17.20**	**7.53**	**14.25**	**20.89**	**12.67**	**19.57**	**14.47**	**22.66**
R&M expenses								
R&M expenses	98.86	137.97	96.67	106.29	150.04	104.10	162.28	112.10

Particulars	FY 2012-13			FY 2013-14			FY 2014-15	
	Tariff Order	Revised Proposed	Normative	Tariff Order	Revised Proposed	Normative	Petition	Normative
Incremental R&M expenses @ 2.50% of GFA addition of preceding year	5.32	0.00	30.35	43.70	3.78	35.98	16.58	53.05
Total R&M expenses	**104.18**	**137.97**	**127.02**	**149.99**	**153.82**	**140.08**	**178.85**	**165.15**
Total O&M expenses allowable as per Regulations	**460.77**	**422.79**	**448.56**	**515.12**	**463.97**	**484.82**	**533.23**	**563.46**

7.3.14 It is observed that the Normative O&M expenses computed for FY 2014-15 by considering base year as FY 2007-08 in accordance with the Transmission Tariff Regulations are working out higher than the O&M expenses estimated by the Petitioner. The Commission for the purpose of approving the ARR for FY 2014-15 has limited the gross O&M expenses to the O&M expenses as proposed by the Petitioner. Further, the Commission has considered the capitalisation of expenses in the same proportion as approved by the Commission in the Tariff Order for FY 2013-14. The O&M expenses approved by the Commission for FY 2014-15 are as shown in the Table given below:

Table 7.4: Approved O&M expenses for FY 2014-15 (Rs. Crore)

Particulars	Petition	Normative	Revised Approved
Employee expenses	441.43	479.75	441.43
Administrative & General expenses	18.80	27.98	18.80
Repair & Maintenance expenses	178.85	165.15	178.85
Gross Operation & Maintenance expenses	**639.08**	**672.88**	**639.08**
Less: Expenses capitalised			
Employee expenses capitalised	101.53	104.11	95.79
A&G expenses capitalised	4.32	5.32	3.57
Total expenses capitalised	**105.85**	**109.42**	**99.36**
Net Operation & Maintenance	**533.23**	**563.46**	**539.72**

Particulars	Petition	Normative	Revised Approved
expenses			

7.3.15 The Petitioner has requested the Commission to allow it to claim dearness allowance on actual expenditure basis in case the increase in rate of dearness allowance announced by the GoUP exceeds the escalation index for the relevant year and to treat such increase as uncontrollable cost. Further, the Petitioner in reply to a specific query of the Commission replied that the payment on account of dearness allowance is linked with the dearness rate hike announced by the GoUP and such expense is uncontrollable in nature. The Petitioner requested the Commission to allow any variation on this account based on Audited Accounts during true up.

7.3.16 The specific prayer of the Petitioner pertains to truing up exercise and hence, the Commission shall take an appropriate view during truing up, based on the merits of the specific submissions of the Petitioner in this regard. The O&M expenses approved above would be subject to truing up upon finalisation of Audited Accounts.

7.4 GFA BALANCES AND CAPITAL FORMATION ASSUMPTIONS

The Petitioner's Submissions

7.4.1 The Petitioner submitted that the Gross Fixed Assets (GFA) and Capital Work in Progress (CWIP) for FY 2014-15 have been arrived at based on the following assumptions:

- The opening GFA and CWIP for FY 2013-14 have been taken as per the closing balances for FY 2012-13 as per the Provisional accounts for FY 2012-13.

- 25% of the opening CWIP and 25% of the investment made during the year, expenses capitalised and interest capitalised, has been assumed to be capitalised during FY 2013-14 and FY 2014-15.

- Investment through deposit works have been taken for capital formation and depreciation thereon has not been charged in the ARR.

- The capital investment for FY 2013-14 has been considered as Rs. 2200 Crore out of which works through deposit works have been considered as Rs. 200 Crore.

- The capital investment for FY 2014-15 has been estimated to be Rs. 2800 Crore out of which works through deposit works have been estimated to be of Rs. 225 Crore.

7.4.2 The capital investment plan for FY 2014-15 proposed by the Petitioner is as shown in the Table given below:

Sl. No.	Works	Number/ Capacity/Ckt km	Estimated Cost (Rs. Crore)
A	**765 kV Works**		
1	Substations		
2	Lines	422	647.57
	Sub Total		**647.57**
B	**400 kV Works**		
1	Substations	Apr-40	184.07
2	Lines	282	402.28
	Sub Total		**586.35**
C	**220 kV Works**		
1	Substations	14/2980	242.93
2	Lines	696.6	159.29
	Sub Total		**402.22**
D	**132 kV Works**		
1	Substations	36/1678	273.74

Sl. No.	Works	Number/ Capacity/Ckt km	Estimated Cost (Rs. Crore)
2	Lines	2419.91	388.05
	Sub Total		**661.79**
E	**Augmentation**		**502.07**
	Grand Total (A+B+C+D+E)		**2800**

The Commission's Ruling

7.4.3 Regulation 3.6 of the Transmission Tariff Regulations specifies as under:

"***3.6 Capital Investment Plan***

1. The licensee shall identify projects for the ensuing year and subsequent four years and submit detailed capital investment plan along with a financing plan for undertaking the identified projects in order to meet the requirement of load growth, refurbishment and replacement of equipment, reduction in transmission losses, improvement of voltage profile, improvement in quality of supply, system reliability, metering, communication and computerization, etc.

....

3. Licensee's ARR filing shall separately show ongoing projects that will spill into the year under review, and new projects that will commence but may be completed within or beyond the tariff period. For the new projects, the filing must provide the justification as stipulated under investment guidelines of the Commission.

4. The Licensee shall demonstrate that his financing plan matches his investment requirement plan.

....

6. In presenting the justification for new projects, the licensee shall detail the specific nature of the works, and outcome sought to be achieved. The detail must be shown in the form of physical parameters, e.g., addition of new capacities in terms of sub-stations, lines, VAR compensating devices, tele-

metering equipments & communication systems etc, so that it is amenable for physical verification......... In case of any significant shortfall in physical implementation, the Commission shall require the licensee to explain the reasons, and may proportionately reduce the provision, including the interest, and the return component, made towards revenue requirement, in the next period.

...........”

7.4.4 As stated above, the Transmission Tariff Regulations clearly specify the procedure for approval of the Capital Investment Plan. The Petitioner has not proposed the Capital Investment Plan for FY 2014-15 in accordance with the Transmission Tariff Regulations.

7.4.5 The Commission asked the Petitioner to submit the preparedness to execute the proposed capital investment in FY 2014-15 in terms of funds tie up and orders placed. The Commission also asked the Petitioner to submit the detailed plan to evacuate power from all the upcoming generating stations in the State in FY 2014-15.

7.4.6 The Petitioner submitted that the proposed capital expenditure for FY 2014-15 would be funded through a mix of debt and equity. The Petitioner submitted that the equity would be provided by the GoUP through budgetary allocation and the debt would be tied up with financial institutions such as PFC and REC. The Petitioner submitted that the work orders would be placed in FY 2014-15. The Petitioner also submitted the details of planned evacuation network for upcoming generating stations Bara TPS and Lalitpur TPS.

7.4.7 The Commission in order to approve the realistic levels of gross fixed asset balance and consequent tariff components such as depreciation, interest on loan and return on equity, has considered the opening balance of FY 2012-13 in line with the closing balance as per the Audited Accounts for FY 2011-12.

7.4.8 The Commission has considered the capital additions, capital deletions, capital work in progress balances, etc,. from the Provisional Accounts for FY 2012-13 submitted by the Petitioner along with its Petition.

7.4.9 For FY 2013-14, the Commission has considered the capital investments, capital additions, etc., as approved by the Commission in its Tariff Order dated 31st May, 2013.

7.4.10 The Commission approved the capital investments for FY 2011-12 as Rs. 2336.40 Crore in Section 6.2 of the Order. The Commission has observed that the capital investment proposed by the Petitioner is not in strict accordance with the Transmission Tariff Regulations. In order to reprimand the Petitioner, the Commission disallows 30% of the capital investment proposed in the Petition and allows only 70% of the proposed capital investment for FY 2014-15. **The Commission directs the Petitioner to claim the capital investment plan henceforth, strictly in accordance with applicable Tariff Regulations for the Transmission Licensee**.

7.4.11 The expenses capitalisation has been considered as approved in Section 7.3 of the Order.

7.4.12 25% of the total investments including opening capital work in progress, expenses and interest capitalisation during the year have been projected to be capitalised in FY 2014-15.

7.4.13 Accordingly, the details of approved Capitalisation and capital work in progress for FY 2012-13 to FY 2014-15 are provided in the table below:

Table 7.5: Capitalisation and WIP upto FY 2014-15 (Rs. Crore)

Particulars	Derivation	FY 2012-13	FY 2013-14	FY 2014-15

		Tariff Order	Revised Approved	Tariff Order	Revised Proposed	Revised Approved	Petition	Approved
Opening WIP as on 1st April	A	2825.77	4040.33	4714.19	5347.49	5347.49	5930.09	5855.78
Investments	B	1549.95	1519.76	2100.00	2200.00	2100.00	2800.00	1960.00
Employee expenses capitalisation	C	94.05	71.25	95.40	88.86	90.12	101.53	95.79
A&G expenses capitalisation	D	4.03	7.75	4.90	3.78	4.59	4.32	3.57
Interest capitalisation in Interest on long term loans	E	98.96	263.61	339.26	266.66	265.51	313.53	302.71
Total Investments	**F=A+B+C+D+E**	**4572.76**	**5902.71**	**7253.75**	**7906.79**	**7807.71**	**9149.48**	**8217.85**
Transferred to GFA (total capitalisation)	G	1093.93	555.22	1813.44	1976.70	1951.93	2287.37	2054.46
Closing WIP	**H=F-G**	**3478.83**	**5347.49**	**5440.31**	**5930.09**	**5855.78**	**6862.11**	**6163.39**

7.5 FINANCING OF THE CAPITAL INVESTMENT

The Petitioner's Submissions

7.5.1 The Petitioner submitted that for FY 2012-13, the amounts received as consumer contributions, capital subsidies and grants have been considered as per the Provisional Accounts for FY 2012-13. The Petitioner submitted that the consumer contributions, capital subsidies and grants for FY 2013-14 and FY 2014-15 have been considered to be in the same ratio to the total investments in FY 2012-13.

7.5.2 The Petitioner submitted that out of the proposed capital investment of Rs. 2800 Crore for FY 2014-15, the capital investment through deposit works is estimated to be Rs. 225 Crore and the remaining capital investment of Rs. 2575 Crore is estimated to be funded through debt and equity in the ratio of 70:30.

The Commission's Ruling

7.5.3 The Commission has considered a normative approach with a debt:equity ratio of 70:30. Considering this approach, 70% of the capital expenditure undertaken in the year has been considered to be financed through loan and balance 30% has been considered to be financed through equity contributions. The portion of capital expenditure financed through consumer contribution, capital subsidies and grants have been separated as the depreciation and interest thereon would not be charged to the consumers.

7.5.4 The provisional accounts for FY 2012-13 reveal the amounts received as consumer contributions, capital subsidies and grants. Further, the consumer contributions, capital subsidies and grants for FY 2013-14 and FY 2014-15 have been considered to be in the same ratio to the total investments, as proposed by the Petitioner for FY 2013-14 and FY 2014-15 respectively.

7.5.5 The Table below summarises the amounts considered towards consumer contributions, capital grants and subsidies from FY 2012-13 to FY 2014-15:

Table 7.6: Consumer contributions, capital grants and subsidies considered up to FY 2014-15 (Rs. Crore)

Particulars	FY 2012-13		FY 2013-14			FY 2014-15	
	Revised Proposed	Revised Approved	Tariff Order	Revised Proposed	Revised Approved	Petition	Approved
Opening balance of Consumer Contributions, Grants and Subsidies towards cost of Capital Assets	337.01	337.01	483.92	348.30	348.30	525.90	510.67
Addition during the year	27.96	27.96	175.00	200.00	175.00	225.00	157.50
Less: Amortisation	16.67	16.67	16.56	22.40	12.63	27.38	25.28
Closing Balance	**348.30**	**348.30**	**642.36**	**525.90**	**510.67**	**723.52**	**642.89**

7.5.6 Thus, the approved financing of the capital investment is depicted in the table below:

Table 7.7: Financing of the capital investments up to FY 2014-15 (Rs. Crore)

Particulars	Derivation	FY 2012-13		FY 2013-14			FY 2014-15	
		Revised Proposed	Revised Approved	Tariff Order	Revised Proposed	Revised Approved	Petition	Approved
Investment	A	1519.76	1519.76	2100.00	2200.00	2100.00	2800.00	1960.00

Particulars	Derivation	FY 2012-13		FY 2013-14			FY 2014-15	
		Revised Proposed	Revised Approved	Tariff Order	Revised Proposed	Revised Approved	Petition	Approved
Less:								
Consumer Contribution	B	27.96	27.96	175.00	200.00	175.00	225.00	157.50
Investment funded by debt and equity	C=A-B	1491.80	1491.80	1925.00	2000.00	1925.00	2575.00	1802.50
Debt funded	70%	1044.26	1044.26	1347.50	1400.00	1347.50	1802.50	1261.75
Equity funded	30%	447.54	447.54	577.50	600.00	577.50	772.50	540.75

7.5.7 The Commission approves consumer contributions, capital subsidies and grants to the tune of Rs. 157.50 Crore for FY 2014-15. Thus, the balance amount of Rs. 1802.50 Crore have been considered to be funded through debt and equity considering a debt equity ratio of 70:30.

7.6 DEPRECIATION

The Petitioner's Submissions

7.6.1 The Petitioner submitted that it has considered the GFA base for FY 2011-12 as per the Audited Accounts and has subsequently added the yearly capitalisation for FY 2012-13, FY 2013-14 and FY 2014-15. The Petitioner submitted that it has considered the depreciation rate of 5.28% as specified by the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009.

7.6.2 The Petitioner submitted that the depreciation has been computed only on the depreciable asset base and the depreciation on assets created out of consumer contributions, capital grants and subsidies, has been deducted from the gross allowable depreciation.

7.6.3 The Petitioner has proposed the depreciation of Rs. 591.68 Crore for FY 2014-15.

The Commission's Ruling

7.6.4 For the purpose of computing depreciation, the Commission has considered the GFA base as per the Audited Accounts for FY 2011-12 and has added the yearly capitalisation for FY 2012-13, FY 2013-14 and FY 2014-15 considered in the preceding Section.

7.6.5 For FY 2012-13 and FY 2013-14, the Commission has considered the rate of depreciation approved in the Tariff Orders for the respective years. The Transmission Tariff Regulations specify that the depreciation shall be calculated on straight line method at the rates specified by the Central Electricity Regulatory Commission in the Tariff Regulations. Considering this, for FY 2014-15, the Commission has considered a depreciation rate of 5.28%.

7.6.6 The Commission has computed the depreciation only on the depreciable asset base and have excluded the non-depreciable assets such as land, land rights, etc.

7.6.7 Considering this philosophy, the gross entitlement towards depreciation for FY 2014-15 is as shown in the Table given below:

Table 7.8: Gross allowable depreciation for FY 2014-15 (Rs. Crore)

S. No.	Particulars	Opening GFA	Addition to GFA	Deduction to GFA	Closing GFA	Depreciation Rate	Allowable Gross Depreciation
1	Land & Land Rights						
	(i) Unclassified	31.77	0.00	0.00	31.77		
	(ii) Freehold Land	5.23	0.00	0.00	5.23		
2	Buildings	303.62	0.00	0.00	303.62		
3	Other Civil Works	44.29	0.00	0.00	44.29		
4	Plant & Machinery	5662.61	1027.23	0.00	6689.84		
5	Lines, Cables, Network etc.	4464.58	1027.23	0.00	5491.81		
6	Vehicles	3.50	0.00	0.00	3.50		
7	Furniture & Fixtures	1.56	0.00	0.00	1.56		
8	Office Equipments	5.34	0.00	0.00	5.34		
9	Other assets	70.65	0.00	0.00	70.65		
10	**Total Fixed Assets**	**10593.15**	**2054.46**	**0.00**	**12647.62**		

S. No.	Particulars	Opening GFA	Addition to GFA	Deduction to GFA	Closing GFA	Depreciation Rate	Allowable Gross Depreciation
11	Non depreciable assets (Land & Land Rights)	37.00	0.00	0.00	37.00		
12	**Depreciable assets**	10556.15	2056.98	0.00	12610.62	**5.28%**	**611.60**

7.6.8 The Commission has projected the depreciation on assets created out of consumer contributions, capital grants and subsidies for FY 2014-15 in the same ratio as per the provisional accounts for FY 2012-13. The Commission has reduced the depreciation on assets created out of consumer contributions, capital grants and subsidies from the gross allowable depreciation for FY 2014-15.

7.6.9 The Commission has been, time and again, directing the Petitioner to prepare and furnish the Fixed Asset Register. Maintenance of Fixed Asset Register ensures that the costs incurred on each asset, date of commissioning, location of asset, and other technical details are properly and adequately recorded.

7.6.10 As a first step towards reprimanding the Petitioner over the issue of non-preparation of Fixed Asset Register, the Commission had withheld 20% of the allowable depreciation for FY 2013-14 till the submission of the Fixed Asset Register up to FY 2012-13, in the Tariff Order for FY 2013-14.

7.6.11 Thus as evident from the above, the Commission in its earlier Tariff Order has withheld 20% of the allowable depreciation for FY 2013-14; however, even after several directions, no submission in this regard has been made by the Petitioner so far. The Commission has already expressed its displeasure on the non-availability of Fixed Asset Register of the Petitioner and further, reiterates its direction to the Petitioner to ensure proper maintenance of detailed Fixed Assets Register, as specified in the Transmission Tariff Regulations. Thus, in line with the approach adopted by the Commission in its earlier Order over the issue of non-maintenance of Fixed Asset Register, the Commission has withheld 25% of the allowable depreciation for this year, i.e., FY 2014-15 and the Petitioner is directed to timely submit the complete details pertaining to

Fixed Asset Register for FY 2014-15 along with the ARR Petition for FY 2015-16, otherwise the withheld amount would be disallowed permanently.

7.6.12 The depreciation approved by the Commission for FY 2014-15 is as shown in the Table given below:

Table 7.9: Approved Depreciation for FY 2014-15 (Rs. Crore)

Particulars	FY 2012-13			FY 2013-14			FY 2014-15	
	Tariff Order	Revised Proposed	Revised Approved	Tariff Order	Revised Proposed	Revised Approved	Petition	Approved
Gross allowable Depreciation	390.66	376.93	376.93	554.25	506.49	505.83	619.06	611.60
Less: Equivalent amount of depreciation on assets acquired out of the Consumer Contribution	0.00	16.67	16.67	16.56	22.40	22.37	27.38	27.05
Net allowable Depreciation	390.66	360.26	360.26	537.69	484.09	483.46	591.68	584.55
Less: Depreciation withheld due to non-maintenance of Fixed Asset Registers	0.00	0.00	0.00	107.54	0.00	96.69	0.00	146.14
Depreciation approved	**390.66**	**360.26**	**360.26**	**430.15**	**484.09**	**386.77**	**591.68**	**438.41**

7.7 INTEREST AND FINANCE CHARGES

7.7.1 Interest on Long Term Loans

The Petitioner's Submissions

7.7.1.1 The Petitioner submitted that 70% of the capital expenditure is considered to be funded through debt. The allowable depreciation for the year has been considered as normative loan repayment for the year. The weighted average interest rate of overall long-term loan portfolio for FY 2012-13 has been considered for computing the interest expenses for FY 2014-15. The interest capitalisation rate of 35% has been considered for FY 2014-15.

7.7.1.2 The Petitioner has proposed interest expenses of Rs. 582.28 Crore for FY 2014-15.

The Commission's Ruling

7.7.1.3 It is reiterated that the Commission has considered a normative approach with a gearing of 70:30. In 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 contributions and grants has been separated as the depreciation thereon would not be charged to the consumers.

7.7.1.4 Allowable depreciation for the year has been considered as normative loan repayment.

7.7.1.5 The weighted average interest rate of 12.67% as per the provisional accounts for FY 2012-13 is considered for computing the interest expenses for FY 2014-15. The capitalisation of interest expenses has been considered at the rate of 35% as proposed by the Petitioner as it seems reasonable considering the interest capitalisation rate of 28.55% for FY 2010-11, 44.29% for FY 2011-12 and 38.31% for FY 2012-13.

7.7.1.6 The interest on long term loans approved by the Commission for FY 2014-15 is as shown in the Table given below:

Table 7.10: Approved Interest on Long Term Loans for FY 2014-15 (Rs. Crore)

Particulars	FY 2012-13			FY 2013-14			FY 2014-15	
	Tariff Order	Revised Proposed	Revised Approved	Tariff Order	Revised Proposed	Revised Approved	Petition	Approved
Opening Loan balance	-	4907.18	4907.17	5636.15	5591.18	5591.18	6507.09	6455.22
Loan Addition (70% of Investments)	-	1044.26	1044.26	1347.50	1400.00	1347.50	1802.50	1261.75

Particulars	FY 2012-13			FY 2013-14			FY 2014-15	
	Tariff Order	Revised Proposed	Revised Approved	Tariff Order	Revised Proposed	Revised Approved	Petition	Approved
Less: Repayments (Depreciation allowable for the year)	-	360.26	360.26	537.69	484.09	483.46	591.68	438.41
Closing Loan balance	-	5591.18	5591.18	6445.96	6507.09	6455.22	7717.91	7278.55
Weighted average rate of interest	-	**12.59%**	**12.59%**	**9.88%**	**12.59%**	**12.59%**	**12.59%**	**12.59%**
Interest on Long Term Loans	-	661.13	661.13	596.92	761.88	758.61	895.81	864.87
Interest Capitalisation Rate	-	38.65%	38.65%	23.00%	35.00%	35.00%	35.00%	35.00%
Less: Interest Capitalised	-	255.55	255.53	137.29	266.66	265.51	313.53	302.71
Net Interest Charged	**334.07**	**405.58**	**405.60**	**459.63**	**495.22**	**493.10**	**582.28**	**562.17**

7.7.2 Finance charges

The Petitioner's Submissions

7.7.2.1 The Petitioner submitted that the finance charges for FY 2014-15 have been projected by extrapolating the guarantee fee and bank charges for FY 2012-13 as per the Provisional Accounts by the yearly escalation indices. The Petitioner has proposed finance charges of Rs. 2.70 Crore for FY 2014-15.

The Commission's Ruling

7.7.2.2 The Commission has allowed guarantee fee and bank charges to the tune of Rs. 2.60 Crore and Rs. 0.06 Crore, respectively, for FY 2014-15. The same have been computed by extrapolating the guarantee fee and bank charges incurred in FY 2012-13 as per the Provisional Accounts and using the inflation indices approved for the respective years.

7.7.3 Interest on Working Capital

The Petitioner's Submissions

7.7.3.1 The Petitioner submitted that the interest on working capital has been computed in accordance with the Transmission Tariff Regulations. The Petitioner submitted that the rate of interest on working capital has been considered as 12.50%. The Petitioner has proposed Interest on Working Capital of Rs. 48.02 Crore for FY 2014-15.

The Commission's Ruling

7.7.3.2 The Transmission Tariff Regulations provides for normative interest on working capital based on the methodology specified in the Regulations. The Petitioner is eligible for interest on working capital worked out in accordance with the methodology specified in the Regulations.

7.7.3.3 In accordance with the Transmission Tariff Regulations, the interest on the working capital requirement would be the Bank Rate as specified by the Reserve Bank of India as on 1st April of every year plus a margin as decided by the Commission. Accordingly, the Commission for this Order has considered the interest rate on working capital requirement at 12.50% including margin.

7.7.3.4 The Commission in accordance with the Transmission Tariff Regulations, considered the interest on working capital as shown in the Table given below:

Table 7.11: Approved Interest on Working Capital for FY 2014-15 (Rs. Crore)

Particulars	Petition	Approved
One month's O&M expenses	44.44	44.98
One-twelfth of the sum of the book value of materials in stores at the end of each month	38.89	38.89
Receivables equivalent to 60 days average billing on consumers	300.85	272.30
Total Working Capital	**384.18**	**356.17**
Rate of Interest on Working Capital	12.50%	12.50%
Interest on Working Capital	**48.02**	**44.52**

7.8 OTHER INCOME

The Petitioner's Submissions

7.8.1 The Petitioner submitted that the other income for FY 2014-15 has been projected by escalating the actual non tariff income for FY 2011-12 by the yearly escalation indices. The Petitioner has proposed the non tariff income of Rs. 35.17 Crore for FY 2014-15.

The Commission's Ruling

7.8.2 Other income includes non tariff income, which comprises of items such as interest on loans and advances to employees, income from fixed rate investment deposits and interest on loans and advance to staff.

7.8.3 The Commission has approved the non tariff income of Rs. 35.17 Crore for FY 2014-15 as proposed by the Petitioner.

7.9 RETURN ON EQUITY

The Petitioner's Submissions

7.9.1 The Petitioner submitted that the eligible return on equity has been computed considering the closing level of normative equity for FY 2011-12 and the yearly normative equity additions for FY 2012-13, FY 2013-14 and FY 2014-15. The Petitioner submitted that the return on equity has been computed considering the rate of return of 2%. The Petitioner has proposed the return on equity of Rs. 82.36 Crore for FY 2014-15.

The Commission's Ruling

7.9.2 Under provisions of Transmission Tariff Regulations, the Petitioner is allowed a return of 14% on the equity base; for equity base calculation, debt equity ratio shall be 70:30. Where equity involved is more than 30%, the amount of equity for the purpose of tariff shall be limited to 30%. Equity amounting to more than 30% shall be considered as loan. In case of actual equity employed being less than 30%, actual debt and equity employed being less than 30%, actual debt and equity shall be considered for determination of tariff.

7.9.3 In view of the huge gap in the recovery of cost of supply at the Discom level, the Petitioner was of the view that the return on equity would only result in accumulation of receivables.

7.9.4 As such, the Petitioner has been claiming return on equity @ 2% from FY 2009-10 onwards. Return on equity has been computed on the normative equity portion (30%) of capitalised assets.

7.9.5 The Commission while undertaking analysis for allowance of return on equity has considered opening level of equity for FY 2012-13 based on the closing regulatory equity approved in the section dealing with the true up for FY 2011-12. Subsequently, it has considered the yearly normative equity based on the capital additions for FY 2012-13, FY 2013-14 and FY 2014-15.

7.9.6 The Return on Equity approved by the Commission for FY 2014-15 is as shown in the Table given below:

Table 7.12: Approved Return on Equity for FY 2014-15 (Rs. Crore)

Particulars	FY 2012-13			FY 2013-14			FY 2014-15	
	Tariff Order	Revised Proposed	Revised Approved	Tariff Order	Revised Proposed	Revised Approved	Petition	Approved
Equity at the beginning of the year	2624.93	3015.34	3015.34	3445.90	3181.91	3181.91	3774.92	3767.49
Assets Capitalised	1093.93	555.22	555.22	1813.44	1976.70	1951.93	2287.37	2054.46
Addition to Equity	328.18	166.57	166.57	544.03	593.01	585.58	686.21	616.34
Closing Equity	2953.11	3181.91	3181.91	3989.94	3774.92	3767.49	4461.13	4383.82
Average Equity	2789.02	3098.62	3098.62	3717.92	3478.41	3474.70	4118.02	4075.65
Rate of Return	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Return on Equity	55.78	61.97	61.97	74.36	69.57	69.49	82.36	**81.51**

7.10 SERVICE TAX

The Petitioner's Submissions

7.10.1 The Petitioner submitted that service tax liability is imposed on the service provider and is chargeable on actual energy transmitted during a financial year at the rates notified by the Government. The Petitioner submitted that such liability may be imposed on UPPTCL, retrospectively, as it was done in the case of PGCIL. The Petitioner submitted that in such an event, it would approach the Commission for allowance of such liability in the ARR in accordance with the provisions of Regulation 4.9 of the Transmission Tariff Regulations.

The Commission's Ruling

7.10.2 Regulation 4.9 of the Transmission Tariff Regulations specify as under:

"***4.9 Cess/Duty/Royalty/Tax imposed by State Government***

Any cess or duty or royalty or tax imposed by the State Government shall be allowed as pass through to be recovered from the distribution licensees / long term open access consumers in proportion of their allotted capacity or quantity of energy delivered, as the case may be."

7.10.3 The Petitioner has not proposed any expenses on this account in the ARR for FY 2014-15. The Commission shall take an appropriate view based on the merits of the specific submissions of the Petitioner in this regard.

7.11 SUMMARY OF AGGREGATE REVENUE REQUIREMENT FOR FY 2014-15

7.11.1 The summary of the expenses under different heads as approved by the Commission for FY 2014-15 is as shown in the Table given below:

Table 7.13: Approved ARR for FY 2014-15 (Rs. Crore)

Particulars	Petition	Approved
Employee expenses	441.43	441.43
A&G expenses	18.80	18.80
R&M expenses	178.85	178.85

Particulars	Petition	Approved
Interest on Loan Capital	895.81	864.87
Interest on Working Capital	48.02	44.52
Finance Charges	2.70	2.66
Depreciation	591.68	438.41
Gross expenditure	**2177.29**	**1989.55**
Less: Employee expenses capitalised	101.53	95.79
Less: A&G expenses capitalised	4.32	3.57
Less: Interest expenses capitalised	313.53	302.71
Net expenditure	**1757.91**	**1587.48**
Add: Return on Equity	82.36	81.51
Less: Non Tariff Income	35.17	35.17
Annual Revenue Requirement	**1805.10**	**1633.82**

7.11.2 Thus, the approved ARR for FY 2014-15 is Rs. 1633.82 Crore as against Rs 1805.10 Crore proposed by the Petitioner.

7.12 SLDC CHARGES

7.12.1 Load Despatch Centres have been termed as the apex bodies in the electricity industry. They need true independence not only in financial terms but also in decision making. The Ministry of Power, Government of India had also constituted a Committee on “Manpower Certification and Incentives for System Operation and Ring Fencing Load Despatch Centres” to ensure functional autonomy for Load Despatch Centres. The Committee in its report dated 11th August, 2008 observed that functional autonomy would mean taking decisions without being adversely influenced by extraneous issues originating from the Company Management or any of the market players, which can be ensured through:

- Independent governance structure;
- Separate accounting;
- Adequate number of skilled manpower having ethical standards and driven by altruistic values;

- Adequate logistics / infrastructure.

7.12.2 For implementation of the above recommendations, the Commission shall approve the SLDC charges, which shall be payable by the Petitioner and which will be recovered through transmission tariff as per the Clause 8 (2) of the SLDC Regulations.

7.12.3 The Commission in its Tariff Orders had emphasised on the importance of segregation of accounts of SLDC and had directed the Petitioner towards its submission. However, the Petitioner has failed to provide segregated accounts for SLDC function.

7.12.4 The Commission asked the Petitioner to elaborate on the steps taken to ensure the functioning of SLDC in independent manner both in financial terms and decision making along with the year-wise progress made in this regard.

7.12.5 The Petitioner submitted that UPSLDC is operating as a department of UPPTCL and its accounting is being done separately as one of the accounting unit within UPPTCL. In order to operationalise SLDC accounting function, separate account operations are being worked out and would be streamlined after the regular account and audit function of UPPTCL is made online in FY 2014-15. Currently, UPSLDC is discharging its functions as per SLDC regulations including registration fee per connection, scheduling/rescheduling charges and STOA application fee. The Petitioner submitted that the proposal for manpower for SLDC has been sent to GoUP vide letter dated 6^{th} August, 2012 and the approval of GoUP is awaited.

7.12.6 The Petitioner submitted that SLDC would achieve the envisaged operational, financial and administrative independency in a phased manner. The Petitioner submitted that the activities being performed by the SLDC have been categorised in three parts as depicted below:

1. Operations and Control

a. Control Room round the clock operations in 3 shifts

b. Scheduling and outage Planning

c. Data Management

d. System Studies

2. SCADA and Communication

a. SCADA and EMS

b. IT

3. Energy Accounting and settlement

a. Energy Accounting & Commercial

b. Balancing and Settlement System

c. Open Access (Short term)

4. Finance and HR functions

a. Financial Accounting and Audit, Annual Budget

b. HR including Training

7.12.7 The Petitioner submitted that the new building for SLDC is under construction and would be completed by October, 2014 and thereafter, the SLDC group would commence its operations. In order to achieve real time operations, necessary IT support system is being established along with other capital infrastructure works at par with other SLDCs.

7.12.8 The Petitioner submitted that steps are being initiated to submit annual SLDC budget covering the operating cost budget and capital cost budget. The cost of operations would be recovered from Distribution Licensees of the State in proportion of their average coincidental peak demand (in MW) based on past 12 months data or actual drawal of energy (MU) in the past 12 months. The Petitioner submitted that the operating cost budget covers O&M expenses, interest on working capital and RLDC fees and NRPC charges. Capital cost budget will comprise of depreciation on fixed assets, interest on long term loans and return on equity.

7.12.9 The Petitioner submitted that annual SLDC budget is adjusted on actual realisation of revenue component covering income from annual SLDC fees, collected on half yearly basis, and income from SLDC operating charges along with actual realisation of SLDC registration fees, scheduling/rescheduling charges and other receipts. The Petitioner submitted that with the above measures, SLDC function would soon be independent in operations.

7.12.10 The Petitioner submitted that the SLDC charges for FY 2014-15 would be around 2% of the ARR of UPPTCL based on the ARR for SLDC function as considered by the Commission in the Tariff Order for FY 2012-13. The SLDC charges proposed by the Petitioner for FY 2014-15 is as shown in the Table given below:

Table 7.14: SLDC Charges for FY 2014-15 proposed by the Petitioner (Rs. Crore)

S. No.	Particulars	Amount
1	Employee Cost	20.00
2	A&G Cost	8.00
3	R&M Costs (AMCs) Including Small Capital Works	6.59
4	SLDC Dynamic & Interactive	
	Website & Software Development	5.00
5	**Sub Total**	39.59
6	Depreciation	0.00
7	Interest & Finance Charges	0.00
8	Less : Other Income	1.00
9	Return On Equity	0.00
	Total SLDC ARR	**38.59**

7.12.11 The Commission has taken note of the submissions of the Petitioner. In the absence of segregated accounts for SLDC, the estimated costs of running UPPTCL central load despatch centre in Lucknow and four regional load despatch centres at Panki, Sahupuri, Modipuram and Moradabad, which are owned and operated by UPPTCL are embedded in the ARR approved for UPPTCL for FY 2014-15.

7.13 TRANSMISSION TARIFF

7.13.1 The Transmission Tariff Regulations provide for capacity (MW) based transmission charges. However, there are still numerous issues in the determination of MW based Transmission Tariff, like allocation of transmission capacity to the existing long-term transmission system users, allocation of existing PPAs, etc.

7.13.2 Presently, the State Discoms have not been allotted transmission capacity as such, hence the Transmission Tariff has been calculated by the Commission on the basis of the number of units wheeled by the Transmission Licensee for the Distribution Licensees.

7.13.3 The Petitioner requested the Commission to allow it to pass an internal adjustment with the distribution companies so that it recovers only its cost and no unjust enrichment is allowed on account of postage stamp tariff method based billing till such time contracted capacities are finalised.

7.13.4 The Petitioner further submitted that billing in respect of intra-State transmission charges is being done on postage stamp tariff method till such time the allotted transmission capacity of long-term transmission system customers (the Distribution Licensees and Bulk consumers) is not finalised. Suitable steps in this regard have been initiated at the Petitioner's end to finalise the allotted transmission capacities and after the finalisation of the same, the intra-State transmission charges would be claimed based on the contracted transmission capacity. The Petitioner submitted that the postage stamp tariff based billing poses the risk of unjust enrichment to the Petitioner as it is possible for it to recover fixed costs in excess of that approved by the

Commission. The Petitioner prayed the Commission to allow it to raise an internal adjustment bill with the Discoms at the year end.

7.13.5 The Commission has computed the Transmission Tariff applicable for FY 2014-15 based on the above methodology since the allocation of transmission capacity to the long-term transmission system users is not currently available.

7.13.6 As regards the prayer of the Petitioner for allowing it to raise an internal adjustment bill, the Commission is of the view that it is not required as the actual annual expenses and revenue of the Petitioner are subject to true up based on the Audited Accounts for the relevant year and the net revenue gap/surplus shall be approved by the Commission after prudence check.

7.13.7 The Commission has approved the Transmission Tariff for FY 2014-15 after considering the revenue gap / (surplus) determined after truing up of FY 2011-12 and the approved ARR for FY 2014-15. The Transmission Tariff approved by the Commission for FY 2014-15 is as shown in the Table given below:

Table 7.15: Approved Transmission Tariff for FY 2014-15

Particulars	Units	FY 2014-15	
		Petition	Approved
ARR for FY 2014-15	Rs. Crore	1805.10	1633.82
Revenue Gap for FY 2011-12	Rs. Crore	124.60	0.00*
Net ARR for FY 2014-15	Rs. Crore	1929.70	1633.82
Energy delivered to Discoms	MU	88829.95	84344.76
Transmission Tariff	Rs./kWh	0.2172	0.1937

**Allowed to recover separately*

7.13.8 The Commission thus approves the Transmission Tariff of Rs. 0.1937 / kWh for FY 2014-15.

7.13.9 The Transmission Tariff as determined by the Commission above are payable by all Distribution Licensees of the State.

7.14 OPEN ACCESS: TRANSMISSION TARIFF

The Petitioner's Submissions

7.14.1 The Transmission Tariff proposed by the Petitioner for Open Access for FY 2014-15 is as shown in the Table below:

Table 7.16: Transmission Tariff of Open Access proposed by the Petitioner for FY 2014-15

Particulars	Unit	Long Term	Short Term
Connected at 132 kV Voltage Level	Rs./kWh	0.2172	0.2172
Connected above 132 kV Voltage Level	Rs./kWh	0.1629	0.1629

7.14.2 The Petitioner submitted that the rates for customers at voltage levels above 132 kV are proposed to be billed considering a discount of 25%.

7.14.3 The Petitioner submitted that the Commission had been approving the transmission charges for short-term Open Access at $1/4^{th}$ of the transmission charges applicable to the long-term Open Access customers. This was based on the rationale that short-term Open Access customers will be allowed only surplus transmission capacity, which means a low priority and as and when available.

7.14.4 The Petitioner submitted that this was the practice adopted since the early 2000. At that relevant time, the transmission capacity in the State and also in other parts of the Country was not fully developed and the transmission system was just about sufficient to meet the total long-term capacity requirement. Further, the generating capacity in the country was predominantly having identified long-term beneficiaries and the system was fully serviced for the long-term beneficiaries with marginal use for short-term open access.

7.14.5 The Petitioner submitted that the business environment has changed over the years. Currently, there is substantial merchant capacity in the country for which, the long-term beneficiaries are not identified. In such a situation, the low short-term Open Access charges are counter-productive and induce the generators to not commit to long-term use of the networks thereby lowering non-tariff income, which increases the revenue requirement to be met by the long-term beneficiaries and eventually retail consumers. The above situation is causing considerable uncertainty in transmission capacity expansion as transmission system augmentation would be necessary to take into account the expanding generation capacity. Besides the above, there are serious issues of dealing with congestion in the existing systems.

7.14.6 The Petitioner submitted that it is necessary to ensure that the transmission licensee recovers its transmission charges and at the same time long-term customers do not get burdened unnecessarily. Therefore, in the long run the transmission charges for the short-term customers and long-term customers have to converge and be comparable with that prevailing in the neighbouring States. The short-term Open Access charges in the State of Uttar Pradesh are substantially lower than the short-term Open Access charges applicable in other States of the country. The transmission charges for short-term Open Access in the neighbouring States as submitted by the Petitioner are as shown in the Table given below:

Table 7.17: Comparison of transmission charges for short-term Open Access as submitted by the Petitioner

S. No.	State	STOA Rates (Rs/MWh)	STOA Period
1	Punjab	270	1 Month
2	Haryana	170	1 Month
3	Delhi	219.55	1 Year
4	Rajasthan	368	5 Year
5	Uttar Pradesh	34	1 day to 12 Month

S. No.	State	STOA Rates (Rs/MWh)	STOA Period
6	Uttarakhand	80	1 Month
7	Jammu & Kashmir	80	1 Month
8	UT Chandigarh	80	1 Month

7.14.7 In view of the above, the Petitioner requested the Commission to approve the transmission charges for Short Term Open Access at the same level of Long Term Open Access.

The Commission's Ruling

7.14.8 The Commission has computed the Transmission Tariff for FY 2014-15 in the preceding Section for use of the UPPTCL network for transmission of electricity.

7.14.9 The Commission in its previous Tariff Orders had impressed upon the Petitioner to submit the details in support of the voltage-wise losses claimed. However, the Petitioner had not submitted any supporting study to justify the voltage-wise losses. The ARR/Tariff Petition of the Petitioner for FY 2014-15 is also devoid of any supporting information/study with regard to the voltage-wise losses considered.

7.14.10 The Commission in its previous Order has considered the interim allocation of cost at various voltage levels and approved the transmission charges payable by the Open Access consumers. In the absence of any study and details of voltage wise losses, the Commission is constrained to adopt a normative approach for the determination of Open Access charges at different voltage levels.

7.14.11 In the absence of voltage level wise break-up of expenses and asset details, the Commission has, for the purpose of the present Order, considered an interim allocation of costs at various voltage levels and approved the following transmission charges payable by all Open Access customers based on the voltage level at which they are connected with the grid.

7.14.12 The Transmission charges for open access consumers connected at voltage levels above 132 kV are assumed to be at 75% of the charges specified for consumers connected at 132 kV voltage level.

7.14.13 As regards the prayer of the Petitioner to approve the transmission charges for short-term Open Access at the same level of long-term Open Access, the Commission has done a detailed analysis of the provisions of the Regulations and the practice followed in the other States.

7.14.14 The Commission has issued the UPERC (Terms and Conditions for Open Access) Regulations, 2004 vide notification dated 7 June, 2005. Regulation 15(1)(d) of the UPERC (Terms and Conditions for Open Access) Regulations, 2004 specify as under:

"*The short-term open access customer shall pay 25% of the annual transmission or wheeling charges as determined by the Commission for that year based on average capacities served by such systems……..*"

7.14.15 The rationale and purpose of providing the short-term Open Access charges at 25% of the charges payable by the long-term Open Access users was that short-term Open Access customers will be using only surplus transmission capacity with low priority and if and when available, and accordingly the charges would be at the lower level.

7.14.16 The Commission in its Order dated 15th April, 2008 (Tariff Order for FY 2007-08 & FY 2008-09) approved the transmission charge for short-term Open Access as 25% of the Transmission Charge for long-term Open Access.

7.14.17 The Commission has issued the UPERC (Terms and Conditions for Open Access) (First Amendment) Regulations, 2009 vide notification dated 18th June, 2009. The Commission vide the above stated amendment Regulation removed the above stated provision for Transmission charges for short-term Open Access in the main Regulations.

7.14.18 Regulation 15 of the UPERC (Terms and Conditions for Open Access) (First Amendment) Regulations, 2009 specifies as under:

"(1) Transmission charges and Wheeling charges

The Transmission charges and/or Wheeling charges for use of the transmission system of a transmission licensee and/or the distribution system of a distribution licensee shall be regulated as under:

(a) Transmission charges and wheeling charges payable by a (long-term or short-term) open access customer shall be determined by the Commission in terms of the regulations framed by the Commission for determination of tariff for transmission and distribution licensee respectively.

Provided that where a transmission system and/or a distribution system has been constructed for exclusive use of an open access customer, the transmission charges and/or wheeling charges for whole of the system including such additional system shall be paid by open access customer.

Provided also that the average capacity, for transmission system shall be sum of generating capacities connected to the transmission system and contracted capacities of other transactions handled by the system of the licensee while in case of distribution system, it shall be sum of import of power at each interface point of exchange of power at electrical boundary of distribution licensee and generation from captive power plants, co-generation plants and plants generating electricity from renewable sources of energy located in the area of such license.

(b) In case intra state transmission system and/or distribution system is used by an open access customer in addition to inter-state transmission system, transmission charges and wheeling charges shall be payable for use of intra-state transmission and/or distribution system in addition to payment of transmission charges for inter-state transmission.

(c) When reservation of capacity has been done consequent to bidding, the rate shall be taken as decided by bidding.

…………"

7.14.19 Regulation 3.11(3) of the Transmission Tariff Regulations specifies as under:

"Wheeling charges for short-term open access customers shall be in accordance with Open Access Regulations of the Commission as amended from time to time."

7.14.20 Hence, the methodology for determining the Transmission charges for short-term Open Access is not explicitly defined either in UPERC (Terms and Conditions for Open Access) (First Amendment) Regulations, 2009 or in the Transmission Tariff Regulations.

7.14.21 The Commission in its Order dated 31st March, 2010 (Tariff Order for FY 2009-10), Order dated 19th October, 2012 (Tariff Order for FY 2010-11, FY 2011-12 and FY 2012-13) and Order dated 31st March, 2013 (Tariff Order for FY 2013-14) approved the transmission charge for short-term Open Access as 25% of the transmission charge for long-term Open Access, in line with the approach adopted in the Tariff Order for FY 2007-08 and FY 2008-09.

7.14.22 Due to substantial use of short-term Open Access, the basis on which the short-term Open Access Charges are being levied in the country have undergone change. This could be observed from the Central Electricity Regulatory Commission (Sharing of Inter State Transmission Charges and

Losses) Regulations, 2010 wherein the transmission charges for long-term, medium-term and short-term Designated ISTS customer of the transmission system are same.

7.14.23 The Model Terms and Conditions of Intra-State Open Access Regulations issued by the Forum of Regulators do not specify Transmission charge separately for long-term Open Access and short-term Open Access. Regulation 20 of the Model Terms and Conditions of Intra-State Open Access Regulations issued by the Forum of Regulators, September 2010, specify as under:

*"**20. Transmission Charges***

Open Access customer using transmission system shall pay the charges as stated hereunder:

…….

(2) For use of intra-State transmission system – Transmission charges payable to State Transmission Utility/ transmission licensee by an open access customer for usage of their system shall be determined as under:

Transmission Charges = ATC/(PLST X365) (in Rs./MW-day)

Where,

ATC= Annual Transmission Charges determined by the Commission for the State transmission system for the concerned year.

PLST= Peak load projected to be served by the State transmission system in concerned year.

Provided that transmission charges shall be payable on the basis of contracted Capacity/ Scheduled Load or actual power flow whichever is higher. For Open Access for a part of a day, the transmission charges shall be payable on pro-rata basis:

…………."

7.14.24 Also, the revenue earned by the Petitioner through Open Access has increased substantially in the recent years as shown in the Table given below:

Table 7.18: Revenue from Open Access (Rs. Crore)

Particulars	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
	Audited	Audited	Audited	Audited	Provisional
Revenue from Open Access	1.49	33.24	70.84	49.45	33.82

7.14.25 The trend of revenue from Open Access for the Petitioner shows considerable increase in the energy transacted through Open Access.

7.14.26 Also, the Commission has observed that transmission charges for long-term Open Access and short-term Open Access are equal in the States like Punjab, Delhi, Gujarat, Rajasthan, Maharashtra, Tamil Nadu.

7.14.27 In light of the above, the Commission is of the view that there is merit in the prayer of the Petitioner to approve the transmission charges for short-term Open Access at the same level of long-term Open Access.

7.14.28 Hence, in accordance with the provisions of UPERC (Terms and Conditions for Open Access) Regulations, 2004 and amendments thereto and the Transmission Tariff Regulations, the Commission has approved the transmission charges for short-term Open access at the same level of long-term open access. The transmission open access charges approved by the Commission are as shown in the Table given below:

Table 7.19: Approved Voltage wise Transmission Open Access charges for FY 2014-15

Particulars	Unit	Long Term	Short Term
Connected at 132 kV Voltage Level	Rs./kWh	0.1937	0.1937
Connected above 132 kV Voltage Level	Rs./kWh	0.1453	0.1453

7.14.29 In addition to the above charges, the open access consumer would also be liable to bear the transmission losses in kind. In the absence of authenticated voltage level loss data, the Commission has ruled that the transmission losses for FY 2014-15 would be 3.67% irrespective of the voltage levels at which the consumers are connected with the grid.

7.14.30 The open access charges and losses to be borne by the open access consumers shall be reviewed by the Commission on the submission of the relevant information by the Petitioner.

8. DIRECTIVES

8.1 COMPLIANCE TO DIRECTIVES ISSUED IN THE ORDER DATED 21ST MAY, 2013 ON TRUE UP FOR FY 2000-01 TO FY 2007-08

8.1.1 The Commission had issued certain directives to the Petitioner in the Order dated 21st May, 2013 on true up for FY 2000-01 to FY 2007-08. The status of compliance submitted by the Petitioner to the same is as shown in the Table given below:

Table 8.1: Status of compliance to the directives issued by the Commission in the Order dated 21st May, 2013

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
1	The Commission directs the Petitioner to furnish the True-up Petitions along with audited accounts in respect of the DVVNL, MVVNL, PVVNL, PuVVNL and UPPTCL for the financial year 2011-12.	The Petitioner submitted that the Audited Accounts for FY 2011-12 has been submitted along with the Tariff Petition for FY 2014-15	-	-
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	The Petitioner submitted that the details of for FY 2011-12 have been submitted vide its letter dated 9th May, 2014 in replies to datagaps	The Petitioner is directed to file a separate Petition for approval of prior period expenses / incomes. The Petition should clearly indicate the head wise and year wise bifurcation of prior period expenses / incomes clearly indicating the impact of such expenses / incomes on various ARR components and such impact should not exceed the normative expenses for any particular year.	Immediate

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
3	The Petitioner is directed to provide the details pertaining to the accumulated regulatory depreciation claimed on each class of asset.	The Petitioner submitted that the it has filed Petition for true up for FY 2011-12	The Petitioner is directed to provide the details pertaining to the accumulated regulatory depreciation claimed on each class of asset reconciling the same with the accumulated depreciation as per the Fixed Asset Register.	3 months
4	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. The Petitioner is directed to furnish the true up information based on audited accounts for FY 2007-08 as well in a similar manner.	The Petitioner submitted the same has been submitted vide its letter dated 27th June, 2013 and 9th May, 2014.	-	-

8.2 COMPLIANCE TO DIRECTIVES ISSUED IN THE ORDER DATED 31st MAY 2013 (TARIFF ORDER FOR FY 2013-14)

8.2.1 The Commission had issued certain directives to the Petitioner in the Order dated 31st May, 2013 on approval of ARR and Transmission Tariff for FY 2013-14. The status of compliance submitted by the Petitioner to the same is as shown in the Table given below:

Table 8.2: Status of compliance to directives issued by the Commission in the Order dated 31st May, 2013

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
1	The Commission directs UPPTCL to file its ARR / Tariff	The Petitioner submitted that the audited accounts for FY 2011-12 were	-	-

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
	Petition for FY 2014-15 along with true up petition for FY 2011-12 based on audited accounts in compliance with the directives of the Hon'ble APTEL in Appeal No. 242 of 2012.	submitted along with the ARR Petition for FY 2014-15 and thereafter the Supplementary audit report of the AGUP was submitted vide letter dated 21st March, 2014.		
2	The Commission directs UPPTCL to submit the supplementary audit report of the AGUP for FY 2009-10 and 2010-11.	The Petitioner submitted that the audited accounts for FY 2009-10 and 2010-11 together with the supplementary audit report of the AGUP has been submitted with the ARR Petition for FY 2014-15.	-	-
3	The Commission directs UPPTCL to frame an appropriate policy on capitalization of (i) employee costs, and (ii) A&G expenses	The Petitioner submitted that due to multiplicity of functional units as well as multiplicity of function at particular unit, employee cost and general and administrative expenses are capitalized on the basis of amount of total expenditure of capital works as follows: In case of Transmission works: (i) 10% on 132 & 220 kV substations and lines (ii) 8% on 400 kV substations and lines; and (iii) 6% on 765 kV substations and lines. 15% in case of deposit works and 11% in case of other capital works.	-	-
4	The Commission directs UPPTCL to submit the Fresh Actuarial Valuation Study Report in respect to employee expenses.	The Petitioner submitted that it had attempted to appoint an actuary but there was no response from the established players. The Petitioner submitted that till the date the actuarial valuation study is completed, the pension and gratuity contribution may be allowed at the levels prayed for in the Petition.	The Commission directs UPPTCL to submit the Fresh Actuarial Valuation Study Report in respect to employee expenses.	Along with ARR and Tariff Petition for FY 2015-16
5	The Commission reiterates its direction to the UPPTCL to ensure proper maintenance of detailed fixed assets registers as specified in the Transmission Tariff	The Petitioner submitted that appropriate instructions have been issued to the field units to prepare fixed asset registers. However, there are two practical difficulties in the preparation of fixed asset registers.	The Commission reiterates its direction to UPPTCL to ensure proper maintenance of detailed Fixed Assets Register as specified in the Transmission Tariff	Immediate

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
	Regulations. As the fixed asset registers are pending since FY 2007-08, the Commission directs the UPPTCL to submit a status report and provide the proposed timelines / milestones for clearing the backlog. The Commission understands that clearing the backlog would take substantive time. In order to ensure that fixed asset registers are timely and regularly prepared going forward, the Commission directs the UPPTCL to prepare the fixed asset registers duly accounting for the yearly capitalisations from FY 2012-13 onwards. The capitalisation for the period before that may be shown on gross level basis. This dispensation is merely to ensure that the proper asset registers capturing all necessary details of the asset, including the costs incurred, date of commissioning, location of asset, and all other technical details are maintained for the ensuing years. However, the Licensee would also be required to clear the backlog in a time bound manner. Upon finalisation of the Transfer Scheme and clearing of backlog, the Licensee may update the fixed asset registers appropriately by passing necessary adjustments.	They are: (a) Finalisation of unit levels subsequent to transfer scheme is still pending. (b) Huge backlog from FY 2007-08. The Petitioner prayed that the direction to prepare fixed asset registers may be waived for FY 2014-15 and about a year's time may be provided to prepare the fixed asset registers from FY 2007-08 onwards.	Regulations. In order to ensure that Fixed Asset Register is timely and regularly prepared going forward, the Commission directs UPPTCL to prepare the Fixed Asset Register duly accounting for the yearly capitalisations from FY 2012-13 onwards. The capitalisation for the period before that may be shown on gross level basis. This dispensation is merely to ensure that the proper asset registers capturing all necessary details of the asset, including the costs incurred, date of commissioning, location of asset, and all other technical details are maintained for the ensuing years. However, the Petitioner would also be required to clear the backlog in a time bound manner. Upon finalisation of the Transfer Scheme and clearing of backlog, the Petitioner may update the Fixed Asset Register appropriately by passing necessary adjustments.	
6	The Commission redirects the UPPTCL / SLDC that the ARR / budget for SLDC should be submitted separately along	The Petitioner submitted that ARR of SLDC has not been submitted separately in FY 2014-15. It has been estimated as 2% of Transco ARR.	The Commission redirects UPPTCL / SLDC that the ARR / budget for SLDC should be submitted separately along	Along with ARR & Tariff Petition for FY 2015-16

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
	with the ARR submission of TRANSCO. The costs have to be separately identified and not embedded in the TRANSCO ARR.		with the ARR submission of TRANSCO. The costs have to be separately identified and not embedded in the TRANSCO ARR.	
7	The Commission directs UPPTCL to formalise the capacity of transmission system in use by long-term open access customers (Distribution Licensees or generating companies) in accordance with the principle laid down under Clause 3.11 of Transmission Tariff Regulations and based on existing PPAs / MoU's signed by them for purchase or sale of electricity.	The Petitioner submitted that it would take suitable steps to abide by the MYT Regulations for the Transmission business about to be notified by the Commission.	The Commission directs UPPTCL to formalise the capacity of transmission system in use by long-term open access customers (Distribution Licensees or generating companies) in accordance with the principle laid down under Tariff Regulations and based on existing PPAs / MoU's signed by them for purchase or sale of electricity.	Immediate
8	The Commission directs UPPTCL to initiate the process of signing of BPTA with Distribution Licensees who are the existing long-term customers and submit the status on execution of BPTA of the same.	The Petitioner submitted that BPTA of 270 MW with NPCL has been signed on 27th March, 2014 and is under process of signing BPTA with other Distribution Licensees.	The Commission directs UPPTCL to initiate the process of signing of BPTA with Distribution Licensees who are the existing long-term customers and submit the status on execution of BPTA of the same.	Within 3 months
9	The Commission directs SLDC to submit organizational structure of SLDC and status of implementation of the same in view of its creation on 24th January, 2011 by a notification of the State Govt.	The Petitioner submitted that the organizational structure of SLDC has been sent to GoUP for approval.	The Commission directs the Petitioner to expedite the matter with GoUP for obtaining the approval.	-
10	The Commission directs the UPPTCL to submit a long term business plan in accordance with Clause 2.1.6 of the Transmission Tariff Regulations. The UPPTCL in such business plan shall identify capex projects for the ensuing year and subsequent four years and submit detailed capital investment plan along with a	The Petitioner submitted that it would take suitable steps to abide by the MYT Regulations for the Transmission business about to be notified by the Commission.	The Commission directs the Petitioner to claim the capital investment plan henceforth, strictly in accordance with applicable Tariff Regulations for the Petitioner.	-

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
	financing plan for undertaking the identified projects in order to meet the requirement of load growth, refurbishment and replacement of equipment, reduction in transmission losses, improvement of voltage profile, improvement in quality of supply, system reliability, metering, communication and computerization, etc.			
11	The Commission directs the UPPTCL to conduct benchmarking studies to determine the desired performance standards in accordance with Clause 2.1.7 of the Transmission Tariff Regulations.	The Petitioner submitted that the Commission has indicated the scope of work for the benchmarking studies vide its letter dated 3rd February, 2014. The Petitioner submitted that the Terms of Reference for the benchmarking studies would be finalized and an independent consultant would be appointed to undertake such studies.	The Commission directs UPPTCL to conduct benchmarking studies to determine the desired performance standards and submit the report to the Commission.	Within 6 months
12	The Commission directs the UPPTCL to conduct proper loss estimate studies under its supervision so that the Commission may set the base line losses in accordance with Clause 3.3.5 and Clause 3.3.6 of the Transmission Tariff Regulations and submit the report to the Commission.	The Petitioner submitted that it would take suitable steps to abide by the MYT Regulations for the Transmission business about to be notified by the Commission.	The Commission directs UPPTCL to conduct proper loss estimate studies under its supervision and submit the report to the Commission.	Within 3 months
13	The Commission directs the UPPTCL to submit completion report in respect of all capital projects which have achieved the Commercial Operation Date during FY 2011-12 in accordance with Clause 3.6.7 of the Transmission Tariff Regulations.	The Petitioner submitted that the information has been submitted vide its letter dated 9th May, 2014	The Commission directs UPPTCL to submit completion report in respect of all capital projects which have achieved the Commercial Operation Date during for each year in accordance with Clause 3.6.7 of the Transmission Tariff Regulations.	Along with true up Petition for the relevant year
14	The Commission directs the UPPTCL to exclude the	The Petitioner submitted that CERC has still not approved the	The Commission directs UPPTCL to exclude the	Along with ARR & Tariff Petition for

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
	transmission charges approved by CERC towards transmission lines connecting two States from the overall transmission charges claimed in the next ARR filing for UPPTCL	transmission charges for the transmission lines connecting two States for FY 2013-14.	transmission charges approved by CERC towards transmission lines connecting two States from the overall transmission charges claimed in the next ARR filing for UPPTCL	FY 2015-16
15	The Commission directs the Licensee to pressingly pursue the GoUP for finalisation of the Transfer Scheme and submit a copy of the same.	The Petitioner submitted that the same is pending at the end of the GoUP.	The Commission directs the Petitioner to urgently pursue with the GoUP for finalisation of the Transfer Scheme and submit a copy of the same.	Within 3 months
16	Clause 5.3.5 of the National Electricity Policy states the following: "To facilitate orderly growth and development of the power sector and also for secure and reliable operation of the grid, adequate margins in transmission system should be created. The transmission capacity would be planned and built to cater to both the redundancy levels and margins keeping in view international standards and practices. A well planned and strong transmission system will ensure not only optimal utilization of transmission capacities but also of generation facilities and would facilitate achieving ultimate objective of cost effective delivery of power. To facilitate cost effective transmission of power across the region, a national transmission tariff framework needs to be implemented by CERC. The tariff mechanism would be sensitive to distance, direction and related to quantum of	The Petitioner submitted that CERC had initiated studies in respect of PoC mechanism and subsequently approved the PoC Regulations. The Petitioner submitted that the it would be appropriate that the Commission initiate such studies and approve a framework for transmission pricing in the State.	The Commission directs the UPPTCL to submit load flow studies along with the assessment of various options with regards to transmission pricing, their relative advantages and disadvantages and suitability for adoption in Uttar Pradesh	Within 6 months

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
	flow. As far as possible, consistency needs to be maintained in transmission pricing framework in inter-State and intra-State systems. Further it should be ensured that the present network deficiencies do not result in unreasonable transmission loss compensation requirements.” In exercise of the powers conferred under section 178 read with Part V of the Electricity Act, 2003 (36 of 2003), and in line with the above provision of the National Electricity Policy, the Central Electricity Regulatory Commission notified the Regulations i.e. CERC (Sharing of Inter State Transmission Charges and Losses) Regulations, 2010 on 15th June 2010 which came into effect from 1.7.2011. Further, the Clause 7.1 (7) of the National Tariff Policy states the following: “After the implementation of the proposed framework for the inter-State transmission, a similar approach should be implemented by SERCs in next two years for the intra-State transmission, duly considering factors like voltage, distance, direction and quantum of flow.” The National Tariff Policy requires the states to adopt the mechanism similar to the one adopted at the Central level within two years of its implementation at the central level. Hence, the transmission			

S. No.	Directive	Compliance status submitted by the Petitioner	Fresh directive	Time period for compliance from the date of issue of this Order
	pricing mechanism in line with the PoC mechanism has to be implemented at the state level by June 2013 The Commission directs the UPPTCL to submit load flow studies along with the assessment of various options with regards to transmission pricing, their relative advantages and disadvantages and suitability for adoption in Uttar Pradesh			

8.2.2 The Commission directs the Petitioner to follow the directions scrupulously and send the periodical reports by 30th of every month about the compliance of directions to the Commission on regular basis.

9. APPLICABILITY OF THE ORDER

The Petitioner, in accordance with Section 139 of the UPERC (Conduct of Business) Regulations, 2004 shall publish the approved tariffs within three days from the date of this Order. The Petitioner shall ensure that the same is published in at least two daily newspapers (one English and one Hindi) having wide circulation in the area of supply. The tariffs so published shall become the notified tariffs applicable in the area of supply and shall be effective after seven days of such publication, and unless amended or revoked, shall continue to be in force till issuance of the next Tariff Order.

(I.B. Pandey) **Member**	**(Meenakshi Singh)** **Member**	**(Desh Deepak Verma)** **Chairman**

Place: Lucknow
Dated: 1st October, 2014

ANNEXURE – I

LIST OF PERSONS WHO ATTENDED THE PUBLIC HEARING IN RESPECT OF PROCEEDINGS FOR ARR & TARIFF DETERMINATION FOR UPPTCL FOR FY 2014-15

List of Persons who attended Public Hearing in Lucknow on 30th July, 2014		
S. No	**Name**	**Organization**
1	Mr. D.C. Verma	UPPCL
2	Mr. Mohit Goyal	Consultant, UPPCL
3	Mr. Raman Gulati	Consultant, ABPS (UPERC)
4	Ms. Chhavi Chauhan	Consultant, ABPS (UPERC)
5	Mr. Mohd. Ghufran	UPPCL
6	Mr. S. Josi	UPPCL
7	Mr. S. Gaur	-
8	Mr. Abhisek Yadav	Consumer
9	Mr. A.K. Arora	NPCL
10	Mr. Sanjay Srivastava	-
11	Mr. Avadhesh Kumar Verma	Chairman, UPRVUP
12	Mr. Dr. Amit Bhargava	UPERC
13	Mr. Sanjay Srivastava	UPERC
14	Mr. Bhushan Rastogi	Consultant, UPPCL
15	Mr. P. Khandalkar	UPPTCL