

**BEFORE THE ORISSA ELECTRICITY REGULATORY COMMISSION BHUBANESWAR  
IN THE MATTER OF**

An Application for approval of Annual Revenue Requirement and Retail Supply Tariff for the financial year 2009-10, under Section 62 and other applicable provisions of the Electricity Act 2003 and in conformity with the provisions of OERC ( Terms and Conditions for determination of Tariff) Regulations, 2004 and OERC ( Conduct of Business) Regulations 2004.

AND

**IN THE MATTER OF**

Western Electricity Supply Company of Orissa Ltd (WESCO)  
Regd. Office-Plot No.123, Sector-A, Zone-A, Mancheswar Industrial Estate, Bhubaneswar-751010.

-----Licensee

**Affidavit verifying the application for the Annual Revenue Requirement and Tariff Application**

I, Prasant Kumar Pradhan, Son of Shri Kasta Charan Pradhan, aged about 53 years, residing at Pradhanpara, Sambalpur, do hereby solemnly affirm and state as follows:-

I am the Chief Executive Officer of the Western Electricity Supply Company of Orissa Limited (WESCO), Regd. Office-Plot No.123, Sector-A, Zone-A, Mancheswar Industrial Estate, Bhubaneswar-751010.

The statements made above along with the annexures annexed to this application are true to the best of my knowledge and the statements made are based on information and records and I believe them to be true

**Bhubaneswar**

**Date 29<sup>th</sup> November-2008**

**DEPONENT**

**Chief Executive Officer.**

**WESCO**

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## **1. Executive Summary**

Western Electricity Supply Company of Orissa Limited, Burla,( WESCO), a Distribution and Retail Supply licensee , in Orissa has been carrying out the business of distribution and retail supply of electricity in the nine districts of Orissa namely Sambalpur, Sundargarh, Bolangir, Bargarh, Deogarh, Nuapara, Kalahandi, Sonepur and Jharsuguda. This submission is made by the licensee to the Honorable Commission for the determination of Aggregate Annual Revenue Requirement and the Retail Supply Tariffs for the Financial Year 2009-10.

The licensee is carrying out the business of retail supply of electricity under tremendous financial stress and liquidity strain. Retail Supply Tariffs have remained unchanged since FY 01, rather reduced for some categories of consumers, while bulk supply tariffs have increased by approximately 31%. In absence of any revenue sharing mechanism of sector surpluses from trading of power and UI, the proceeds of which are used to offset pre privatisation losses, the licensee finds itself ignored and isolated at the extreme end of the value chain and cost chain. Under the current circumstances, the Licensee is unable to meet its costs at existing tariffs and unless there is an increase in retail supply tariff or decrease in input costs in FY 09-10 or any grant/ subsidy outlay the licensee will find it extremely difficult to meet its obligations as a distribution licensee. Accordingly the licensee prays that such exigencies be considered while processing this Application.

The licensee submits

1.1 That the Licensee in accordance with the license conditions is required to calculate the total expected revenue from sale of electricity charges in accordance with the provisions of Section 5 Chapter 3 of the OERC (Terms and Conditions for determination of tariff) Regulations 2004, and directives issued vide order dated 23<sup>rd</sup> March 2008 and to submit to the Honourable Commission:

- a. A statement with full details of its expected annual revenue and costs for the ensuing financial year for its Licensed Business.
- b. Tariff rationalisation proposals for the year 2009-10.
- c. Compliance of the directives issued by the Hon'ble Commission.

1.2 That the Licensee has submitted a Business Plan and Turnaround Strategy for the Second Control Period ( FY2008-09 to FY 2011-2012) currently registered as Case No 42 of 2007

wherein in addition to submissions of estimates for revenues and costs, strategies for a business turnaround has been suggested to the Honorable Commission, wherein revenues and costs have been projected. The hearings are being held and decision on the same is awaited.

1.3 That the capex is proposed for an amount of Rs 626 Crore under RGGVY, which includes metering, new lines and sub-stations, reconductoring, renovation and modernization of existing sub-stations, etc. In addition to that the Company also proposes to incur Rs.30 Crore under deposit works and Rs 33 crore under System Improvement scheme.

1.4 That the Licensee has made certain assumptions while projecting its operations for the FY 2009-10. These projections are based upon the best estimates of the operations and prospective plans of the company at the time of the ARR filing. The actual ARR and the revenue figures would be different from the above estimates due to several external factors such as power purchase cost and change in consumer mix/ consumption etc.

1.5 Based on estimated Revenue Requirement and Revenue at existing tariff, the revenue gap for FY 2009-10 works out to Rs 452.40 Crore. The licensee submits that the revenue gap of FY 2009-10 includes Amortisation of regulatory assets amounting to Rs 181.58 Crore and uncovered revenue gap for FY 2008-09 on account of truing up as Rs 128.84 Crore.

**Table 1 : Revenue Gap**

	<b>Rs Crore</b>
Expenditure including Special Appropriation in FY 2009-10	1431.97
Reasonable return for FY 2009-10	9.03
Amortisation of Regulatory Assets	181.58
Truing up of Revenue Gap for FY 2008-09	128.84
<b>Sub Total</b>	<b>1751.42</b>
Revenue from sale of power at existing tariffs in FY 2009-10	1282.13
Non Tariff Income	16.89
<b>TOTAL REVENUE GAP ( existing tariffs)</b>	<b>452.40</b>

Additional Revenue from sale of power at proposed tariffs in FY 2009-10	<b>106.74</b>
<b>TOTAL REVENUE GAP ( with proposed tariffs)</b>	<b>345.66</b>

The revenue gap for the year 2009-10, considering the BSP calculated at revised rates of 137.25 p/u as proposed by the licensee in its appeal before the ATE, and transmission charges of 21p/u. However, if the prevailing BSP rate for FY2008-09 of 157.25 p/u and transmission tariff of 21p/u is taken into account, the Revenue Gap for the year 2009-10 shall be Rs.471.06 crore, details of which are as under;

	<b>Rs. Crore</b>
Revenue GAP for 2009-10 considering revised BSP as proposed	<b>452.40</b>
Power cost at 2008-09 BSP ( @157.25 p/u.) and transmission charges of 21p/u	1121.19
Power cost at 2008-09 BSP ( @ 137.25p/u) and transmission charges of 21p/u	995.39
<b>Higher Power Cost</b>	<b>125.80</b>
<b>REVENUE GAP at existing BSP &amp; Transmission Tariff</b>	<b>577.80</b>
Additional Revenue from sale of power at proposed tariffs in FY 2009-10	<b>106.74</b>
<b>TOTAL REVENUE GAP ( with proposed tariffs)</b>	<b>471.06</b>

The licensee humbly requests the Hon'ble Commission to bridge the revenue gap through combination of Grant/Subsidy from State Government, Reduction in Bulk Supply Tariff and/or Increase in Retail Supply Tariff in an appropriate manner.

1.6 That the present application is presented before the Hon`ble Commission for the approval of the Annual Revenue Requirement and determination of Retail Supply Tariffs for FY 2009-10.

## 1.7 Prayer

In the aforesaid facts and circumstances, the licensee requests that the Hon'ble Commission may be pleased to:

- Take the accompanying ARR and Tariff Petition on record.
- Approve the Annual Revenue Requirement for FY 2009-10 including amortisation of regulatory assets, truing up of uncovered gap upto FY 2007-08 based on expenses and revenue approved by the Commission.
- Bridge the Revenue Gap through combination of increase in Retail Supply Tariff, Reduction in Bulk supply Tariff, Government Subsidy etc.
- Allow the Licensee to submit additional documents, modify the present petition, if so required during the course of hearing
- Reconsideration of revised estimates of the licensee for the FY 2008-09 with respect to power purchase of 6102 MU with SMD of 960 MVA
- **Suitable directives to the GoO to separate and create an independent management of GRIDCO and OPTCL without conflict of interest.**
- **Direct GRIDCO to relax Escrow in this priority keeping in view the interest and better services to the consumers of Orissa**
  - Payment of current Bulk Supply Tariff bills
  - Employee Expense
  - R&M Expense
  - A&G Expense
  - Remaining 50% to be utilised for past dues of GRIDCO and rest 50% for system improvement
- Any other relief, order or direction which the Hon'ble Commission deems fit be also issued.

## **2. Background**

Western Electricity Supply Company of Orissa Limited (WESCO) is the holder of license No.4/99 granted by OERC under Section 15 of the OERA vide their order dated 31<sup>st</sup> March, 1999 and has been operating under the license granted by the Commission.

The licensee from time to time has on several occasions has approached OERC for revision in Retail Supply Tariff as the existing tariffs were found to be insufficient to meet the estimated costs.

### **FY 1999-2000 to FY 2001-02**

Tariff orders for the above periods were awarded by OERC in Case No. 24 of 1999 on 30.12.99, case No.17 of 2000 on 19.01.2001 and case No.54 of 2001 on 19.04.2002.

### **FY2002-03 to FY 2005-06**

Proposal for Tariff revision in FY 2002-03 was not submitted in view of the order of the Hon'ble Commission in case no 54/2001 & 6/2002 while approving the Annual Revenue Requirement for the year 2002-03. For the year 2003-04, the Order of the Hon'ble Commission in case No.64/2002 dated 28.06.2003 published on 12.11.2003 has been stayed on 27.12.2003 in view of the review petition filed by the State of Orissa. For FY 2004-05, the Licensee had initially filed its ARR Petition in December 2003 incorporating actuals for the first six months of FY 2003-04 which was subsequently updated and revised. The Licensee submitted the revised ARR and Tariff Application for FY 2004-05 on 23.06.2004. However on the basis of a writ petition filed by the Orissa Consumers' Association before the Hon'ble High Court of Orissa and its subsequent judgment dated 18-10-2004 directing the licensees to make fresh applications in conformity to the provisions of OERC (Terms and Conditions for determination of Tariff) Regulations 2004, particularly Chapter II, III thereof and Chapter VIII of OERC (Conduct of Business) Regulations 2004 and the Electricity Act 2003, the Licensee submitted the ARR and Tariff Application for FY 2004-05 on 28.10.2004. The Hon'ble Commission issued its Order on ARR and Tariff Petition for FY 2004-05 on 26<sup>th</sup> February, 2005 (Order passed in Case No 142 of 2004). The Commission on 26<sup>th</sup> February 2005 also issued the Order on ARR and Tariff Petition of GRIDCO for FY 2004-05 (Order passed in Case No. 146 of 2004).

### **FY 2005-06 to FY 2008-09**

The Licensee filed its Petition for ARR and Tariff Determination for FY 2005-06 on 24<sup>th</sup> November 2004 and the Hon'ble Commission issued its Order on the said Petition on 22<sup>nd</sup> March 2005 (Order passed in Case No. 143 of 2004). The Commission on 26<sup>th</sup> February 2005 also issued the Order on ARR and Tariff Petition of GRIDCO for FY 2005-06 (Order passed in Case No. 147 of 2004).

Subsequently, on 24<sup>th</sup> May 2005 the Licensee filed two separate review Petitions on the following Orders passed by the Commission seeking review/modification of the said Orders, which was addressed in the hearings for determination of ARR of FY07.

For FY 06-07, the Licensee filed the Annual Revenue Requirement (ARR) and revision of Retail Supply Tariff (RST) applications which was duly scrutinized, admitted and registered as Case No. 44/2005.

In the meantime, the Orissa Electricity Regulatory Commission (OERC), acting on the Petition filed before it seeking action against the DISCOMs WESCO, NESCO and SOUTHCO under Section 19 and Section 24 (Suspension of Distribution licence and sale of Utility) of the Electricity Act, 2003, heard the parties, including the Investor in DISCOMs (Reliance Energy Limited). After the last hearing held on January 16, 2006, OERC passed the Order on January 27, 2006 stating that the three distribution licensees, i.e., WESCO, NESCO and SOUTHCO are unable to discharge the duties imposed by or under the provisions of the Electricity Act, 2003 (EA 2003) and have persistently defaulted in complying with the directions given by the Commission under the provisions of the EA 2003 and it is necessary in public interest to suspend the licensees of these DISCOMs and appoint an Administrator for each such licensee to discharge the functions of the licensee in accordance with terms and conditions of the licence. The OERC vide its said order issued a show cause notice for suspension of licence of WESCO, NESCO and SOUTHCO and appointed three Special Officers in each of the three DISCOMs providing them with the powers of a Director under the Companies Act, 1956 to seek information, documents and details of operation and management of the Companies, etc.

The three DISCOMs, i.e., WESCO, NESCO and SOUTHCO, filed Petitions before the Honourable Appellate Tribunal for Electricity (ATE) being appeal no 29, 30 and 31 of 2006. The ATE in its Order dated 8th February 2006 ruled that appointment of Special Officers significantly

interfered with the day-to-day administration of the three DISCOMs and as an interim measure, stayed the Order issued by OERC, but allowed the Special Officers appointed by OERC to collect information and made it clear that they could not interfere in the day-to-day operations of the DISCOMs.

The ATE after several hearings vide its Order dated June 2, 2006 ordered the appointment of **two Special Officers** with absolute powers to take full control of the day-to-day working of the three DISCOMs. The Appellate Tribunal also ordered that a status report with respect to the entire affairs of the three DISCOMs separately, should be filed after the expiry of three months from the date of the Order and to seek further directions from the Appellate Tribunal.

The Special Officers appointed by ATE joined the DISCOMs in the month of June 2006. As directed by Hon'ble ATE, the Special Officers submitted the Status Report on entire affairs of DISCOM to ATE on September 18, 2006

In the **Status Report submitted by Special Officers to ATE**, the Special Officers highlighted the key issues requiring immediate attention for smooth operation of WESCO. The brief summary of key findings based on review of entire affairs of three DISCOMs is as follows:

- WESCO, NESCO and SOUTHCO have been able to achieve the reduction in AT&C losses over the last five years (from FY 2001-02 to FY 2005-06) by 13%, 14% and 5% respectively. The AT&C loss reductions achieved are lower than the targets due to various constraints enumerated in the Reports.
- Due to inadequate tariff revision, practically no retail supply tariff revision after FY 2001-02, the DISCOMs were unable to recover the entire costs even based on the Annual Revenue Requirement approved by the Commission in all their tariff orders and as a result the accumulated financial losses have increased. Further, with around 15% increase in BST and no increase in RST for FY 2006-07, it will be unmanageable for DISCOMs to pay the revised BST bills and meet other operating expenses. In such circumstances, DISCOMs operation is not sustainable and financial burden would be mounting.
- The extents of capital investments in three DISCOMs have been much lower considering the size of Distribution Network of each DISCOM. Normally depreciation allowance is redeployed as Capex, but none of the tariff order leaves surplus/comfort to do the capital expenditure.

- Non relaxation of Escrow on timely basis has affected the critical Repairs and Maintenance activities, payment of salary arrears to employees and other activities. It is also another constraint for raising finance by the DISCOMs.
- Even after the recruitment of manpower in large numbers in last two years, still shortage of adequate skilled manpower presents a key challenge not only for maintenance and upkeep related activities but also for undertaking new initiatives such as energy audit, DSM measures etc. involving use of IT. DISCOMs have initiated the process to fill in the vacancies.

The critical issues requiring immediate attention for smooth operation of DISCOMs are summarized below:

- Comprehensive truing up exercise of actual revenue and expenses of DISCOMs and GRIDCO with the revenue and expenses considered by OERC in its Tariff Orders is and treatment of past losses with proper restructuring.
- Mechanism for Escrow relaxation on monthly basis after payment of current BST dues at Old BST rates.
- Proper R&M of distribution network for improving quality of supply. Further, weak transmission infrastructure links at few receiving stations particularly in WESCO and NESCO area need to be urgently upgraded and augmented to improve availability and quality of supply to consumers in these areas and to meet the future growth.
- Implementation of scheme of securitization of past dues as approved by OERC with a practical cash flow analysis to avoid any default from day one.
- Re-examination of Increase in BST for FY 2006-07 with respect to treatment of GRIDCO's Revenue from sale of surplus power and truing up of GRIDCO's ARR at least past 2-3years.
- Recruitment of Senior Level Executives and induction of skilled manpower at field level.
- Capital Investments for strengthening the distribution network to ensure the quality of supply.

The Hon'ble Tribunal passed the final judgment and order on 13<sup>th</sup> December 2007 allowing the Appeals no 29 to 31 of 2006 filed by the DISCOMs and set aside the OERC order dated 27<sup>th</sup> January 2006.

The Hon'ble Commission preferred a Civil Appeal before the Hon'ble Supreme Court, challenging the Hon'ble Tribunal order dated 13<sup>th</sup> December 2006 being Appeal No-946 of 2007. Similarly the petitioner of the original petition before the Hon'ble Commission, Sri Sarat

Chandra Mohanty also filed a Civil Appeal No before the Hon'ble Supreme Court. The matter is still pending with the hon`ble Apex Court

The Hon'ble Commission issued its Order on the ARR and Tariff Petition of WESCO for FY 2006-07 (Case No. 44 of 2005) on 23<sup>rd</sup> March, 2006. In the said Order, the Hon'ble Commission approved the revenue surplus of Rs 67 Crore for WESCO for FY 2006-07. The Hon'ble Commission also issued in Order on the ARR and Tariff Petition of GRIDCO for FY 2006-07 (Case No. 42 of 2005) on 23<sup>rd</sup> March 2006.

WESCO filed an appeal against the OERC Orders dated 23<sup>rd</sup> March 2006 on ARR and Tariff Petition of WESCO for FY 2006-07 being the appeal no. 77,78 & 79 of 2006 before the Hon'ble Appellate Tribunal for Electricity (ATE) on 1<sup>st</sup> May 2006. The major issues highlighted in the Appeal filed with Hon'ble ATE, alongwith its financial impact on WESCO are as follows:

- A) Disallowance of actual interest cost and repayment of installments accrued due in respect of NTPC Bonds.
- B) Error in computation of miscellaneous income
- C) Underestimation of Simultaneous Maximum Demand (SMD) for FY 2006-07 and hence the demand charges while approving the power purchase cost.
- D) Non computation of revenue, slab wise and category wise as prescribed in the OERC approved tariff formats leading to improper assumptions of higher realization rates at LT, HT & EHT voltage levels while approving the revenue from sale of power for FY 2006-07. Such computation resulted in inflated income of the Discoms without reference to actual revenue.
- E) Need to carry out truing up exercise on a regular basis.

**Thus, the WESCO in the Appeal submitted to ATE summarised the total adverse financial impact of above four issues as Rs 119.36 Crore.**

The Hon'ble ATE has issued order in the said matter of Appeal No. 77, 78 & 79 dated 13<sup>th</sup> December, 2006 and communicated the same on 15<sup>th</sup> December, 2006 addressing the various issues raised by the three DISCOMs on the OERC Tariff Order dated 23.3.2006 on the ARR and Tariff Petitions of WESCO, NESCO and SOUTHCO. The Hon'ble ATE vide its said Order directed the OERC to re-determine the ARR and Retail Supply Tariff for FY 2006-07 within six weeks from the date of ATE Order on the said Appeals and considering the directions given by the Hon'ble ATE on treatment of various cost and revenue elements of WESCO's ARR. The Hon'ble ATE in its Order also stated that **"it may not be necessary to hold a public sitting in this respect"**. The Hon'ble ATE also ordered that till the re-determination of tariff, the

Appellants shall continue to collect the Retail Supply Tariff as already determined by OERC on 23<sup>rd</sup> March, 2006.

In view of the said ATE Order, WESCO requested the Hon'ble Commission to re-determine ARR of WESCO and Retail Supply Tariff for the year FY 2006-07.

In view of the said ATE Order, WESCO submitted an Application on 5<sup>th</sup> January 2007 before the Hon'ble Commission to re-determine ARR of WESCO and Retail Supply Tariff for the year FY 2006-07. However, OERC preferred Civil Appeal (No 759 of 2007) on 06.02.2007, challenging the order of the Hon'ble ATE with an interim prayer to Stay on the operation of the order of Hon'ble ATE. Hon'ble Supreme Court heard the matter on 26<sup>th</sup> February 2007 and admitted the Appeal. Hon'ble Supreme court has passed following orders

**“Appeal admitted. Tag with Civil Appeal No.414 of 2007”.**

The Hon'ble Supreme Court has not stayed the operation of the Order of the Hon'ble Tribunal. The Licensee filed their Annual Revenue Requirement (ARR) and revision of Retail Supply Tariff (RST) Applications for FY 2007-08 and Order on the ARR and Tariff Petition of WESCO for FY 2007-08 was issued on 23<sup>rd</sup> March, 2007. In the said Order, the Hon'ble Commission approved the Revenue Requirement of WESCO as Rs.1313.92 Crore and Expected Revenue of Rs.1291.92 Crore and miscellaneous receipt of Rs.22.06 crores while considering the various expenditure and revenue for the year FY 2007-08. The principle set out by the Hon'ble Tribunal in Appeal No,77,78 & 79 of 2006 has not been considered by Hon'ble Commission while approving ARR & RST for the year 2007-08.

The licensee preferred appeal before the the Hon'ble Tribunal on the following grounds.

**A. OVER ESTIMATION OF REVENUE**

- I. Revenue Computation;
- II. Miscellaneous Income;
- III. Unrealistic Distribution Loss Targets

**B. NON APPROVAL OF VARIOUS COSTS**

- IV. Interest on the NTPC Bonds
- V. Employee Cost & other cost
- VI. Contingency Reserve
- VII. Truing up

**The matter is part heard**

As per provisions of Regulation 53 of OERC (Conduction of Business) Regulations, 2004 and Regulation 5 of OERC (Terms and Conditions for determination of Tariff) Regulations, 2004 the Discoms are required to file the applications for determination of Annual Revenue Requirement (ARR) and revision of Retail Supply Tariff (RST) for the ensuing financial year with the Commission by 30th November of the current year. Accordingly, WESCO (Petitioner) hereby submits its Application for approval of Annual Revenue Requirement and Retail Supply Tariff for

the financial year 2009-10. The Petitioner is filing this Petition under Section 62 and other applicable provisions of the Electricity Act 2003 and in conformity with the provisions of OERC (Terms and Conditions for determination of Tariff) Regulations, 2004 and OERC (Conduct of Business) Regulations 2004.

In addition the licensee in compliance with the directions of the hon`ble OERC also submitted its **“Findings from Receivables Audit and Provision for Doubtful Debts from FY00 to FY05 and its truing up through tariff”**, being registered as Case no 58 of 2007. The matter is pending with the Hon`ble Commission.

The licensee has also made **“Submissions in the Clarification Order No 115 dated 20.7.2006 of the Hon`ble Commission passed in Case No 115 of 2004”** pertaining to the Approved Business Plan of Wesco, Nesco & Southco on issues raised by Gridco. The replies pertain to collections from provisions, Govt Deptt/PSUs outstanding as on 1.4.99, DPS on Opening Balance and difference in Opening Balance pertaining to under provisioning of terminal liabilities, under provisioning of bad and doubtful debts, amounts in dispute, cut off date for calculation of DPS, Gridco liability paid by Discoms and Dues towards Loan and Interest. The matter is pending with the Hon`ble Commission.

Wesco, in compliance to the direction of the Hon`ble Commission has submitted a **“Revised Business Plan and Turnaround Strategy”** for the Second Control Period starting from FY 09 to FY12. The matter is being heard and is pending with the Hon`ble Commission.

## **2.1. Revenues and Costs**

Existing tariffs of Wesco do not cover costs and affect financial viability and sustainability of distribution and retail supply operations. Therefore recovery of costs is of paramount importance to ensure financial viability of Licensee. The Electricity Act, 2003 assures the licensee sufficient revenues to cover all costs and a reasonable return. The application of this principle assumes important in view of the following considerations:

- a. The financial viability of WESCO is important to maintain continuity in business and stability in supply of electricity.
- b. Sound financial health of WESCO would be essential to enable it to raise funds which are critical for system improvement, thereby benefiting the consumers in the end.

The Petitioner humbly requests the Commission to approve the ARR and Tariff for FY 2009-10 in such a manner to match the expected revenue from the retail supply tariffs with the total Annual Revenue Requirement of the Petitioner as approved by the Commission.

## 2.2. Review of Operations of the Year 2007-08 & 2008-09

The financial year 2007-08 ended with an actual energy input of 5377 MU which was higher by 15.11 % as compared to the input of previous year 2006-07 as per Table below. However, the sale during this period reached a figure of 3434.616 MU which was 15.58 % higher than the sale of the previous year. Based on the above purchase and sale figures, the distribution loss for the year 2007-08 works out to 36.13 % as compared to 36.36 % for the year 2006-07.

Considering the actual performance till September 2008, the Licensee has estimated distribution loss of 32.68% in FY 2008-09 which reflects a reduction of more than 3.45 % with respect to actual distribution loss in FY 2007-08. Though WESCO has proposed to reduce the distribution losses by more than 3.04 % during FY 2008-09, the distribution loss target of 25% as approved by the Commission cannot be achieved due to several reasons listed below:

- **GOVERNANCE** – The support from State Govt on anti theft initiatives like setting up of special police stations and courts has not been as per expectations. Although 29 places have been declared as Special Police Stations of which 9 places are in Wesco area vide Govt of Orissa, Home Department Notification No 47514 dated 23.10.2008, there are concerns about the effective functioning of the already existing special police stations. The concerns are as under.
- **Staffing of Police Stations** – The staffing in each of the Energy Police Stations is as follows :

Particulars	Sanctioned Strength	WESCO	NESCO	SOUTHCO
(i) Inspector	01	01	01	Inspector transferred and charge hand over to person sitting at S.P office.
(ii) Sub-Inspector	02			Nil
(iii) Asst. Sub Inspector	02			01(from 20.05.2008
(iv) Head Constable	01	01		01
(v) Follower orderly	01		01	Nil

Particulars	Sanctioned Strength	WESCO	NESCO	SOUTHCO
(vi) Asst. Driver	01			Nil
(vii) Constable	12	06	08	12
Total	20	08	10	14

As evident from above, the police stations are severely constrained by the lack of personnel of appropriate grades, particularly those who are authorized to register complaints.

▪ **Progress of Energy Police Stations –**

	WESCO	NESCO	SOUTHCO
FIRs filed during 2007	1001	28	
FIRs filed during 2008	228(upto 5/2008)	7	22
FIRs registered	5	35	22
Persons arrested	Nil	35	03
Cases pending for Investigation	1224	0	2
Amount deposited in Govt Treasury by Discoms ( Salaries)	Rs 8.4 lakhs (upto 31st march 2008)	Nil	Nil *
Other Expenditure for Police Stns	Rs 3.3 lakhs **	Rs 37,224 + Rs 500 pm towards cleaning	Rs 3.93 lakhs for vehicles & Rs 23,824 telephone till May 08
*–Southco received Demand Note to pay Rs 33.41 lakhs towards staff salaries for the period from 13.2.2004 to 31.3.2007 despite the requisite support not being provided.Matter. Intimated to Depts. of Energy Govt. of Orissa earlier vide letter no. 18763 dt.15.10.2007 and I.G of Police Cuttack vide letter no. 1825 dt. 14.02.2008. (Expenses Per month –Vehicles-Rs12,000, Telephone-1,200, Stationery- Rs 700)			
** - In addition to the above, Rs 3,05,823 have been spent for renovation of Energy Police Stations including furniture and fixtures in Wesco			

▪ **Constraints faced with Police Stations**

- **Inadequate Staff** at Energy Police Station
- **Refusal** and reluctant to accept F.I.R`'s, even by Energy Police Stations

- **Absenteeism-** Staffs are found absent due to their preoccupation/deployed on other assignments (VIP duty, festival duty, law and order and etc), as they are under direct administrative control of the District S.P.
  - **Non participation on Enforcement Drives** -Staffs provided at Energy Police Station are not associating in the enforcement raids with the Licensee's staff with a plea that they are meant for lodging FIRs only and can not stand as evidence in vigilance/enforcement raids.
  - **In the absence of administrative support,** Discoms are finding it difficult to curb theft. As a result, transformers are getting overloaded leading to high instances of transformer failure. Further Discoms are being pressurized from all quarters to replace transformers without insisting on collection of a minimum amount of arrears as due.
- **Suggestions –**
    - **Widening the Jurisdiction** -Govt. may take initiation immediately to establish at least one Energy Police Station with adequate staff in each Revenue District covering the Licensee area.
    - **Joint Review by CEO & S.P** – Regular review of operations by S.P and CEO of Discoms on a monthly basis is required, followed by a I.G review every quarter.
    - **Conducting joint workshops at District level** – involving Discom staff and Police Officials on anti theft legislations
    - Providing incentive to General Police Station in licensee area towards accepting F.I.Rs
  - **SPECIAL COURTS** – The special courts have not been fully functional on the basis of the performance as mentioned below.

**Number of Cases handled by Special Courts**

	<b>WESCO</b>	<b>NESCO</b>	<b>SOUTHCO</b>
No of Cases	0	35	12 ( 2006-6,2007-2, 2008-4)

**Suggestion - With theft being a widespread phenomenon, the existing number of special courts limited to only 5 revenue districts are inadequate and therefore suggest that each district should have at least one designated special court to handle offences under sec 135 to 139.**

### LIQUIDITY

- The licensee began the year with negative cash flow and is unable to make payment of the BST bill in full and thereby losing 1% rebate on timely payment of BST bill which approximates to a hefty amount of Rs.1 crs p.m.
- Severe cash constraints due to non relaxation of escrow on timely basis Actual Losses for FY 2007-08 and 2008-09 are much higher than the target submitted in Business Plan
- Slow progress of investments due to delay in receipt of APDRP funds routed through the State Government and also preclosure of the scheme,
- Non availability of funds for capital investments
- Lack of adequate maintenance of distribution network,
- Non timely receipt of payments and Dues from Government Departments and Undertakings inspite of letters written by Hon`ble Chairman OERC and Hon`ble Principal Secretary –Finance to all state govt departments.

NATURAL DISASTER - The licensee submits that unprecedented floods in its areas have caused large scale devastation to networks and business

### INDUSTRIAL UNREST

- The Discoms submit that its employees –a significant portion of which are employees of the erstwhile OSEB/GRIDCO are more exposed to the rigours of distribution business as compared to their counterparts working in generation and transmission companies and are physically involved in revenue collection that is remitted to Gridco and OPTCL. Therefore any unilateral out of turn announcement of ex-gratia payment by GRIDCO/OPTCL to their employees only, creates dissonance in the minds of the discom employees and demotivating them further leading to industrial unrest and loss of work.

Inspite of aforesaid constraints, WESCO has initiated various measures like continuous monitoring of meter readings through third party meter checking squads, , Implementation of IT tools, de-hooking of unauthorised consumers, bringing new consumers to the billing fold, curbing theft in HT Category through strict and round the clock vigilance, installation of cubicles and check meters, and launching special drives to check theft. The licensee is committed to reduce distribution loss during the current and ensuing year.

### Distribution Loss FY 06-07 to FY 08-09

	FY2006-07	FY2007-08	FY 2008-09(Estt)
Energy Sales in MU	2972.423	3434.611	4083
Energy Purchased in MU	4671	5377	6102
Overall Distribution Loss%	36.36%	36.13%	33.09%

### 2.3. Performance Estimates in FY 2009-10

During FY 2009-10, the sale of energy has been estimated at 4372 MU. During FY 2009-10, the Licensee proposes to reduce the distribution losses by around 2.60% from estimated 33.09% in FY 2008-09 to 30.49% in FY 2009-10.

### Distribution Loss of FY 09-10

	FY 2009-10
Energy Sales in MU	4372
Energy Purchase in MU	6290
Overall Distribution Loss %	30.49

The licensees submit that the technical and commercial loss reduction is single benchmarking parameter for measuring the performance of Distribution Utilities and is directly related to the sustainability of business. The Hon'ble Commission while passing the ARR and tariff Orders have set the ambitious loss reduction trajectory, viewed in the context of ground realities, to improve operational efficiencies in the sector based on certain assumptions like loan restructuring, reconciliation of BST dues which so far has not materialized. Therefore baseline losses for the Second Control need to be determined on a pragmatic basis. This is more important taking into account the non availability of APDRP funds for privatized entities in the 11<sup>th</sup> Plan. It is further submitted that the Clause 5(3)(b), Chapter 3 of OERC ( Terms and Conditions for Determination of Tariff) Regulations 2004 quoted as “ *The Commission shall approve a realistic and achievable loss target for the year under review based on opening loss levels, licensees filings, submissions and objections raised by the stakeholders. The approved loss target will be used for computing sale of power to consumers for the year*”, and therefore the opening loss levels needs to be determined on a pragmatic basis.

The details of category-wise sales mix with No. of consumers, contract demand and percentage change in sales are given in OERC Form : T-1. Further, the expected revenue for the ensuing year estimated sale at existing RST along with details is also provided in OERC Form No: T-8.

#### **2.4. AT & C Loss**

While approving the Annual Revenue Requirement for the year 2003-04, the Hon'ble Commission through a landmark and revolutionary decision recognised for the first time in the regulatory regime, the AT&C Loss concept as distinct from the conventional T&D Loss and adopted the same as a performance parameter. In accordance with OERC intent towards 'Performance based regulation', the Licensee is committed to the spirit of reducing the AT&C Loss.

Though the Hon'ble Commission has set the AT&C performance targets for measuring, monitoring and controlling the efficiency of the operation of the Petitioner, the Hon'ble Commission has approved ARR and determined RST for FY 2005-06, FY 2006-07, 2007-08 and FY 2008-09 for the DISCOMs based on the distribution loss target and not based on the AT&C loss target. The Commission has considered the distribution loss target for ARR determination on the grounds that the AT&C loss shall be the criteria for determination of performance of the DISTCOs that provide them to handle for improvement in the field of distribution loss and the collection efficiency. For the purposes of tariff determination, the revenue requirement of the DISCOMs has been determined based on accrual of revenue during the financial year based on the set target of T&D loss for the Financial Year without considering actual collection of revenue. The actual collection efficiency of WESCO during FY 2007-08 was 93.65% and is expected to increase to 95.50% during FY 2008-09. During FY 2009-10, WESCO proposes to maintain the collection efficiency of 96.56%.

The actual AT&C loss performance for FY 2007-08 and estimated AT&C loss for FY 2008-09 and FY 2009-10 based on the improvements proposed in distribution loss and collection efficiency is given in Table below.

## AT & C Loss

	FY2007-08	OERC (Approved- (2008-09)	FY 2008-09 (Estt)	FY 2009-10 (Estt)
Distribution Loss	36.13 %	25.00 %	33.09 %	30.49 %
Collection Efficiency	93.65 %	96.56 %	95.50 %	96.56 %
AT & C Loss	40.18 %	28.00 %	36.10 %	32.88 %

The Hon'ble Commission may appreciate that the reduction target of AT&C Loss of around 3.22 % during the FY 2009-10 is challenging keeping in mind the existing harsh ground realities and the capital intensive and time consuming nature of such exercise. Therefore the Discoms propose recognition of actual AT&C loss levels and setting of the sustainable reduction targets, which is of utmost important to achieve the turnaround. Accordingly, WESCO requests the Hon'ble Commission to consider the actual AT&C losses for FY 2007-08 as base losses and set the loss reduction target with respect to actual AT&C losses for FY 2007-08 considering the non availability of funds for APDRP works.

The Licensee has taken up the same as a challenge and has planned the measures in the areas of energy audit, energy accounting, IT implementation in commerce, metering, spot billing, franchisee etc.,as detailed out below:

In view of above, the Licensee requests the Hon'ble Commission to consider the estimated AT&C loss for FY 2009-10 as proposed by the Licensee.

### 2.4.1. Metering

The licensee had inherited a system in which more than 70% of the consumers were unmetered or had defective meters. Apart from this, the billing databases were incorrect, did not have details of meters and other vital information. As a result, the licensee in order to restore the revenue cycle immediately launched multiple activities of metering, rectification of erroneous bills and removal of ghost consumers, in-spite of facing difficulties in revenues not covering costs. The licensee has initiated various steps to control commercial losses. In spite of that, rampant meter tampering and bypassing has resulted in abnormally low consumption levels. An effort to sanitise the billing database has also led to the discovery of fresh cases of non-functioning meters. In order to check such malpractices, the licensee has formed several meter checking squads and large scale irregularities are being detected. But in the absence of speedier judicial remedies as specified in the Electricity Act in the form of special courts, the violation is continuing unabated. The Energy Police Stations already set up as per the directives

of the Hon'ble Commission are yet to function effectively for various reasons as enumerated above.

In compliance with the directions issued by the OERC, WESCO has made substantial progress in metering. During FY 2003-04, WESCO has completed 100% feeder level metering and subsequently completed the consumer metering. The licensee has proposed to procure and install AMR (Automated Meter Reading) systems for curbing theft . Accordingly 3000 AMRs ( 1000 no`s – Wesco, 1500 –Nesco & 500 –Southco) are in the process of being procured. The licensee is in the process of installing 1,30,400 no`s of single phase static meters ( Wesco-50,000, Nesco-50,000 no`s & Southco-30,400 no`s) and 9000 three phase static meters ( Wesco-5000, Southco-2000 & Nesco-2000 no`s)

#### **2.4.2. Spot Billing Roll Out Plan**

The spot billing activity in WESCO started as early as 2004 through M/S Phoenix IT Solutions an experienced firm in the field of Spot Billing. Being a new activity it was beset with its own hardware and software problems, which over the years got rectified. As on date, spot billing is being carried out in all the divisions in WESCO covering around 2.04 lakh consumers. By the end of FY 2009-10, WESCO proposes to bring majority of its consumers in spot billing fold.

#### **2.4.3. Energy Audit**

The licensee is continuing with the energy audit exercise in its licensed area of supply through internal team and local agencies. Wesco is deploying the recently recruited ITI s in this exercise but is playing to scale up operations by deploying specialised agencies. WESCO has completed the metering of 504 feeder meters and 12,588 distribution transformer meters so as to implement the Energy Audit successfully. Energy Audit is carried out as a Team effort with segregation into three different groups, i.e., Group-1, Group-2 and Group-3. The Group 1 designated as Central Team works at corporate office, Burla, Group-2 (data acquisition team) and Group-3 (meter upkeep team) are the field teams, dispersed across circles working under administrative control of Energy Audit Cell. Currently energy audit is being carried out on a monthly basis on all the 33 KV feeders (numbering 87). The licensee has evaluated the energy audit process and is in the process of integrating it with electrical addresses and billing database in order to pinpoint losses down to the distribution transformer level and consumers connected to it. The licensee proposes to intensify the enterprise wide audit exercise and requests the Hon`ble Commission to approve proposed costs incurred in this activity.

## **CONSUMER INDEXING**

WESCO has initiated the process of consumer indexing. The Consumer Indexing will be a one time activity aimed to identify all the existing consumers receiving supply from individual Distribution Transformer and creation of network diagrams and asset details. This will involve door to door survey so as to identify consumers receiving electrical supply from each DTR, preparation of LT line network diagram, preferably with GIS, and building database of DTR wise consumer indexing. The activities will include the following

### **i) Consumer & Network survey:**

- Door-to door survey for identification of all consumers connected to each DT separately which will include gathering of information related to the consumer and meter details, details of landmark to identify DTR and Pole location.
- Electrical addressing through pole scheduling of all consumers.
- Preparation of network details viz. 11 KV Feeder, DTR (capacity, location etc.), LT circuits (conductor size, line configuration- horizontal/ vertical- single phase 2wire/ 3wire, 3phase 4wire/ 5wire, span size etc.), Pole type and no. of services from each pole.

### **ii) Building database and Indexing of Consumer:**

- Development of a consumer data base as a backup to a GIS facility which will include indexing a consumer to the DTR's and 11 KV feeders allocating an alphanumeric code to each consumer following approved coding structure from the DISCOMs.
- Development of software tools for viewing consumer details, network details, DTR details etc. with various summaries and linked information with facilities for editing, modifying any data relating to consumer, network, at a later stage according to changes taking place.

### **iii) Painting of Electrical address on Poles, DTR and at consumers premises:**

- Based upon indexing, the electrical address comprising details of 11 KV Feeder, DTR, LT circuit, pole no. and consumer from the pole will be painted on each pole (using two colours-one for base and other for code writing) based on approved codification scheme and painting norms. The details of 11 KV feeder

and DTR will be painted on the DTR structure. The electrical address of each consumer will also to be painted at the respective consumer's premises as well.

The licensee proposes to incorporate details of consumer indexing activity into a GIS system for effective monitoring and updation on a regular basis and requests the hon`ble Commission to allow such costs as mentioned below

- **MONTHLY ENERGY ACCOUNTING**

The monthly Energy Accounting will be done for 11 KV downwards network to determine the AT&C loss.

The work will involve readings of all 11 KV Feeder input meters, DTR meters and evaluation of 11 KV feeder losses by subtracting sum of all DTR Meter consumptions from Input meter consumption of respective 11 KV Feeder. The DTR wise loss will be evaluated from the difference of consumption recorded in the DTR meter and respective consumer's consumption billed with appropriate adjustment/ estimation of consumption of unbilled consumers and other factors affecting proper energy accounting.

The exercise will be repeated every month with generation of exception reports highlighting the high loss feeders and DTRs.

- **COST ESTIMATES**

The licensee has calculated the cost estimates of enterprise wide energy audit on the basis of proposals received from various specialized agencies. Based on the quotations received the licensee has worked out the costs of the Energy Audit exercise in the following manner

- A. Rs 45 per consumer for consumer indexing.
- B. Rs 15 per pole for pole scheduling/ painting.
- C. Rs 200 per Transformer per month for preparation of monthly energy accounting reports

**Cost of Energy Audit**

Details	Numbers	Rate	Costs (Rs Lakh)
Total no of Consumers	250000	Rs 45/ Cons	112.50
Total no of Poles	250000	Rs 15/ pole	37.50
Total No of DTRs	5600	Rs 200/DTR/Month	134.40
<b>Total</b>			<b>284.40</b>

The licensee has considered the aforementioned cost of Energy Audit, in its ARR submissions for FY 09-10 as part of A&G expenses.

#### 2.4.4. Special Police Stations

The special police stations in the licensee areas have started functioning at present at Sambalpur/ Burla. As per the agreement with the State Government, the DISCOM has to bear the salary costs, Vehicle Hire Charges, Telephone bills and TA bills of police force deputed at special police stations. In this regard the licensee has estimated the following amount towards the expenses of Special Police Stations additional expenditure for the ensuing year under the head of A&G expenses.

As per Notification No 44627 dated 9<sup>th</sup> October 2003 of Home Department, Govt of Orissa ,Govt declare 5nos Special Energy Police station for entire Orissa.,out of the above, only one Energy Police Station at Sambalpur Revenue District is operating in WESCO area.

Further vide Notification No 51089 dated 20<sup>th</sup> November 2003 of Home Department, Govt of Orissa ,each police station should consist of the following officers/staff:-

Designation	<u>Manning</u>	<u>Pay Scale</u>
Inspector of Police	1	6500-10500
Sub-Inspector of Police	2	5000-8000
Asst Inspector of Police	2	4000-6000
Havildar	1	3600-5600
Constables	12	3050-4590
Asst Driver	1	3050-4590
Followed Orderly	<u>1</u>	<u>2550-3200</u>
<b>Total</b>	<b><u>20</u></b>	

In addition to staff cost, necessary furniture, telephone, vehicles and other additional expenses were to be borne by the Distribution Companies.

Accordingly a Special Energy Police Station is functioning w.e.f. 1.4.2007 having the following Officer & staff. in Burla.

Sub-Inspector of Police	-	1
Havildar	-	1
Constables	-	<u>6</u>
<b>Total</b>		<b><u>8</u></b>

As per Notification No 47514 dated 23.10.08 of Home Deptt. Govt of Orissa another 29 nos of Energy Police Station all over Orissa are to be formed, out of which 9nos are coming under WESCO jurisdiction as under :-

	<b>Name of Police Station</b>	<b>Headquarters</b>	<b>Territorial Jurisdiction</b>
1	Special Police Station (Energy) Bargarh	Bargarh	Revenue District Bargarh
2	Special Police Station (Energy) Jharsuguda	Jharsuguda	Revenue District Jharsuguda
3	Special Police Station (Energy) Bolangir	Bolangir	Revenue District Bolangir
4	Special Police Station (Energy) Sonapur	Sonapur	Revenue District Sonapur
5	Special Police Station (Energy) Deogarh	Deogarh	Revenue District Deogarh
6	Special Police Station (Energy) Kalahandi	Kalahandi	Revenue District Kalahandi
7	Special Police Station (Energy) Nuapada	Nuapada	Revenue District Nuapada
8	Special Police Station (Energy) Sundargarh	Sundargarh	Revenue District Sundargarh
9	Special Police Station (Energy) Rourkela	Rourkela	Revenue District Rourkela

Assuming the above 9 Energy Police Station will be starting functioning from 1.4.2009, the proposed financial impact for the FY 2009-10 are as under:-

**Hire charges of vehicle**

<b>SI No</b>	<b>Headquarter</b>	<b>Proposed km p.m.</b>	<b>Monthly Estimated Expenses.#</b>
1	Burla (Existing)	4000	21490
2	Sonapur	4000	21490
3	Deogarh	3000	18180
4	Rourkela	2500	16505
5	Sundergarh	4000	21490

SI No	Headquarter	Proposed km p.m.	Monthly Estimated Expenses.#
6	Nuapada	3000	18180
7	Kalahandi	4000	21490
8	Bolangir	4000	21490
9	Jharsuguda	4000	21490
10	Bargarh	4000	21490
		<b>Total</b>	<b>203295</b>
#Expenses includes fixed cost @ 8250 (275 per day) ,cost of diesel 13kn/ltr & cost of mobil 500km/ltr			

**Yearly Expenses estimated is Rs 203295 X 12 = Rs 24,39,540**

#### **Telephone**

Each police station will be provided with a landline telephone with an average monthly cost of Rs 1000/- p.m.

Total financial impact for 2009-10 will be Rs 1000 x 10 x 12 =Rs 1,20,000/-.

#### **Cost of staff salary**

It is assumed that each police station should consist of the following staff & their proposed staff cost as given-

Designation	Manning	Financial Impact p.m
Inspector	1	28588
Sub-Inspector	2	43440
Asst Sub-Inspector	2	33538
Havildar	1	15808
Constable	12	151675
Driver	1	12985
<u>Followed Orderly</u>	<u>1</u>	<u>9868</u>
<b>Total</b>	<b>20</b>	<b>295902</b>

The estimated costs for 10 police stations is Rs 3.55 Crs per annum ( taking into consideration the effect of the 6<sup>th</sup> Pay Commission for which the State Government has made a budgetary provision.

#### **Total Proposed financial impact for FY 2009-10 :-**

Particulars	Amount in Rs Cr
Hire charges	0.24
Telephone	0.01
Salary	3.55
<b><u>Total in Crs</u></b>	<b><u>3.81</u></b>

### **3. Data Sources**

The Licensee is complying with the information requirements of the Hon'ble Commission for the purpose of making this application for annual revenue requirement and tariff for the year 2009-10. The schedule of formats submitted along with this proposal is shown in the Table of Contents. The Accounts up to March 2008 have been audited as per Companies Act and copies of the audited accounts have already been submitted to the Hon'ble Commission. The Licensee has relied upon the audited accounts upto March 2008 for compilation of data and preparation of this ARR.

The Licensee would like to submit that the input cost is the most important cost head for WESCO. For authentication of input cost, the actual bills received from the bulk supplier, GRIDCO has been taken into account.

Thus, the Licensee would submit that the data given by us is authentic and reliable for formulation of Revenue Requirement and Tariff Application for the year 2009-10.

### **4. Revenue Requirement for FY 2009-10**

This section outlines the assumptions for estimation of revenue requirement for FY 2009-10.

#### **4.1. Sales Forecast**

For projecting the consumption of different categories, the Licensee has analysed the past trends of consumption pattern for last seven years i.e. FY 2001-2002 to FY 2007-08. In addition the Licensee has relied on the audited accounts for FY 2007-08 and actual sales data for the first six months of FY 2008-09. While projecting the sales of domestic, commercial and irrigation category, the Licensee has factored in the impact of electrification of new villages under the RGGVY and Biju Grama Jyoti Yojan. Keeping in above in view the growth in the LT Category has been estimated in FY2009-10 to be 20.17%. However, for HT and EHT category of consumers, the consumption has been projected based on current / past trends and other factors such as global recession of steel industries upon which the licensee was depending in the past etc. The summary of consumption projected for FY 2009-10 is discussed in following sections.

## **LT Category**

The growth in the domestic category has been estimated at 23.12 % as against the actual growth of around 8% during FY 2007-08 and estimated a growth of 31% during FY 2008-09. The Licensee would like to submit that under various deposit works like RGGVY, BGJ, etc. many house holds are likely to be electrified and around 179389 nos of BPL (Below Poverty Line) and 72417 nos of APL (Above poverty line) consumers will be added in to the billing fold of the ensuing year FY 2009-10 and the impact of same has been considered while estimating the sales for kutir jyoti and domestic category respectively for FY 2009-10.

The growth in the sales of other categories in the LT account has been estimated in the range of 5% considering the past trends except irrigation, Agro industrial consumers and public water works. The growth in irrigation categories has been estimated to be around 34.23% as the Licensee is proposing to install meters for all Lift Irrigation consumers during FY 2009-10. Based on the meters installed till date, it has been observed that after metering the consumption level of LI consumers has increased abnormally who were presently billed on average basis due to defective meter. Regarding growth of Agro Industrial consumers, the licensee has proposed an increase of 4.3 MU as compared to estimates of 0.7 MU in current year, as this is a new category which is notified in the current year tariff and most of the consumers are not aware of the tariff benefit at present and the licensee is expecting some more consumers will be coming in the ensuing year to this subsidized category. As regards to public water works category an increase of 82% over current year (in absolute term 10.36 MU only) has been estimated as most of the villages are going to be connected for supply of drinking water under "Swajala Dhara Scheme".

The sales during last two years have increased in higher proportion as compared to previous years due to economic growth which would further grow at a higher rate. However for the future years WESCO has proposed an increase of 5% on the basis of past trends. Further WESCO has considered an increase of sales of 215 MU in 2009-10 on account of increase in sales due to electrification under RGGVY and BGJ. The summary of sales projections for LT category is given in following Table:

**MU**

<b>Sales</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>
Domestic	731.670	900.800
General Purpose<100 kw	140.000	147.000
Specified public purpose	17.200	18.000
Irrigation	59.600	80.000
LT Industrial	89.830	96.540
Public water works	18.200	28.760
Public Lighting	9.500	9.900
<b>Total</b>	<b>1066.000</b>	<b>1281.000</b>

Adhering to the National Electricity Policy to achieve the minimum life line consumption of one unit per household per day and to achieve the 100% village electrification by the year ending 2012, the demand of domestic consumers shall be increased by 215 MUs per year. The sharp increase in the cross subsidized group of consumers may necessitate for the Tariff hike or Revenue Subsidy from the Govt of Orissa as per the provisions of Electricity Act, 2003.

**HT Category**

The average sales growth rate of around 2.92% for HT category consumers has been estimated for the ensuing year and is based on the trend of the FY 2007-08 and actual load for the half year ending Sept'08.

**MU**

<b>Sales</b>	<b>FY 2007-08</b>	<b>FY 2008-09 (Est)</b>	<b>FY 2009-10</b>
Large Industry	905.144	982.900	956.000
Mini Steel Plant	256.406	260.000	270.000
Others	230.399	232.100	292.000
<b>Total</b>	<b>1391.949</b>	<b>1475.000</b>	<b>1518.000</b>

Consumption in Large industry will decrease by around 2.75 %, because of load reduction by the industries on account of recession.

**EHT Category**

The average sales growth rate of 2% for EHT category over estimated sales of FY 2008-09 has been estimated for the ensuing year based on the specific load of each industries under EHT category. The sale of the above EHT supply and subject to the availability of the Transmission Net work by OPTCL during 2009-10.

## Power Intensive Industry

A decrease of 7.17% under this category is due to load reduction by M/S Indal from 40000 KVA to 20000 KVA, 111111 KVA to 22222 KVA by M/S Vendanta Ltd from 1<sup>st</sup> April 09 and by M/S Bhusan Ltd from 111111 to 33333 from July 09 onwards.. However the detail calculation is attached as per format prescribed by OERC and attached herewith.

## Mini Steel Plant

WESCO projected a growth of 108.03% as compared to previous year under this category on account of increase of load by M/S MSP Limited under this category from 6000 KVA to 18000 KVA.

The summary of the sales for all consumer categories has been shown in table below.

<b>MU</b>			
<b>Sales</b>	<b>FY 2007-08</b>	<b>FY 2008-09 (Estt)</b>	<b>FY 2009-10</b>
LT	852.928	1066.000	1281.000
HT	1391.949	1475.000	1518.000
EHT	1189.735	1542.000	1573.000
<b>Total</b>	<b>3434.612</b>	<b>4083.000</b>	<b>4372.000</b>

## 4.2. Power Purchase Expenses

The power purchase expenses have been derived based on consumption estimates and the distribution energy loss level. For the year FY 2009-10, energy input of 6290.000 MU has been estimated based on the estimated consumption of 4372 MU and Distribution Loss of 30.49%.

The licensee had filed a review petition against BSP Order of 2008-09 before Hon'ble OERC which was subsequently disposed off without relief. Unable to sustain with prolonged financial crisis on account of higher BSP for the year 2008-09 and the difficulty in making payment of BST bill within full rebate date, Wesco filed an appeal before the Hon'ble ATE for suitable reduction of BST for 2008-09. The reduction in BSP is anticipated at around 20 paise per unit. Accordingly, the BST the FY 2008-09 ought to have been revised @158.25 paise p.u including transmission charges of 21 paise p.u. The anticipated reduction of 20 paise p.u. has been provided as contingency for power purchase cost pending decision of the ATE. Based on the above, power purchase cost for the current year is Rs.1091.00 crs including the contingency amount of Rs.122.04 crs. In the same line for the year 2009-10 power purchase cost has been estimated at Rs. 995.39 crores with BST @ 158.25 paise p.u. including transmission charges @ 21 paise p.u. Purchase of energy has been estimated as 6290 MU with average monthly

simultaneous maximum demand of 1000 MVA. During the FY 2008-09 the licensee had initially projected a SMD of 920 MVA and subsequently during the course of tariff proceedings enhanced the projection to 960 MVA factoring in the additional 70000 KVA load of Bhusan. However while approving the ARR for 2008-09 Hon'ble Commission had acknowledged the increase of load of Bhusan and considered our EHT sale as 1542 MU instead of 1422 MU in energy sales while the corresponding increase in SMD was not factored in and the approved SMD of 874 MVA for 2008-09 remain unaltered. Consequently Wesco is paying overdraw penalty towards overdraw as against approved SMD. During Sep 08 our Avg SMD was 1046 MVA and in the month of Oct 08 the same is 983 MVA. The average SMD of last 7 months ( April 2008 to Oct 2008) is 927 MVA. Further considering the above and additional load towards inclusion of BPL and APL consumer under RGGVY and BGJY, the licensee proposes a SMD of 1000 MVA for FY 2009-10.

**The licensee submits that SMD (MVA) projections for a year are estimates based on load mix, consumption patterns and other economic policies, and restricting the SMD of a DISCOM upto a particular level and imposing penalty thereof for drawl beyond the approved level, primarily with the sole purpose of managing the overall frequency of the state. It may be appreciated that in the process Gridco becomes the sole beneficiary of UI proceeds which is not a prudent economic practice. In line with the recommendations of the National Electricity Policy ( Clause 5.3.4) and National Tariff Policy ( Section 8.4), the licensee requests the Hon`ble Commission to assign PPAs and accordingly empower them to manage their load directly, as is the practice in several states like Gujrat, Delhi, Andhra Pradesh and Karnataka. The petitioner requests the Hon`ble OERC to adopt the practices prevalent in other states.**

The Hon'ble Commission is requested to consider the SMD as 1000 MVA due to reasons cited above for the FY 2009-10. In addition Hon'ble Commission is also requested for passing of necessary order/ instruction for reconsideration of our SMD as 960 MVA for FY 2008-09.

**The basis of which reduction of BSP is calculated for the current year FY 09 is as under:-**

<b>FY 2008-09</b>		<b>Wesco</b>	<b>Other Discoms</b>	<b>Total</b>
E.S.O from Generators	Mu	5948	12503	18450
Approved Energy Sales to Discoms	Mu	5680	11940	17620

Input in EHT	Mu	1615	2840	4454
Sale at EHT	Mu	1542	2712	4254
Input at HT	Mu	1603	1795	3399
Sale at HT	Mu	1475	1652	3127
<b>Balance at LT</b>	<b>Mu</b>	<b>2730</b>	<b>7868</b>	<b>10597</b>
<b>Approved Merit Order Dispatch</b>			<b>Paise/Unit</b>	<b>Cost in Crs</b>
Orissa Hydro	Mu	3677	46	169
Indravati	Mu	1942	67	131
Machakund	Mu	265	25	7
<b>State Hydro</b>	Mu	<b>5884</b>	<b>52</b>	<b>306</b>
CGPs	Mu	352	108	38
TTPS	Mu	3162	143	452
OPGC	Mu	2947	154	452
<b>State Thermal</b>	Mu	<b>6461</b>	<b>1.45</b>	<b>943</b>
Renewable	Mu	375	218	82
CHUKHA	Mu	270	178	48
TALA HPS	Mu	195	208	41
TSTPS-I	Mu	1987	158	314
TSTPS-II	Mu	1250	168	210
KHTPS-II	Mu	544	170	92
FSTPS	Mu	1362	210	286
KHTPS-I	Mu	132	223	29
<b>Total EREB</b>	Mu	<b>5740</b>		<b>1021</b>
<b>GRAND TOTAL</b>	Mu	<b>18460</b>	<b>127.4</b>	<b>2352</b>

<b>ALLOCATION OF LEAST COST POWER TO LT</b>				
<b>Total Requirement of LT Cons</b>	<b>MU</b>	<b>2730</b>	<b>7868</b>	<b>10597</b>
<i>Less</i>				
Orissa Hydro	MU	947	2730	3677
Indravati	MU	500	1442	1942
Machakund	MU	68	197	265
State Hydro	MU	1516	4369	5884
CGPs	MU	91	261	352
TTPS	MU	815	2348	3162
OPGC-Part 1	MU	309	890	1199
<b>Sub Total</b>		<b>2730</b>	<b>7868</b>	<b>10597</b>
<b>Power Purchase Cost for LT Allocn</b>	<b>Rs Cr</b>	<b>253</b>	<b>728</b>	<b>981</b>
<b>Total Requirement for HT &amp; EHT Cons</b>	<b>MU</b>	<b>3218</b>	<b>4635</b>	<b>7853</b>
<i>Less</i>				
OPGC-Part		716	1031	1748
Renewables		154	221	375
EREB		2348	3382	5730
<b>Sub Total</b>		<b>3218</b>	<b>4635</b>	<b>7853</b>
<b>Power Purchase Cost for HT &amp; EHT Allocation</b>	<b>Rs Cr</b>	<b>561</b>	<b>808</b>	<b>1369</b>
<b>TOTAL POWER PURCHASE COSTS</b>	<b>Rs Cr</b>	<b>814</b>	<b>1536</b>	<b>2350</b>
Approved Expenses net of Miscellaneous Receipts	<b>Rs Cr</b>	(33.72)	(70.88)	(105)
<b>Approved Revenue Requirement of GRIDCO</b>	<b>Rs Cr</b>	<b>779.99</b>	<b>1,465.39</b>	<b>2,245</b>
(Less) Regulatory Assets allowed			<b>65.00</b>	

Net ARR of GRIDCO			<b>1400.39</b>	
<b>Proposed BSP as per approved ARR</b>	<b>Paisa/unit</b>	<b>137.32</b>	<b>117.29</b>	
Expected Revenue from Discoms	Rs Cr	893.18	1259.05	2152.23
<b>Approved BSP as per approved ARR</b>	<b>paisa/un</b>	<b>157.25</b>	<b>105.45</b>	
<b>Excess/(Deficit ) BSP per Unit</b>		<b>20.00</b>	<b>(11.84)</b>	

Further, in case BSP is changed due to any of the following reasons,

- ❖ fixation of BSP higher than the BSP of 2008-09, approved by the Commission on the basis of revenue requirement filed by GRIDCO for the ensuing year,
- ❖ fixation of BST higher than the BSP of 2008-09, approved by the Commission on account of Fuel Surcharge Adjustment(FSA),
- ❖ fixation of BST higher than the BSP of 2008-09, approved by the Commission for any other reason (e.g. change in the power purchase mix of GRIDCO), The Annual Revenue Requirement of the Licensee shall be suitably adjusted to reflect the revision in BST.

### **4.3. Employees Expenses**

#### **ROLE OF EMPLOYEE IN DISTRIBUTION BUSINESS:**

Distribution of Electricity is an essential Service as well as a Public Utility Service. The utility within the parameters of statutory and regulatory frame work is required to ensure an efficient, coordinated and economical distribution system and to build, maintain and operate the system more systematically to combat the increasing load growth and to manage the system with competent and skilled personnel for technical and commercial advantage with customers care. So far the role of manpower is concerned; the objective behind the system is the best utilisation of manpower for reduction of T&D Losses, to ensure 100% of consumer coverage and to achieve the collection efficiency maximum within the ambit of parameter defined by the Regulatory body and Electricity Law.

In order to meet the set targets, the Commercial and Technical activities are required to be addressed in right perspective and the responsibilities of the personnel in Distribution system are enormous.

The entire activities are to be duly taken care of by involvement of employees of all categories for bringing efficacy in functioning of distribution system. They are to be involved in billing of all type of consumers, aggressive enforcement activities with scientific inputs and analytical tools for curbing energy theft through the concept of social audit, collaboration of NGO, Self help groups etc to create awareness, introduction of spot billing, introducing franchisee operation, surveillance activities, arrear collection, collection of current bills, enforcing MRT activities i.e. taking reading of 33 kv feeder, 11 kv feeders and all DTRs. They are to be involved in meter management and cubicles and in all other activities like survey squad, checking squad, dump analysis and HT maintenance etc. They are to be actively involved for maintenance of lines, substation, fuse calls for ensuring systematic power supply to different categories of power consumers. Above all the Employees have the role not to resort to any sort of work disturbances which erodes the performance standard of the organisation. They have to maintain industrial peace and to cooperate in all such progressive states for improvement of the performance standard of the organisation. Simultaneously Govt support is equally required.

### **IMPACT OF 6<sup>TH</sup> PAY COMMISSION**

The employee cost of Executives is being revised in every 10 years and of Non-executives in every 5 years. Executive's salary are revised based on pay revision periodically (once in every 10 year) announced by pay commission and the Non-Executives salary are being regulated through Wage Board in every five year. 5<sup>th</sup> Pay commission was declared on 1.01.96 and 6<sup>th</sup> pay was due w.e.f 01.01.06 as regards to wage board it was declared on 01.01.2000 and the subsequent was due on 01.01.2006. In the mean time 6<sup>th</sup> Pay commission has already pronounced the pay hike of central govt employees during 1<sup>st</sup> week of sep-08 which is w.e.f from 1<sup>st</sup> Jan 06. Accordingly the licensee has calculated the arrear on account of 6<sup>th</sup> pay revision for Executives and the arrear towards wage board for non executives in the following norms.

### **No of Employees as on March 08**

	<b>Executive</b>	<b>Non-Executive</b>	<b>Total</b>
Technical	391	3672	4063
Non-Technical	61	724	785
<b>Total</b>	<b>452</b>	<b>4396</b>	<b>4848</b>

Employees in different cadre and grade serving in WESCO

<b>SI No</b>	<b>Rank</b>	<b>Designation</b>	<b>Existing Pay</b>
<b>1</b>	<b>E-9</b>	Sr. General Manager	15100-400-19500
<b>2</b>	<b>E-8</b>	General Manager	14300-400-18300
<b>3</b>	<b>E-7</b>	Deputy General Manager	12000-375-16500

4	E-6	Asst. General Manager	10650-325-15850
5	E-5	Manager	9350-325-14550
6	E-4	Deputy Manager	8000-275-13500
7	E-3	Asst. Manager	6500-225-11000
8	E-2	Junior Manager	5000-150-8000
9	E-1	Management Trainee	5000/-, 6500/-
10		Highly Skilled-A	4830-153(5)-5595-163(5)6410-173(20)-9870
11		Highly Skilled-B	4470-137(5)5155-153(5)-5920-163(16)-8528
12		Semi-Skilled-A	3500-92(5)-3960-103(6)-4578-118(18)6702
13		Semi-Skilled-B	3210-73(7)-3721-83(8)-4385-93(12)-5501
14		Skilled-A	4090-118(5)-4680-128(5)-5320-138(19)-7942
15		Skilled-B	3670-103(5)-4185-118(5)-4775-128(18)-7079
16		Skilled-C	3500-92(5)-3960-103(6)-4578-118(18)-6702
17		Unskilled	2620-57(7)-3019-65(8)-3539-73(19)-4926

**\*Note Highly skilled –A** includes Accountants, Steno, Draftsman **Highly Skilled-B** includes Jr. Accountants, UDC, Steno-II, Head Clerk, Sr. Chageman **Semi Skilled-A** includes Dafadar, Jr. Technicians **Semi Skilled-B** includes Jr. Artician-B, **Skilled-A** includes Clerk-A, Lineman-A, Driver-A, Electrician-A, Steno-III, Operator-A, **Skilled-B** includes Boiler Operator, Clerk-B, Daftary, Deapatcher, Dairist, Draftsman-B, Driver-B, Electrician-B, JPR, Lineman-B, Mtr-reader, Sr. Lineman-B, Telephone Attendants, **Skilled-C** includes Jr. Store keeper, Jr. Mechanic, Lineman-B, Lineman-C, **Unskilled** includes Line helper, Peon, Peon-BD, Sr. Line Helper, Sweeper, T-guard, T. Sarkar, Tech. Appr., Trainee Technician, Watch cum Sweeper, Watchman, Welder, Work Sarkar

**New Structure As per the recommendation of 6<sup>th</sup> Pay Commission (Considered for both executives & non executives)**

Present Scale			Revised Pay Structure		
Sl. No	Pay Scale	Pay Scale	Pay Band	Corresponding Pay bands	Grade Pay
1	S-1	2550-55-2660-60-3200	-1S	4440-7440	1300
2	S-2	2610-60-3510-65-3540	-1S	4440-7440	1400
3	S-2A	2610-60-2910-65-3300-70-4000	-1S	4440-7440	1600
4	S-3	2650-65-3300-70-4000	-1S	4440-7440	1650
5	S-4	2750-70-3800-75-4400	PB-1	5200-20200	1800
6	S-5	3050-75-3950-80-4590	PB-1	5200-20200	1900
7	S-6	3200-85-4900	PB-1	5200-20200	2000
8	S-7	4000-100-6000	PB-1	5200-20200	2400
9	S-8	4500-125-7000	PB-1	5200-20200	2800
10	S-9	5000-150-8000	PB-2	9300-34800	4200
11	S-10	5500-175-9000	PB-2	9300-34800	4200
12	S-11	6500-200-6900	PB-2	9300-34800	4200
13	S-12	6500-200-10500	PB-2	9300-34800	4200
14	S-13	7450-225-11500	PB-2	9300-34800	4600
15	S-14	7500-250-12000	PB-2	9300-34800	4800

Present Scale			Revised Pay Structure		
Sl. No	Pay Scale	Pay Scale	Pay Band	Corresponding Pay bands	Grade Pay
16	S-15	8000-275-13500	PB-2	9300-34800	5400
17	New Scale	8000-275-13500 (Group-A Entry)	PB-3	15600-39100	5400
18	S-16	9000	PB-3	15600-39100	5400
19	S-17	9000-275-9550	PB-3	15600-39100	5400
20	S-18	10325-325-10975	PB-3	15600-39100	6600
21	S-19	10000-325-15200	PB-3	15600-39100	6600
22	S-20	10650-325-15850	PB-3	15600-39100	6600
23	S-21	12000-375-16500	PB-3	15600-39100	7600
24	S-22	12750-375-16500	PB-3	15600-39100	7600
25	S-23	12000-375-18000	PB-3	15600-39100	7600
26	S-24	14300-400-18300	PB-4	37400-67000	8700
27	S-25	15100-400-18300	PB-4	37400-67000	8700

**Method and basis of calculation:**

1. Present structure- Total Emoluments consisting of Basic Pay+DP+DA+HRA+ Med. Allowance.
2. New Structure- Total Salary consisting of Basic +Grade pay+DA+HRA+ Med. Allowance.

Arrear salary is the difference between **Salary Due & Salary Drawn** by the individual employees.

i) **DUE:-** Basic Pay+DA+HRA+Med. Allowance

**Basic Pay** = Old basic X 1.86+Grade pay as per 6<sup>th</sup> Pay Comm. Recommendation

**DA** =Calculated Rate as per the Commission's recommendation with '0' on 1<sup>st</sup> Jan-06

**DA RATE APPLIED**

Period	DA for Old Scale	DA for New Scale
Jan-06	24 %	0 %
July-06	29 %	2%
Jan-07	35 %	6%
July-07	41 %	9 %
Jan-08	47 %	12 %
July-08	51 %	16 %
Jan-09	58 %	22 %

**HRA & Medical** = 20% on Basic Pay, (3% up to Dec-07 & 5% thereafter)

- ii) **DRAWN:-** Gross Pay = Basic+DP(i.e 50% of Basic)+DA(Prevailing %on Basic+DP)+HRA(20% on Basic+DP)+Med (3% up to Dec-07 & 5% thereafter)
- iii) The old Basic Pay has been fixed on 1.01.06 as per the recommendation of 6<sup>th</sup> Pay Commission.
- iv) The effect of annual increment has been given on the 1<sup>st</sup> January of every year.
- v) The annual increment has been assumed as 3% on the new Basic Pay.
- vi) The new Basic pay has been derived as per the calculation made above.
- vii) The present DA rate is 47 % effective from Jan-08, Which is assumed as 51 % from July-08 & would be 58 % from Jan-09.

The additional impact on account of 6<sup>th</sup> Pay Commission and Wage Board is as under:-

(Rs in Lacs)

CATEGORY	EXECUTIVE AS PER 6TH PAY COMMISSION			NON-EXECUTIVE AS PER WAGE BOARD			Grand Total
	1-01-06 to 31-03-08	1-04-08 TO 31-03-09	TOTAL	1-01-06 to 31-03-08	1-04-08 TO 31-03-09	TOTAL	
Technical	545.06	317.71	862.77	2381.26	1212.74	3594.00	4456.77
Non-technical	99.16	53.07	152.22	631.48	325.32	956.80	1109.03
	<b>644.22</b>	<b>370.77</b>	<b>1014.99</b>	<b>3012.75</b>	<b>1538.06</b>	<b>4550.81</b>	<b>5565.80</b>

After unbundling of GRIDCO and formation of WESCO as per OER Transfer Scheme Rules, 1998, all the personnel deployed in Distribution business were transferred from erstwhile GRIDCO. Initially at the time of WESCO, the nos. of personnel on roll was around 5500 nos which were inadequate and unevenly distributed to meet the functional requirement. Subsequently, by way of separation due to retirement, resignation death etc, there has been drastically reduction of manpower. During the FY 2004-05, the organization was restructured and reorganized by creation of new Divisions, sub-division and Sections with reinforcement of allied activities such as MRT, Energy Audit, maintenance of distribution transformers and vigilance activities. Main objective was 100% of consumer coverage, reduction in Transmission & Distribution losses and to meet the Revenue collection target. The National Productivity Council was entrusted to assess the functional requirement which submitted the draft report on manpower requirement to achieve the expected performance. With such induction of employees, the additional impact in employees cost has gone up. Those who were inducted as Trainees, have been regularized against regular posts / grades which has additional impact of 10%.

Keeping in view the promotion, retirement, resignation and expansion of substations, fuse calls, extension of LT lines and other commercial activities, projected requirement of manpower as indicated above is imperative to be recruited in phased manner for FY 2008-2009 and FY 2009-10.

<b>FY</b>	<b>Category</b>	<b>Nos. to be recruited</b>	<b>Financial impact (Rs lacs)</b>	
2008-09	Executive	100	72.00	
	Non Executive	380	57.00	
2009-10	Executive	90	79.20	Include second year trainee of employees recruited during 08-09
	Non Executive	370	66.90	

No of employees retiring during FY 2008-09 and FY 2009-10 and saving on account of same are as follows:

<b>FY</b>	<b>Category</b>	<b>Nos. of employees retiring</b>	<b>Saving on account of retirement (Rs lacs)</b>
2008-09	Executive	27	68.04
	Non Executive	243	
2009-10	Executive	4	50.88
	Non Executive	206	

Hon'ble Commission had approved Rs.109.97 crores for the year 2008-09. However taking into consideration the 6<sup>th</sup> Pay Commission and Wage Board revision, an amount of 40% of arrear salary amounting to Rs.22.26 crs is required to be disbursed during the current year. Accordingly, the licensee has estimated an amount of Rs.135.05 crs as costs to be incurred during FY 2008-09. Therefore the revised estimate of employee cost of Rs.135.05 crs may be considered for truing up of current year expenses.

For the year FY 2009-10, the expenses have been projected considering the revised scale of all employees as per 6<sup>th</sup> Pay Commission/Wage revision w.e.f 1<sup>st</sup> April 09. The new basic component has been arrived of all the employees individually and effect of DA, HRA and MA has been given thereof. As per 6<sup>th</sup> pay commission DA as on 01.07.08 is 16%, the same has been estimated as 22% on 01.01.2009, 28% as on 01.07.09 and 34% as on 01.01.2010. Considering the above DA for the year 2009-10 has been calculated. The effect of regularisation of Graduate Engineer Trainee (GET), Management Trainees(MT), Diploma Engineers Trainee (DET), Junior Accountants and ITI's on the employee costs is also taken in to account in the current and ensuing year. The additional cost of recruitment of new employees in the year FY 08-09 & FY 09-10 i.e. ITI, Junior Accountant, GET etc has also been considered in view of preventive maintenance of distribution network and other various new measures proposed by Licensee like Credit Control, Compliance with Standards of Performance etc. Additional fresh recruitments with specialisation in Technical, Finance, HR, IT are envisaged to build a robust workforce to meet the new challenges of Distribution Business. To support the base line

requirements 300 fresh ITI, Accountants, GET, Commercial and customer care professional has been envisaged for the year 2009-10 in order to provide better services and for achievement of the performance standards as prescribed by this Hon'ble Commission.

Further, the additional expenses of Rs.378.30 lacs on account of regularisation of employees and recruitment of additional employees. The above are very essential due to increase in the Distribution network by implementation of the MNP, RGGVY and BGJY, has been considered while estimating the employee expenses.

As regards to terminal benefits i.e. the contribution to the Pension Fund and Gratuity Fund and Leave Encashment has been made for the year 2009-10 based on the actuarial valuation study done by Hon'ble Commission, carried out by M/s Bhudev Chatterjee as on 31.03.2008 and the projections provided for 2008-09 and 2009-10. It is assumed that the trend in the requirement of Terminal Benefit corpus for the year 2008-09 shall continue as for the year 2009-10. The details are given in OERC Form: F-21. While computing the contribution required by the Licensee to fund the employees trust, the Actual investments as on 01.04.2008, the estimated Investments as on 01.04.2009, the income from the investments during the year 2009-10 and the payments during the 2009-10 has been considered. The computation of the employee Terminal Benefit Trusts requirement for the year 2009-10 amounting to Rs. 41.29 Crore is stated in the following table.

The total employee expenses after capitalisation projected for FY 2009-10 is Rs.182.79 crores including the contribution required for the Terminal Benefits of the Trusts amounting to Rs.41.29 crores. The receivables to the Employees Trusts from the GRIDCO and WESCO are Rs.100.04 Crore and Rs.124.88 Crore respectively. Detail computation is as under.

		<b>Rs. Crore</b>
1	Employee Trust Valuation as on 31.03.10	368.88
2	Estimated Employee Trust fund available as on 31.03.09	339.08
3	Interest on investment during 2009-10 @ 8.5 %	9.70
4	Estimated payment during 2009-10	21.19
5	Terminal benefit trust funding required for 2009-10 (1-2+3-4)	<b>41.29</b>

Particulars	Valuation by OERC ( M/s Bhudev Chaterjee)			Invst as on 01-04-2008	Int on invst for 08-09 @ 8.5 %	Estm paym ent for 08-09	Approve d for 2008-09	Estimat ed Investm ent as on 31.3.09	Int. on inv. for 2009-10 @ 8.5 %	Estm. paym ent for 09-10
	31.3.08	31.3.09	31.3.10							
1	2	3	4	5	6	7	8	9=5+6-7+8	10	11
Pension	266.29	276.95	288.02	87.93	7.47	13.85				15.90
Gratuity	36.63	41.16	46.04	13.92	1.18	7.02				5.29
Leave encashment	28.85	31.71	34.81							
<b>Total</b>	<b>331.78</b>	<b>349.81</b>	<b>368.88</b>	<b>101.85</b>	<b>8.66</b>	<b>20.87</b>	<b>24.52</b>	<b>114.16</b>	<b>9.70</b>	<b>21.19</b>
Receivable from GRIDCO								100.04		
Receivable from WESCO								124.88		
<b>Grand Total</b>								<b>339.08</b>		

#### 4.4. Administrative and General Expenses

The A&G expenses for FY 2008-09 is estimated at Rs.23.77 Crore based on actual expenses till September 2008 as against the approved A&G expenses of Rs 20.91 Crore including special additional expenditure of Rs.2.80 crs..

The Administration and General expenses for the ensuing year have been forecasted based on estimated expenses during FY 2008-09 in line with the Commission's earlier Orders, the increase in A&G expenses for the ensuing year has been projected by considering 7% increase over the approved A&G expenses for FY 2008-09 mainly to account for inflation and additional special expenses under different heads to comply with the various directives of the Commission and for reduction of losses.

The various corrective measures are as under:-

- Opening of Customer cares in each Districts of the Licensee area for enhancing customer services. Presently there are 2 nos customer care centre is operating in Sambalpur and Rourkela.
- Besides above, the licensee planned to have mobile customer care vans for providing the services to the consumers door steps.
- Introduction of Spot Billing in various divisions to expedite the meter reading, bill preparation and bill distribution and proposes to roll out this spot billing plan in all other

divisions. The Licensee incurred Rs.1.51 crore and estimated for the expenditure of Rs.1.81 crore during the year 2008-09 and 2009-10 respectively. The Hon'ble Commission directed in para 362 of the RST order for 2008-09 to allow the expensed towards spot billing as when the licensee come out with the details of the expenditures. The licensee has incurred actual audited expenditure of Rs.1.51 Crores during 2007-08 and Rs 0.78 Cr on this account for the period Apr 08 to Sep -08. Under the circumstances the licensee is submitting for kind approval of the additional expenditure under this head for FY 2009-10.

- Introduced Energy Audit at 33 and 11 kV feeders and proposes to carry out at least 20 nos in each section amounting to 5600 nos of distribution transformer. Licensee submits that the activities of pole scheduling, consumer indexing activities are outsourced and the said the licensee proposed to allow the said expenditure keeping in view the large benefits of the Energy Audit and consequent loss reduction.
- Licensee proposes to conduct consumer indexing & pole scheduling of all the consumers during the ensuing year and the consumer indexing of Sambalpur, Rourkela division has already completed and in the division Bargarh, Jharsuguda, Bolangir is continuing.
- Automation of the operation and customer care activities through IT intervention is planned by licensee during FY 2009-10. The creation of the hardware related expenditure are covered in the capital expenditures during the ensuing year and the expenses like consumables etc for running the said system are considered in the A&G expenses.
- The Licensee is in the process of appointing more number of franchisees in line with direction issued by Hon'ble Commission with the terms for payment of incentivised fees based on the performance improvement in the inputs at the feeder level. Besides the licensee is also appointing micro franchisees in the rural areas on need base cases.
- The Licensee proposes some amount for payment of the incentives for the collection of the Arrears in the ensuing year and towards IT automation.

### Franchisee Expenses

At present consumers of 6 nos of 33 KV feeders under Bolangir Division, 5 nos of 33 KV feeders under Sonepur Division and 1 no 33 KV feeder under Bargarh Division are covered under input based franchisee. The licensee has incurred expenditure of around Rs.56.07 lacs up to Sep-08 under this head. In addition to the above 12 nos of 33 KV feeders WESCO proposes to extend the same for another 22 nos of 33 KV feeders . Hence the approximate amount of expenses is expected to be Rs. 2.03 crs for 2008-09 and Rs.3.92 crores for 2009-10.

In addition to normal A&G expenses, following additional A&G expenses for aforesaid initiatives has been considered while projecting the total A&G expenses for FY 2009-10. The collection of arrears and current bills is assumed to be used to meet cash deficits during the year 2008-09, to the extent of collected amounts

#### Additional A&G Cost.

S.No	Description	Amount (Rs Lacs)
1	Energy Audit, consumer indexing and pole scheduling	284.40
2	Spot Billing	180.62
3	Fringe Benefit Tax	90.00
4	Expense of Customer Care	98.90
5	Energy Police Station	387.68
6	Input based Franchisee	391.94
7	Mini Call Center	36.00
8	Training for Employees	70.81
9	IT automation & Arrear collection Incentive	200.00
10	Mobile customer van	4.20
	<b>Total</b>	<b>1744.54</b>

The total A&G expenses for FY 2009-10 is projected at Rs 37.05 Crore considering the additional A&G expenses of Rs 17.45 Crore.

### 4.5. Repair and Maintenance Expenses

The distribution network requires regular repair and maintenance so as to ensure steady supply to consumers. The Hon'ble Commission itself in its Tariff order for FY 2008-09, vide Para 487, 488, 489 recognises the failure of distribution transformer and improvement of existing infrastructure and the need for regular preventive maintenance to avoid a major breakdown. The

Licensee too plans for initiating R&M activities for reducing system downtime and the cost of un-served energy. Apart from this, the Licensee is bound to adhere to the guaranteed standards of performance as per the OERC (Licensees Standard of Performance) Regulations 2004. In this regard the licensee is undertaking the measures related to R&M like civil repair & maintenance, transmission & distribution lines repairs and maintenance, transformer maintenance and other repair & maintenance.

The Hon'ble Commission in para 368 of the RST order for 2008-09 has observed the aggregate shortfall in R&M expenses as compared to the approved figure for FY00 to FY08. The aggregate R&M expenses incurred by Wesco for the period FY00 to FY08 is Rs 107.92 Cr against Rs 161.35 Cr approved for the same. It is submitted that the licensee could not incur the approved Repair and Maintenance cost on account of stringent escrow mechanism and non relaxation of escrow by GRIDCO. With the actual expenses incurred being considered in the truing up exercise, the shortfall of Rs 53.43 Crs (Rs 161.35 Cr less Rs 107.92 Cr) is being proposed to recovered in FY 10.

In FY 2008-09, the R&M expenses incurred is equivalent to Rs.25.66 Crore as estimated by the Hon'ble Commission, made possible by the directive to GRIDCO for allowing escrow relaxation for reimbursement of the approved R&M expenditure.

The Repair & Maintenance (R&M) expenses for the ensuing year FY 2009-10 has been estimated on the basis of 5.4% of Gross Fixed Assets (GFA) at the beginning of the year. The opening GFA works out to be Rs 768.00 crores, based on which the proposed R&M expenses is to the tune of Rs.41.44 crores. The licensee proposes to recover the shortfall of the past period FY00 to FY08 Rs 53.43 Cr along with the estimates for FY10 Rs 41.48 Cr. Accordingly the licensee proposes to incur Rs.94.91 crores as R&M expenses for the ensuing year FY 10 and requests the Hon'ble Commission to issue necessary directions to GRIDCO to release specific amount of Rs.94.91 Crore from the escrow account on monthly basis for R&M expenses to maintain the distribution system in the Licensees area.

The total R&M expenses for FY 2009-10 is projected at Rs.94.91 Crore.

#### **4.6. Provision for Bad and Doubtful Debts**

In line with the Order of the Hon'ble Commission in Case No 8/2003 dated June 18, 2003 on setting guiding principles for determination of Annual Revenue Requirement of Distribution Licensees of the State on a long term basis, the Petitioner had filed their Annual Revenue Requirements considering actual collection of revenue during the Financial Year for FY 2004-05

to FY 2007-08. This was in accordance with the Hon'ble Commission's decision to employ AT&C loss as a benchmark to assess the performance of licensees during the Control period. The Hon'ble Commission has also noted in the clause 5.3 of the RST Order for FY 2005-06 that *"For the first control period, the Performance Targets shall relate to the system losses and the collection efficiency for different consumer categories, along with the AT&C losses. The licensee will be expected to perform and improve its efficiency as per the overall AT&C targets fixed by the Commission."*

Though the Hon'ble Commission has set the AT&C performance targets for measuring, monitoring and controlling the efficiency of the operation of the Petitioner, the approval of the ARR and determination of RST for FY 2005-06 , FY 2006-07 and FY 2007-08, FY2008-09 for the DISCOMs is based on the distribution loss target and not based on the AT&C loss target. The Commission has considered the distribution loss target for ARR determination on the grounds that the AT&C loss shall serve as an indicator for the purpose of payment of incentive with reference to measurement of performance and penalty only. For the purposes of tariff determination, the revenue requirement of the DISCOMs has been determined based on accrual of revenue during the financial year based on the set target of T&D loss for the Financial Year without considering actual collection of revenue.

The Commission vide clause 5.4.8 of the RST Order for FY2004-05 had specified that the difference between the 100% collection efficiency and collection efficiency as approved by the OERC after provisioning of 2.5% of Accrued Revenue as bad debts to be treated as working capital requirements and carrying cost/interest on working capital has been allowed as a pass through in the ARR. The Petitioner is expected to arrange the working capital towards such gap in collection of revenue. The Hon'ble Commission had agreed to allow the carrying cost on such short term loans to meet working capital requirements. It is relevant to point out that AT&C performance benchmark has been successfully implemented by DERC for monitoring and controlling the performance and approving the Annual Revenue Requirement and Tariff of the privatised DISCOMs. The Petitioner submits to the Commission that employing a single performance measure for determining operational efficiencies and annual revenue requirements is essential to ensure the turnaround in the Orissa Power Sector by allowing the costs, which is due to the Petitioner. If the costs of the Petitioner are not met then the Petitioner will not be able to maintain the system and effect necessary improvements in the system to achieve the turnaround.

The Petitioner respectfully submits for the Commission's consideration that considering the past accumulated losses and huge liabilities, it would be extremely difficult for the Petitioner to arrange working capital finance to bridge the revenue gap, which would arise due to non-recognition of collection efficiency in determination of tariff.

The Licensee while estimating the ARR for FY 2009-10 has considered the revenue from sale of power on accrual basis in line with the Commission's Order on ARR and Tariff Petitions for FY 2005-06, FY 2006-07 and FY 2007-08. However, as it is difficult for Petitioner to arrange working capital finance due to continuance of huge accumulated Regulatory Gaps to bridge the gap of collection inefficiency, the Petitioner has considered the amount equivalent to the collection inefficiency as bad and doubtful debts while estimating the ARR for FY 2009-10. Considering the proposed collection efficiency of 96.56% for FY 2009-10, the bad debts equivalent to 3.44% of the estimated revenue billed i.e. Rs 47.73 Crore has been considered as part of ARR for FY 2009-10. The Petitioner humbly requests the Commission to consider the bad debts equivalent to billing to collection gap to enable the Petitioner to recover its entire costs after duly considering the performance levels.

#### **4.7. Depreciation**

Depreciation has been provided only on assets available at the beginning of the year and no depreciation has been provided on assets created during the year. The method adopted for calculating depreciation is Straight Line Method (SLM) at pre-92 rates.

The numerical details are given in OERC Form: F-35.

The depreciation for FY 2009-10 is projected at Rs.27.44 Crore.

#### **4.8. Interest Expenses**

The Licensee would like to submit that the assumptions with respect to outstanding loans and dues has been considered in line with the Commission's previous orders.

The Hon'ble Commission on 28<sup>th</sup> February 2005 issued the Order on Approval of Business Plan of WESCO, NESCO, SOUTHCO and CESCO (Order passed in Case No. 115 of 2004). The Commission in its Orders has elaborated on treatment of past loans and outstanding dues. Further the Commission in its Orders on applications filed for Determination of ARR and Retail Supply Tariffs for FY 2004-05 and FY 2005-06 has also deliberated the treatment of outstanding loans and dues.

In the initial post privatization period, from April 1999, WESCO did not pay the BST bills in full, however WESCO started making monthly current BST payments in full from May-2002 onwards. With all receivables from sale of power being deposited by WESCO in the Escrow Account, no amounts remained with WESCO despite full payment of BST. Under such circumstances, WESCO filed a Petition before Hon'ble Commission on 23rd December 2002, seeking relaxation of the escrow mechanism. The relaxation was sought to the extent of payment of salaries to the staff, meeting O&M expenses and payments of statutory dues.

The Hon'ble Commission has passed a detailed Order dated 4th September 2003 in the said case wherein the DISCOMs were directed to submit a Business Plan. Though the Hon'ble Commission did not accept the Business Plan submitted by the DISCOMs, it issued the following directives:

- Directed the DISCOMs and GRIDCO to work out the outstanding BST bill dues
- Treatment of Delayed Payment Surcharge (DPS) should be in accordance with the formula adopted for securitizing the NTPC arrears.
- State Government and State Undertakings' dues be paid directly to GRIDCO to clear the NTPC arrears due on account of DISCOMs and the balance amount may be serviced directly by paying GRIDCO.

Hon'ble OERC, in its Order further clarified that the adjustment of the past dues would be guided by the stipulations in Clause 9 of the Escrow Agreement where arrears were proposed to be securitized and monthly bills were to be set off against current demands. Hon'ble OERC stated that that payment of staff salary cannot be withheld and the DISCOMs will retain the balance amount after meeting 100% BST bills of GRIDCO to meet staff salary payment and urgent O&M costs. Further, in case there is some shortfall in one month the same should be made good in the next month along with 100% current BST bill of that month, which is not followed by GRIDCO. All surplus collection of the licensee over and above current BST bills and Net Salary is being deposited in the GRIDCO account, thereby forcing the Licensee to default in payment of statutory dues to the employee trusts, payments to supplier liabilities towards R&M activities and interest/ principal repayments. For seeking further clarifications on the Hon'ble OERC Order, the DISCOMs filed a petition seeking clarification and Hon'ble OERC in its Order dated 22nd March 2004, opined as follows

*"6.....On hearing both the parties and after perusing all the documents before us, the Commission as per Sections 10 & 11 of the OER Act, 1995 and also clause 57 of the Bulk Supply Agreement passed orders as under:-*

*Relaxation of Escrow for the previous four months requested by the DISTCOs may be done forthwith by GRIDCO to enable the companies to replenish funds diverted from other heads of account for meeting staff salaries etc. Surplus funds, if any, may be passed on to GRIDCO.*

*Once 100% BST bill is cleared by the three distribution companies, they will be entitled to retain the amount required to meet the expenses towards staff salaries, urgent O & M costs and statutory dues in consultation with GRIDCO as GRIDCO is a joint-venture partner and the CMD, GRIDCO happens to be the non-executive Chairman of the above three DISTCOs. Balance surplus amount is to be passed on to GRIDCO towards payment of dues on account of NTPC bonds. GRIDCO's loan amount etc. GRIDCO has to act as per clause 55 of the Commission's earlier order dated 04.09.2003.*

*The three distribution companies and GRIDCO must finalise the amount to be paid by the distribution companies to GRIDCO towards dues of NTPC bonds, GRIDCO's loan component etc. and submit the copy of the arrangement of payment to the Commission within seven days hence."*

Subsequently a revised Business Plan was submitted by WESCO. The OERC issued a Order on 28th February, 2005 on approval of revised Business Plan submitted by DISCOMs and specifically addressed the issue of restructuring of the liabilities under four heads:

- Outstanding BST dues and DPS
- Treatment of NTPC dues
- GRIDCO loan
- World Bank Loan.

In the said Order, the Commission directed that the securitisation of BST outstanding dues to GRIDCO payable by DISCOMs would be at zero percent interest rate and that the amount to securitized for each DISCOM was to be as on the date preceding when each Company started paying 100% BST bill of GRIDCO.

WESCO filed the clarificatory petition on 14.03.2005 before the Hon'ble Commission on the moratorium period and the repayment period. The Hon'ble Commission passed an order on 20.07.2006 which interalia provides the following;

- i. The Discoms shall repay the outstanding loans including interest along with the securitised BST dues as on 31.03.2005 in ten years 120 monthly equal installments starting from FY 2006-07.

- ii. In case of default of monthly dues by the DISTCOs they shall liable to pay the Delayed Payment Surcharge (DPS) @1.25% per month.
- iii. The BST outstanding and the loan liability will carry 0% rate of Interest. At the same time the interest on the Bonds issued by GRIDCO against the power outstanding due to Gencos would be passed through in the BST.

The supplementary Order passed on 20.07.2006 provides the payment of installments of the GRIDCO loan liability and BST outstanding starts from 2006-07 failing which DPS of 1.25% per month is chargeable.

The order provides that any balance after the payment of BST, monthly installments towards securitised amount and other OERC approved expenditures are to be transferred to GRIDCO. This effectively means that even with the best efforts to collect more, the Discoms will not get any incentive by way of retention of fund for the improvement of the Distribution infrastructure and undertake consumer beneficiary activities. This defeats the spirit of the securitisation scheme.

In the meanwhile, in matters pertaining to the sale of CESCO, it is submitted that the Hon'ble Commission has already established a procedure for securitisation as decided in the order approving the transaction documents for the sale of the Central Zone Electricity Distribution and retail supply Utility. The said order specifies the opening balance sheet and terms and conditions for repayment of the liabilities of GRIDCO. The terms and conditions of repayment of GRIDCO Loan & BST outstanding is as are under;

- i. **GRIDCO loan** liability would be repaid in **10equal annual installments after a moratorium of 5years** from 01.04.2006. This carries interest rate of 0%.
- ii. **BST outstanding** would be converted into Zero coupon preference shares of **20years maturity**, with a moratorium period of 7years and to be redeemed into 52equated quarterly installments from 8<sup>th</sup> year onwards.

The Hon'ble Commission heard the said review petition on 16<sup>th</sup> November 2007 and is pending before the Hon'ble Commission.

**The Licensee further submits before the Hon'ble commission as it has submitted in the hearing for review of the the case no 115 of 2004 that a similar securitaisation plan be to allowed for the Licensee in line with the CESCO sale order.**

As regards the treatment of NTPC dues, the Commission directed to apply the recommendation of the Ahluwalia Committee and agreed that GRIDCO/Government of Orissa accept the proposal of the restructuring of NTPC bonds with tenure of 15 years including a moratorium period of 5 years with effect from 1.10.2001 with interest at the rate of 8.5% per annum. Further, the interest incentive to be received by GRIDCO from NTPC was required to be passed on to the DISCOMS by way of adjusting the same against reconciled outstanding BST bills of the DISCOMS.

With the refusal of the Govt of Orissa to issue the Bonds to NTPC there is a necessity of pass through of the differential interests in the tariff and default of the installments by the Discoms. Further GRIDCO intimated that the installment amount is adjusted by NTPC with GRIDCO.

#### **4.9. World Bank Loan**

In line with the Commission's previous Orders, the Licensee has calculated the interest on World Bank Loan @ 13% as per the subsidiary loan & project implementation agreement with Government of Orissa, considering 30% of loan as grant and balance 70% as loan. The moratorium period and repayment period for the World Bank Loan has been considered based on the terms of the World Bank (communicated by World Bank to GoO vide its letter dated June 13, 2000). In line with these terms, the repayment period has been considered as 10 years with 20 equal semi-annual installments commencing from FY 2008-09.

For the ensuing year 2009-10, the interest liability is estimated at Rs 10.64 Crore and the repayment liability is estimated at Rs.9.09 Crore.

#### **4.10. NTPC Power Bond**

The Licensees ( Wesco, Nesco & Southco) issued bonds worth Rs. 400 Crores in favour of GRIDCO / NTPC with effect from 1<sup>st</sup> October 2000 with interest @ 12.5%. In all its Orders, the Hon'ble Commission has considered the interest rate of 8.5% (tax free) on these bonds, in accordance with the recommendations of Ahluwalia Committee for restructuring of the dues of the Central Power Sector Undertakings.

The Hon'ble Commission in its RST Order for FY 2008-09 vide para 382 also reiterated that the interest rate is to be allowed @8.5% on the following basis

*“ As regards to one time settlement dues payable by GRIDCO to NTPC, covered under the power bond of Rs 400 crores issued by WESCO, NESCO and SOUTHCO to GRIDCO, both GRIDCO and NTPC came to settlement the extract of which is reproduced below :*

*The outstanding amount payable by GRIDCO to NTPC towards power purchase included a sum of Rs 400 crore as on 31<sup>st</sup> August 2000. Pursuant to the minutes of meetings dated 09.09.2000 and 24.10.2000, the three DISTCOMs (WESCO, NESCO and SOUTHCO) together issued 12.5% Secured Non convertible bonds of Rs 400 crore to GRIDCO and GRIDCO transferred these bonds to NTPC to liquidate its power purchase liability of Rs 400 crore as on 31.08.2000. The DISTCOMS were to service the bonds directly to the bondholder. In case the DISTCOMs fail, as a fall back arrangement, NTPC was to have the first charge on pari-passu basis along with other first charge holders on the receivables of GRIDCO.*

*The three DISTCOMs were not regularly servicing the bonds. The interest accrued up to 31<sup>st</sup> March 2007 on the Bonds of Rs 400 is Rs 295 crore. The three DISTCOMs have made payment of interest aggregating to Rs 110.80 crore only. NTPC adjusted Rs 276.70 crore which was to refundable to GRIDCO pursuant to CERC tariff orders, against the default of DISTCOMs which GRIDCO did not accept. NTPC issued notice for regulation of Power to GRIDCO for payment of outstanding dues linked to Rs 400 crore bonds on 17.01.2007.*

*In order to resolve the settlement of outstanding payments, meetings were held between GRIDCO and NTPC on 26/27.12.06, 09.02.07 (with Govt. of Orissa), 15.03.07, 20/21.03.07 and 24.03.07 (with Govt. of Orissa). After prolonged discussion, in order to reach a onetime settlement of NTPC dues, applicable exclusively between NTPC and GRIDCO, the following has been resolved:-*

- i. GRIDCO will make onetime settlement of the entire power purchase dues payable to NTPC linked to the bonds of Rs 400 crore and ensure payment to NTPC by 31.03.2007.*
- 2. AS a full and final settlement GRIDCO shall pay Rs 216 Crore (Rupees two hundred sixteen crore only) to NTPC by 31.03.2007 towards GRIDCO's Power Purchase liability payable by GRIDCO to NTPC covered under the bonds issued by DISTCOMs to GRIDCO and transferred by GRIDCO to NTPC, after considering adjustment of Rs 276.70 crore made by NTPC and the amount of Rs 110.80 crore paid to NTPC by DISTCOMs directly.*
- 3. On receipt of full payment of the above settled amount from GRIDCO by NTPC, the entire bonds of Rs 400 crore issued by DISTCOMs to GRIDCO and transferred to NTPC by GRIDCO shall be re-transferred by NTPC to GRIDCO by 31<sup>st</sup> March 2007.*

*It is revealed from the above that GRIDCO has settled the bond with NTPC in the following manner:*



**amount over the BST bills for Rs.526crore till October 2008 by 3Discms, there shall be no dues towards Power Bonds.**

**The Licensee submits that the dispute on the Power bonds is a dispute between the Licensees and rightfully Hon'ble Commission has the sole jurisdiction to decide on the dispute under the provisions of EA, 2003 and OERA,1995.**

The matter referred to the CLB by the GRIDCO as a Creditor to recover the dues against NTPC Bond, is not the right judiciary forum and hence the Hon'ble Commission must resolve this issue. This is further supported through the various Orders issued by Hon. Commission that:

- (a) GoO, GRIDCO should avail of OTS as per Ahluwalia Committee.
- (b) The interest rate shall be 8.5% and not 12.5%, and accordingly all Tariff Orders passed.

Hon'ble Commission computed that the rate of interest which has been discharged by GRIDCO works out to 7.83% and the tariff of al the licensees has been fixed on this basis and accordingly orders passed by the Hon' Commission. Hence, the Hon. Commission is requested to resolve and address this issue. If either party is not satisfied, on the directives of Hon'ble Commission then only they can go to an appropriate judiciary forum. CLB has no jurisdiction in this respect.

**However, the Licensee submits the Hon'ble Commission to pass a suitable order in this issue, else, allow the differential interest between 12.5% p.a. and 8.5% p.a. on this bond amount from 1<sup>st</sup> October 2000 to March 2007 in the ARR for FY 2008-09.** Accordingly, the Licensee has estimated the total interest of Rs.13.64 Crore towards the differential interest.

#### **4.11. APDRP Assistance**

For the ensuing year, no amount has been estimated to be expended under APDRP Scheme. For the assistance already availed by the licensee previously, interest @ 12% p.a has been considered for the ensuing year on the existing loan. The amount towards interest is estimated is Rs 0.65 Cr

#### **4.12. Interest on System Improvement Schemes**

For funding of System Improvement Schemes, the Licensee estimated to avail long term loans of Rs.22.42 Cr for FY09 and Rs 31.50 Cr for FY10 from REC at interest rate of 13.5% p.a. The interest on such loan for FY 10 is estimated as Rs 6.41 Crs

#### **4.13. Interest on Security Deposit**

Section 47(4) of the Electricity Act 2003 states that “The distribution licensee shall pay interest equivalent to the bank rate or more, as may be specified by the concerned State Commission, on the security referred to in sub-section (1) and refund such security on the request of the person who gave such security.”

The OERC Distribution (Conditions of Supply) Code 2004, sec (21) also mandates the payment of interest on consumer security deposit, the manner in which it is to be administered and penal provisions for delay in making such payments.

The licensees have calculated the interest on security deposit @ 6% on the closing balance of security deposit amount for FY08-09. The total interest on security deposit considered in ARR for FY 2009-10 works out to Rs 16.95 Crore.

#### **4.14. Interest Capitalized**

The interest on loan outstanding at the beginning of the year has been considered as revenue expense as a part of ARR. The interest on loan to be drawn during the ensuing year for capital works amounting to Rs.2.13 crores has been capitalized.

#### **4.15. Total Interest for Financial Year FY 2009-10**

The total interest expenses estimated for FY 2009-10 is given in following Table:

**Table 7: Summary of Interest Expenses**

1	World Bank	10.64
2	Power Bonds-Differential amount	13.64
3	APDRP	0.65
4	REC-Counterpart & SI Scheme	6.41
5	Interest on Security Deposit	16.95
6	<b>Total Interest</b>	<b>48.32</b>

7	Less Interest Capitalised	2.13
<b>8</b>	<b>Net Interest for ARR</b>	<b>46.19</b>

The total interest chargeable to revenue proposed by the licensee for the year FY 2009-10 is Rs.46.19 crores.

#### **4.16. Amortisation of Regulatory Asset**

The Hon'ble Commission in its Tariff Order has carried out the truing up exercise for the period from FY 1999-00 to FY 2005-06 for all DISCOMs based on the audited annual accounts. The Commission while re-computing the ARR for each financial year based on the audited accounts has followed different principles while truing up of each items. Different basis has been considered by the Commission while truing up for different licensees and while computing for different years as set out hereinafter. The DISCOMs object to the principles followed by the Hon'ble Commission while undertaking the Truing up impact to the DISCOMS.

The Petitioner had filed a Petition as directed by the Hon'ble Commission for recognition and acceptance of Truing up impacts (Regulatory Asset) for accumulated for the period from FY 1999-00 to FY 2005-06 and its amortisation through recovery of tariff at a future date. The Regulatory Asset was attributable to unrealistic distribution loss level target fixed for determination ARR of DISCOMs and retail supply tariffs, non-recognition of collection efficiency, prudent expenses in excess of the revenue requirement, procurement of higher quantity of power and the price variance in power purchase, reduction in sale to consumers and Gap (Deficits) with respect to the revenue requirement approved by the Commission.

Hon'ble Commission heard the Licensee along with the respondents in the said application for the truing up on 24.07.2007 and directed the Licensee to submit further details, which has been submitted to the Hon'ble Commission on 12.09.2207.

Based on the Hon'ble Commission's ruling, the Petitioner understands that the Hon'ble Commission would admit the servicing cost of such securitised liabilities (i.e. interest payable) and repayment of such securitised liabilities as a component of subsequent ARRs. The Petitioner is in agreement with the observation of the Commission that the Regulatory Asset should be adjusted to the extent that the revenue requirement is recognised towards repayment of securitised liability in the approval of subsequent ARRs. The Commission's approval of pass through of repayment liability as a component of Annual Revenue Requirement is in effect an implicit approval of Regulatory Asset to the extent of quantum of securitised liabilities. This is so

because the Liabilities would match the Assets in the Balance Sheet of a Company in any double entry accounting system. Such securitised liabilities (attributable to accumulated losses) on the Liability side of the Balance Sheet is represented by a Regulatory Asset (i.e. the accumulated losses) on the Asset side of the Balance Sheet.

The Petitioner would further like to submit to the Hon'ble Commission that the quantum of securitised liabilities does not fully represent the Regulatory Asset on the Asset side of the Balance Sheet. The Petitioner has additional accumulated liabilities towards statutory authorities and its suppliers which is also attributable to accumulated past regulatory gaps i.e. the Regulatory Asset being claimed by the Petitioner. The Petitioner respectfully submits to the Hon'ble Commission that repayment of such accumulated liabilities towards statutory authorities and its suppliers should also be allowed as a component of subsequent ARR's on the similar lines as that of securitisation of liabilities of GRIDCO. This in effect means that amortisation of Regulatory Asset to the extent of repayment of such accumulated liabilities should also be allowed to be recovered through subsequent ARR's.

Further, the Commission has ruled in clause 6.14.4 of the RST Order for FY 2005-06 *"...However, with collection of a part of receivables, the licensees will be able to wipe out the outstanding liabilities, as evidenced from Audit Report. In view of the above, the Commission does not consider it necessary to allow the past loss or regulatory assets as claimed by the licensees."*

It respectfully submitted that petitioner has taken several steps and has been able to effect substantial improvement in collection efficiency from FY 1999-00 to FY 2006-07. The Petitioner has and would remain committed to the power sector in Orissa to bring about the improvements to the system..

It has been imperative to note that the collection efficiency in the State of Orissa was never more than 72% to 75% before privatisation of the power sector which has been improved to the extent of 94% in the Licencee area. It has been a widely known fact and recognized and accepted by various Committees constituted to study issues related to power sector in the country that it is a common practice across all State Electricity Boards (SEBs) to raise bogus bills at the year-end to show lower distribution losses. As a result the books of SEBs carries huge non-realizable and bogus receivables.

The Petitioner further submits that the past Retail Supply Tariffs were determined with deficit/negative clear profit and based on the unrealistic distribution loss level targets. The losses attributable to such deficit/negative clear profit and unrealistic distribution loss level targets do not represent the "Receivables" and the liabilities/Regulatory Asset cannot be adjusted against such receivables as directed by the Hon'ble Commission.

The Petitioner humbly requests the Hon'ble Commission to recognise, acknowledge and accept the Regulatory Assets claimed by the Petitioner and allow amortisation of Regulatory Asset through recovery of tariff in next Business Plan period to service the non-asset bearing liabilities.

The Petitioner has noted that the Hon'ble Commission has allowed GRIDCO to adjust its revenue surplus during FY 2004-05 and FY 2005-06 against its past-accumulated losses thereby signaling that the past accumulated losses in the Sector are allowed to be adjusted as and when the Sector is able to absorb such losses. Similarly the Hon'ble Commission has left the revenue from export of power for adjustment towards the past losses in the BSP order for the year 2006-07 and 2007-08, the Licensee submits that similar treatment may be rendered to the Licensee.

The Licensee reasonably expects that the Hon'ble Commission would also accept the claim of recovery of the Regulatory Assets to the extent cash requirement during the year 2009-10 keeping in view the issues raised herein above. Considering the magnitude of impact of the decision on the viability and sustainability of the Licensee, the Licensee respectfully requests the Hon'ble Commission to allow the Regulatory Assets so as to enable the Licensee to render best services to the consumers of Orissa as well as meet the dues of the creditors and statutory liabilities.

The Petitioner has only included the amortization of Regulatory Asset to the extent of actual liabilities towards Payment of statutory dues payable to the Employee Trusts like Pension and Gratuity, inspection fees and etc.as detailed below.

#### **4.17. Payment of Past Statutory Dues and Inspection Fees**

It is pertinent to note that due to various reasons attributable to the transfer process adopted by the Govt of Orissa at the time of corporatisation of Generation, Transmission and Distribution businesses and various other commercial, financial and administrative difficulties, Discoms were incurring losses from day one of the acquisition. As a result, Licensee was unable to pay all its

statutory dues on time and outstanding dues as estimated on 31<sup>st</sup> March 2008 is Rs 111.08 Crore towards pension and gratuity trust. In addition, payment could not be made towards inspection fees to the extent of Rs 22.17 Cr due to poor financial conditions. The Licensee requests the Hon'ble Commission to allow the same in the ARR for FY 2009-10. In addition to the above the licensee proposes to amortise 10% of the past losses up-to FY 08 amounting to Rs 48.33 Crs in the ensuing year

The total estimated amount towards amortisation of the Regulatory Assets during FY 2009-10 amounts to Rs 181.58 Crore as per the details given in table below:

**Table 8 Amortisation of Regulatory Assets in FY 2008-09 (Rs in Crores)**

S.No	Description	Amount
1.	Statutory dues towards trusts	111.08
2.	Inspection Fees	22.17
3	10% of past losses up to FY 08	48.33
	<b>Total</b>	<b>181.58</b>

The Licensee humbly requests the Hon'ble Commission to allow amortisation of Regulatory Asset to the extent of Rs 181.58 Crore for FY 2009-10.

#### **4.18. Non Tariff Income**

The Licensee has proposed Rs 16.89 Crore as Non Tariff Income for the ensuing year FY 2009-10. The Licensee proposes to abolish meter rent for all the categories and hence not considered any income from meter rent.

#### **4.19. Provision for Contingency**

The Distribution system is more prone to natural calamities like cyclone, flood etc for which contingency provisions should be made, which has also been recognised by the Hon'ble Tribunal and the Tariff Policy. The Hon'ble Commission in its Order on ARR and Tariff Petition of Orissa Power Transmission Corporation Limited (OPTCL) for FY 2006-07, FY 2007-08 and FY 2008-09 has also approved the contingency amount of Rs 12.59 Crore, 10.49 crores and Rs 13.10 Cr respectively. Accordingly, the Licensee has considered the Contingency @ 0.375% of Gross Fixed Assets at beginning of the year while estimating the ARR for the ensuing year FY 2009-10. The Licensee respectfully submits to allow Rs.2.81 Crore towards provision for contingency for FY 2009-10.

#### 4.20. Trueing up of Revenue Gap for FY 2006-07, FY2007-08 & FY2008-09

Trueing up of revenues and costs till FY06 is already under the consideration by the hon'ble Commission. In the meanwhile the licensees audited accounts till FY08 has been prepared and the licensee proposes to true up the revenue gap for FY07 & FY08. Accordingly the Licensee would like to submit that based on the audited accounts for FY07 & FY 08 the uncovered gap is Rs 483.30 Crs.

	Trueing for FY07 & FY08	FY 2006-07 in Rs lacs	FY 2007-08 in Rs Lacs	Cumm Total 2007-08
1	Power Purchase	60836.95	94693.82	155530.77
2	Distribution Costs			
	a) Employees cost	14517.49	9635.68	24153.17
	b) Repair and Maintenance cost	1250.02	1237.93	2487.95
	c) Admn. & General Expenses	1659.04	1717.50	3376.54
	d) Provision for bad and doubtful debts	4207.11	4820.07	9027.18
	e) Depreciation	1878.60	1701.08	3579.68
	f) Other expenses including prior period income/charges	2320.33	-192.98	2127.35
	g) Less expenses capitalized (Employee Costs, A&G, R&M)	43.58	11.63	55.21
	h) Interest and financial charges	2772.27	2583.49	5355.76
	i) Less interest capitalized	20.94	0.00	20.94
2A	<b>Total Expenses (a + b + c + d + e + f - g + h - i)</b>	<b>28540.34</b>	<b>21491.14</b>	<b>50031.48</b>
3	Special Appropriation	189.27	97.04	286.31
4	Return on equity	778.4	778.4	1556.80
5	TOTAL ( 1 + 2A + 3 + 4)	90344.96	117060.40	207405.36
6	Less Miscellaneous receipts	2678.22	3760.22	6438.44
7	Total Revenue Requirement (5 - 6)	87666.74	113300.18	200966.92
8	Revenue from tariffs (full year)	90070.06	107552.17	197622.23
9	<b>(Gap) / surplus for the year</b>	<b>2403.32</b>	<b>(5748.01)</b>	<b>(3344.69)</b>
10	<b>GAP up to 2005-06</b>			<b>(44985.49)</b>
11	GAP up to 2007-08 considering GAP up to 2005-06			<b>(48330.19)</b>

It is submitted that 10% of the above amount i.e Rs 48.33 Cr has been included in the amortisation of regulatory asset up to 2007-08 along with past statutory dues

Further based on the actual sales, revenue and expenses for the first half of the current year 2008-09 and based on estimates for next half of current year, the uncovered gap for FY 2008-09 Rs 128.83 Crs as against the surplus of Rs 24.82 Crs as indicated below.

### Truing up for FY 2008-09

	Unit	OERC Approval	Estmd.	Diff
No of Units - sale	MU	4260	4083	177
RST per unit	Rs/Kwh	2.94	3.07	-0.131
Sales	Rs Crore	1,251.08	1,242.51	8.57
Less-Bad Debts	Rs Crore	31.28	55.91	(24.63)
Net Sales	Rs Crore	1,219.80	1,186.60	33.20
Other Income	Rs Crore	25.65	16.40	9.25
Total Income	Rs Crore	1,245.45	1,203.00	42.45
Distribution Loss	%	25%	33%	-58%
No. of Units - Purchase	MU	5680	6102	-422
BST per Unit	Rs/Kwh	1.78	1.79	-0.01
Cost of Power	Rs Crore	1,012.46	1,091.00	(78.54)
Distribution Expenses	Rs Crore	156.54	183.83	(27.29)
Interest & Finance charges	Rs Crore	26.90	27.88	(0.98)
Depreciation	Rs Crore	16.95	19.32	(2.37)
Total Expenditure	Rs Crore	1,212.85	1,322.02	(109.17)
Contingency Reserve	Rs Crore	-	2.03	(2.03)
Reasonable Return	Rs Crore	7.78	7.78	-
Excess/(deficit)	Rs Crore	24.82	(128.83)	153.65

Considering that the variation in estimated revenue and expenses during FY 2008-09 is due to reasons beyond the control of the Licensee, the Licensee humbly requests the Commission to allow truing up of estimated uncovered gap of Rs.128.83 Crore in FY 2008-09 as part of FY 2009-10 ARR.

#### **4.21. Reasonable Return**

The Licensee submits that due to the negative returns (Gaps) in the ARR and carry forward of huge Regulatory Assets in previous years, the licensee could not avail the ROE over the years, which otherwise would have been invested in the Company for improvement of the infrastructure. As it is followed by various Commissions, the Licensees submits that the ROE to be allowed on the amount of the equity and the accrued ROE for the previous year. This would increase the availability of more funds for the consumer services.

Therefore, the Licensee has assumed reasonable return amounting to Rs.9.03 Crore as calculated @ 16% on equity capital including the accrued ROE as per the earlier Orders of the Hon'ble Commission.

#### **4.22. Revenue at Existing Tariffs**

The Licensee has estimated the revenue from sale of power considering the sales projected for FY 2009-10 and by applying the various components of existing tariffs. As detailed out in previous sections, the Licensee has adopted the approach considered by the Commission and estimated the revenue from sale of power on accrual basis. The total revenue based on the existing tariffs applicable for the projected sales is estimated at Rs 1282.13 Crore, The details of estimated revenue from different categories of consumers at existing tariffs is provided in FormT-7&T- 8. The License humbly requests the Hon'ble Commission to estimate the revenue for estimated sales at existing tariff by duly considering the category-wise and slab wise in the format prescribed by the Hon'ble Commission the tariffs applicable instead of projecting it by applying an average realization rate as the average realization rate does not take into account the impact of variations in sales mix on the estimated revenue.

#### **4.23. Summary of Annual Revenue Requirement and Revenue Gap**

The summary of Annual Revenue Requirement, Revenue at Existing Tariffs and Revenue Gap for the ensuing year 2009-10 is provided below.

##### **Revenue Gap**

<b>Rs Crore</b>	
Expenditure including Special Appropriation in FY 2009-10	1431.97

Reasonable return for FY 2009-10	9.03
Amortisation of Regulatory Assets along with Truing up of upto 07-08	181.58
Truing up of Revenue Gap for FY 2008-09	128.84
<b>Sub Total</b>	<b>1751.42</b>
Revenue from sale of power at existing tariffs in FY 2009-10	1282.13
Non Tariff Income	16.89
<b>TOTAL REVENUE GAP (with existing tariff)</b>	<b>452.40</b>
<b>Additional Revenue with proposed tariff</b>	<b>106.74</b>
<b>Total Revenue GAP (with proposed tariff)</b>	<b>345.66</b>

The revenue gap for the year 2009-10, considering the proposed revised BSP at 2008-09 , calculated @ 158.25 p/u is arrived at Rs.452.40 crores. If the power cost would be taken at 2008-09 BSP calculated @ 178.25 p/u , the Revenue Gap for the year 2009-10 shall increase to Rs.578.20 crore, detail of which is as under;

	<b>Rs. Crore</b>
Revenue GAP for the year 2008-09 calculated at revised BSP rate of 137.25 p/u and transmission charges of 21p/u	452.40
Power cost at 2008-09 BSP	1121.19
Power cost at 2008-09 Revised BSP	995.39
<b>Higher Power Cost</b>	<b>125.80</b>
<b>REVENUE GAP at 2008-09 BSP for 2009-10</b>	<b>578.20</b>
<b>Additional Revenue with RST hike</b>	<b>106.74</b>
<b>Revenue GAP with proposed hike</b>	<b>471.46</b>

## 5. Sector Surplus and Trueing Up

In line with Clause 8 of the National Tariff Policy which recognises the importance of making the distribution segment of the industry efficient and solvent as the key to success of power sector reforms and provision of services of specified standards, the licensee submits that Hon`ble

Commission need to strike the right balance between the requirements of the commercial viability of distribution licensees and other participants in the Orissa power sector including the consumers. The licensee being at the extreme end of the cost chain is exposed to greater risks as compared to upstream players in the value chain and submits that sector gains ought to be shared by all. At a time, when Discoms are struggling with the resource constraint, the entity which has been given just the role of bulk power purchase has earned surplus profits. In this regard, it is worthwhile to mention that GRIDCO has earned huge revenue during last four years by sale of surplus power through trading/UI route.

### **Truing up of GRIDCO from FY 1996-97 to FY 2007-08**

The Hon`ble Commission has carried out the truing up of GRIDCO for the period FY 1996-97 to FY 2004-05 based on audited accounts. The summary of truing up requirement as approved by the Commission is given in Table below:

**Table: Summary of Truing up for GRIDCO for FY 1996-97 to FY 2004-05**

	<b>ARR based on Audited Accounts</b>	<b>ARR Considered for Truing Up</b>	<b>Total Revenue considered for truing up</b>	<b>Truing up Requirement</b>
FY97	1448.36	1435.84	1153.36	(282.48)
FY98	1718.99	1700.99	1399.87	(301.12)
FY99	1947.47	1930.91	1365.85	(565.06)
<b>Pre-Privatization Total</b>				(1,148.66)
FY00	1508.79	1500.71	1478.23	(22.48)
FY01	1751.97	1744.44	1666.73	(77.71)
FY02	1699.95	1688.5	1774.45	85.95
FY03	2138.73	2128.48	1540.64	(587.84)
FY04	1908.89	1896.6	2320.01	423.41
FY05	2495.84	2449.18	2844.41	395.23
<b>Post Privatization Total</b>				216.56

As can be observed from the above table, the revenue shortfall for the period FY 1996-97 to FY 1998-99, i.e. the period prior to privatisation was to the extent of Rs 282.48 Crore, Rs 301.12 Crore and Rs 562.02 Crore aggregating to Rs 1145.66 Crore. The losses for the period prior to privatisation of DISCOMs should be taken over by State Government as has been done in other States such as Delhi, Gujarat etc. Such losses have however been adjusted from the revenue earned by GRIDCO after the privatisation. The licensee further submits that such adjustment of arrear contradicts the Clause 94 of the OERC ( Conditions of Supply) Code 2004 which deals in detail the chronological manner in which the amount paid by the consumer is to be adjusted i.e first towards electricity duty and subsequently in the order of - current electricity charges, current miscellaneous charges, arrear electricity charges, arrear miscellaneous charges and delayed payment surcharge. Hence, the licensee humbly submits that surpluses earned on

account of trading/UI should be treated as a resource for all entities which should be ploughed back into the sector for improvement of efficiencies through investments. The practice of adjusting losses for the period prior to privatisation against the surplus earned out by GRIDCO has led to Bulk Supply Price increases for DISCOMs for subsequent years.

Once the losses for the period FY 1996-97 to FY 1998-99 are excluded, the truing up of GRIDCO for the period 1999-2000 to 2004-05 results into surplus of Rs 216.56 Crore as approved by OERC.

It is to be further noted that the GRIDCO made sizeable profits during FY 2005-06 to FY 2007-08 by trading the surplus energy and through UI charges during the previous 3 years which is as under:

- FY 2005-06: Rs 887.72 Cr
- FY 2006-07: Rs 1348.92 Cr
- FY2007-08: Rs 1229 Cr

### **Principles of ABT Mechanism and UI**

In the context of Principles of ABT Mechanism and UI, the licensee submits that Grid discipline is an outcome of complex interplay of demand and supply, effectively triggered by a pricing mechanism in the form of financial incentives or disincentives, recognized as the guiding spirit of Availability Based Tariff regime in India. Consequently the role of the discom in accurately matching of Discom Demand with generation availability is of considerable importance in determining the extent to which one benefits from the UI regime.

In March 2005 the Forum of Indian Regulators (FOIR) had constituted a Committee to make recommendations on implementation of ABT in intra-State systems. The above Committee has submitted its report to FOIR in November 2005, deliberating on the various aspects of the matter, and recommending implementation of ABT in intra-State systems. The important aspects of the report are discussed below:

*“ When a State has two or more Discoms subsequent to unbundling of its State Electricity Board, it should (and normally would) be the responsibility of the Discoms to manage the consumer load within their respective area. Since the entire consumer interface comes within the purview of the Discoms, it would only be logical to entrust the Discoms with the responsibility of load management. The Discoms then have an onerous responsibility; on one side that they must meet the consumer demand within their area and on the other hand, the Discoms must control their drawal of power from the grid keeping their entitlement and schedule in view. The total power available to a State would*

*necessarily have to be allocated between the Discoms within the State, and it will have to be stipulated that the Discoms manage their load generally within their respective entitlements.*

*The above requires a process of availability declarations by generating stations, their segregation between the Discoms, assessment of the availability of power for each Discom, and inducement to the Discoms to operate keeping the above in view. Application of the UI mechanism to the Discoms is absolutely essential for this purpose.*

*Only when the Discoms' shares are clear, and all overdrawals /under- draws are accounted through the UI mechanism, it would be possible to ensure responsible behaviour and efficient operation by the Discoms and to have a check on the State's overdrawal/underdrawal from the regional grid. Operation of UI mechanism on back to back basis would also ensure that the total sum to be paid/received by the State to the regional UI pool account (or to be received by the State from the regional UI pool account) gets distributed between the Discoms within the State in a dispute-free manner."*

Some Regulatory Commissions Delhi and Gujarat have already considered the implications of UI to be passed on to constituents of the system i.e. DISCOMs, details of which are as under

#### **Delhi Electricity Regulatory Commission**

Delhi Electricity Regulatory Commission has considered the entire revenue available to Delhi Transco Limited (DTL) through sale of surplus power during off peak hours and revenue estimated to be earned through UI charges as part of income in ARR while determining Bulk Supply Tariffs. The relevant extract of DERC Order on ARR and Tariff Determination of DTL for FY 2005-06 is given below:

*"During the technical validation sessions, the Commission directed the TRANSCO to submit the details of actual energy sold along with revenue and details of UI Charges for FY 2004-05, Subsequently, TRANSCO provided the details of actual energy sold to other States, Revenue from sale of power to Other States and UI Charges. The actual energy sold by TRANSCO including UI during FY 2004-05 is 1983 MU and the revenue earned by TRANSCO from this sale is Rs. 628 Crore. Thus, the average rate for sale of energy to other States works out to Rs. 3.17/kWh. The Commission has considered the actual revenue of Rs 628 Crore from sale to other States while estimating the Power Purchase Cost of FY 2004-05*

*For FY 2005-06, the Commission has considered the entire surplus energy available as difference between the energy available and estimated energy sales to Licensees in Delhi as a sale of power to other States. The Commission hopes that the TRANSCO will be able to sell the entire surplus energy available during off peak hours to other States. The Commission directs the TRANSCO to optimise its energy balance and try to sell the entire surplus energy available during off peak hours. In case, TRANSCO is unable to sell the surplus energy, TRANSCO should back down the generating stations of Delhi including Badarpur, PPCL and GENCO duly taking into account the merit order based on the variable cost of various sources of power purchase, operating conditions etc.. TRANSCO is further directed not to surrender the cheaper power available from CGS except in case of unavoidable circumstances.*

*For projecting the revenue from sale to other States, the Commission has considered the average rate of Rs. 3.17/kWh based on the average actual rate for FY 2004-05. The Commission is of the opinion that TRANSCO should not incur losses on sale of energy to other States and due to underdrawls from the regional grid because of the variation in the load”.*

### **Gujarat Electricity Regulatory Commission**

With the implementation of Intra State ABT in the State of Gujarat, GERC in its its ARR and Tariff Order for FY 2007-08, has detailed out the role of GUVNL and has also approved the revenue and expenditure of GUVNL for the FY 2007-08. The relevant extract of the Order is summarised in the following paragraphs:

*“GUVNL is a holding company of all the unbundled entities and is also entrusted with the business of purchase of power from various sources for sale in bulk to the four distribution companies. In addition to purchase and sale of power, GUVNL as a holding company coordinates the working of the subsidiary companies. In accordance with the Bulk Supply Agreement, the distribution companies have to pay the operating expenses and reasonable return to GUVNL. As provided in the agreement GUVNL prepares the Aggregate Revenue requirement (ARR) for the ensuing year. The ARR is approved by the Apex Coordination Committee. Such ARR shall be payable by the Discoms and forms part of the power purchase cost. Revenue for GUVNL is the revenue earned from selling the power to the Discoms at a tariff determined by the Commission for different generating stations, and the expenditures are power purchase cost, O&M expenses and interest on working capital etc. It is evident that GUVNL is entitled to recover only O&M expense and reasonable return as a part of bulk power purchaser in the State. In accordance with the provisions in Bulk Power Purchase Agreement, the expenses of GUVNL have to be paid by the four DISCOMs as part of power purchase costs.*

*The whole capacity entitled to the State has been allocated among the Discoms through the economic allocation method, and therefore any gain/loss arises due to trading/purchase of electricity through trading route or UI mechanism is passed on to the Distribution Licensees”.*

### **Proposed Treatment of UI Income**

As highlighted above, the role of DISCOMs in predicting as well as managing their individual demand profiles is crucial and therefore such prudent practices need to be implemented and implications of UI has to be the account of DISCOMs, which is not the case today in the State of Orissa. As of today UI benefits are considered only to the account of Gridco. The collections made by Gridco on account of UI charges are in the capacity of a monitoring agency and hence it ought not to be treated as an income of GRIDCO. As a result of such a unique accounting treatment, GRIDCO as an independent entity has earned surplus whereas DISCOMs are saddled with huge losses .Consequently, although the sector as a whole has not earned surplus GRIDCO is saddled with a huge tax liability of around Rs 250 Cr the burden of which will have to be borne by the consumers of Orissa instead of legitimate benefits to be passed on to consumers.

The Commission in its recent Orders, which is a departure from the previous principle of offsetting bulk supply tariff hikes through power exports, has mentioned that the surplus revenue earned by Sector is to be adjusted for meeting past liabilities. The licensee is of the view that the surplus revenue earned through UI should be ploughed back for betterment of the present state of affairs of state power system, especially the Distribution System which will help DISCOMs to improve efficiencies and quality of service to consumers. Had Orissa adopted the multi-buyer model, such revenue from exports would have gone to DISCOMs account and helped them to meet their resource requirement.

It is further submitted that allowing adjustment of UI charges to DISCOMs will indirectly bring back the cash flow to GRIDCO and in the process legitimately clean five Balance Sheets ( 4 Discoms & Gridco) placed in a back to back arrangement. Any deviation in adopting this concept will only adversely affect the sector and increase profitability of one entity at the cost of the other, thus, for that matter adversely affecting the DISCOMs in their functioning. Therefore, the licensee requests the Hon'ble Commission to consider the income earned by GRIDCO through trading/UI as part of trueing up of GRIDCO's ARR and pass on the benefits to four DISCOMs.

### **Surplus Revenue Earned by GRIDCO**

The summary of surplus earned by GRIDCO during FY 2005-06 and FY 2006-07 based on audited accounts and during FY 2007-08 considering the actual revenue earned and expenses as approved by the Commission is given in following Table

	FY 2005-06			FY 2006-07			FY 2007-08	
	Order	Audited Accounts	Amount for Truing Up	Order	Audited Accounts	Amount for Truing Up	Order	Amount for Truing Up
<b>Income</b>								
Sale to Discoms	1660	1711	1711	1774	1758	1758	2259	2094
Export to Power	659	888	888		921	1349		1229
Other Income	32	135	135	37	67	67	33	33
Receivables							153	
<b>Total</b>	<b>2350</b>	<b>2734</b>	<b>2734</b>	<b>1811</b>	<b>2746</b>	<b>3174</b>	<b>2446</b>	<b>3356</b>
<b>Expenditure</b>								
Power Purchase Costs	1836	2364	2364	1757	2212	2212	2103	2224
Employee Cost	113	2	2	2	2	2	2	2
R&M	15				0	0		
A&G	16	2	2	2	2	2	2	2
Interest	291	344	291	204	418	204	158	158
Depreciation	50							
Other Expenses	2	1	1	1	1	1	1	1
Less expenses capitalized	1							
<b>Total</b>	<b>2322</b>	<b>2714</b>	<b>2661</b>	<b>1966</b>	<b>2635</b>	<b>2421</b>	<b>2266</b>	<b>2387</b>
<b>Special Appropriation</b>								
Payment of Principal				480				
Others	12						644	
<b>Sub-total</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>480</b>	<b>0</b>	<b>0</b>	<b>644</b>	<b>0</b>
<b>Total ARR</b>	<b>2334</b>	<b>2714</b>	<b>2661</b>	<b>2446</b>	<b>2635</b>	<b>2421</b>	<b>2911</b>	<b>2387</b>
<b>Surplus / (Gap)</b>	<b>16</b>	<b>20</b>	<b>73</b>	<b>-635</b>	<b>111</b>	<b>754</b>	<b>-465</b>	<b>969</b>

During FY 2005-06, FY 2006-07 and FY 2007-08 the surplus revenue earned by GRIDCO is to the extent of Rs 72.89 Crore, Rs 753.58 Crore and Rs 968.77 Crore. Thus the total surplus revenue earned by GRIDCO over the period FY 1999-2000 to FY 2007-08 works out to Rs 2011.8 Crore which should be utilised in adjusting against the overall BST computed. Considering the Export income, the surplus of GRIDCO shall increase during the FY 2008-09.

Without prejudice to above, the Licensee submits the following;

In BSP Orders for 2006-07, Hon'ble Commission have considered repayment of principal of Rs.480 cr. in the ARR of GRIDCO and also shown the deficit of Rs.504 Cr. in the ARR. Similarly in the subsequent years Hon'ble commission also allowed the repayment of Principal in the ARR of GRIDCO. As against this the revenue earned/realized by GRIDCO in the last four years is more than Rs.2000 Cr. through UI

charges, Export trading and **by substantial increase in Bulk supply tariff on WESCO & NESCO.** Therefore, it is essential that before passing the ARR Orders for the F.Y. 2009-10, the Truing up exercise of GRIDCO would be carried out.

GRIDCO having earned large income has discharged the debt servicing of Rs.480 Cr. and earned much more than so called gap of Rs.503 Cr.in 2006-07 and similar surpluses in 2007-08 and 2009-10. Therefore it calls for immediate adjustment of:

(a) The Bulk supply tariff, increased during F.Y. 2006-07 , 2007-08 and 2008-09 should therefore be readjusted with the Bulk supply price for all the Discoms for the last 3 years and any surplus (difference) should, therefore, be adjusted against the restructuring/re-scheduling of liability to GRIDCO for the securitization as per Hon'ble Commission Order dated 20/7/2006)

(b) Moreover, since GRIDCO has discharged the debt to their creditors/lenders out of the surplus income earned over and above the tariff order, it should therefore be adjusted against back-to-back servicing of liability between the Discoms and GRIDCO. To give equitable justice between the licensees i.e. between Discoms and Gridco, it is logical that the back to back liabilities distributed through the Transfer Scheme to Discoms are adjusted with the sectoral truing up so that the balance sheet of all the licensees are cleaned up, on contrary not to cleaned up GRIDCO balance sheet and to keep the Discoms' Balance Sheet unadjusted..

**Discoms pray to Hon'ble Commission to give justice on all above issues**

## **6. Capital Expenditure Plan and Capex Related Expenses**

## 6.1. Capital Expenditure Programme

WESCO proposes to invest Rs 757.06 Crore on capital expenditure schemes in the ensuing year including new schemes and ongoing schemes that have been carried forward from the earlier years.

WESCO recognizes that a lot needs to be done in the distribution sector in the State. Village electrification is not completed and some villages are yet to be reached with electricity. Even in some villages only part of the village has been electrified and quality of supply needs to be improved. WESCO has geared up in releasing new connections to applicants particularly in domestic and agricultural sectors to attain satisfactory pace in reference to the **target of total electrification by year 2011**. Further, WESCO is committed to adopt modern technologies and innovative initiatives in many areas of distribution to ensure improvement in efficiency, reduction in outage times, better monitoring of system parameters and consequent enhanced consumer services.

The capital expenditure plan has been developed based on the detailed analysis of the distribution network requirements of WESCO. The investments have been planned in the following areas

- To meet the growth in load across the consumer categories;
- To achieve reduction in losses as targeted
- To increase efficiency and productivity;
- To augment / replace/ retrofit old/ obsolete/ under-rated equipment;
- To meet Environmental, Safety, Regulatory and other Statutory requirements;
- To purchase routine Tools and equipments;
- Other miscellaneous expenditure of a capital nature.

In the above circumstances WESCO has proposed investments in distribution sector with an objective of addressing all the above shortcomings in phased and systematic manner. Plans have been evolved to implement the projects on war footing and reach the goal of developing into a state with exemplary power distribution systems. Key features of the scheme for the next five years are:

- Increase in 33 Kv and 11 Kv lines to bring down LT/HT line ratio
- Increase in 33 Kv substations to improve voltage levels and extend reach areas
- Installation of breaker on 33 KV and 11 Kv side
- DTR metering and Consumer indexing to support energy audit
- Rural Electrification works under RGGVY scheme

WESCO has planned for the following investments in the next year:

**Rs Crore**

<b>Particulars</b>	<b>FY 2009-10</b>
RGGVY	626.64
<b>New schemes</b>	
-APDRP Scheme	nil
- Deposit Work	30.16
-Biju Gramya Yojana	59.00
-System Improvement	32.76
Others	8.50
<b>Total Distribution</b>	<b>757.06</b>

Going in for different implementation programs including turn-key strategy on tender rates, turn-key strategy with rate contract and labour contract strategy for large scaled projects, WESCO is confident to achieve the complete the projects in time.

## **6.2. Financing of Capital Expenditure Plan**

### **A. RGGVY Schemes**

For Rajiv Gandhi Gramin Vidyutikaran Yojana, as per the scheme 90% of the project cost is to be treated as grant from Central Government and remaining 10% will be given as loan to Govt. of Orissa. Govt. of Orissa has agreed to repay this 10% loan of capital expenditure along with interest charges under RGGVY scheme. Thus, for WESCO entire 100% fund for RGGVY has been considered as 100% grant. In view of this, the Govt. of Orissa would be the owner of the assets created on the implementation of the project while WESCO will be responsible to operate and maintain these assets to affect power supply in the project areas and derive consequential benefits out of the assets created under the project.

### **B. APDRP Schemes**

The licensee submits that the 10<sup>th</sup> Plan has been short closed and that in the 11<sup>th</sup> Plan the Govt of India has debarred privatised distribution utilities from availing the funds earmarked in the scheme

### **C. Biju Grameen Jyoti**

Under this scheme total no of Blocks will be electrified for WESCO is 84 nos. Per block the expenditure will be Rs.1 crore and the same will be bifurcated into Rs 50 lacs each in 2008-09 and 2009-10. Accordingly the licensee has considered Rs 26 Cr and Rs 59 Cr for FY09 and FY10 respectively The expenditure under this scheme will be borne by the Govt. of Orissa.

### **D. System Improvement Schemes**

For funding of System Improvement Schemes, the licensees have already availed Rs 4.05 Cr up to Oct 08 and are expecting another Rs 18.37 Cr in the current year. For the ensuing year the quantum of loan proposed is Rs 31.5 Crs. The interest rate on the proposed loan is estimated at 13.5% p.a.

## 7. Tariff Proposal

As discussed in earlier sections, based on estimated Revenue Requirement and Revenue at existing tariff, the revenue gap for FY 2009-10 will be bridged out of Retail Supply Tariff hike to the tune of Rs 106.74 Crs, and reduction in Bulk Supply Tariff through adjustment of surpluses on account of trading and UI , Grant/Subsidy from State Government.,

The Proposed Tariffs is as mentioned under.

### 7.1. RETAIL SUPPLY TARIFF EFFECTIVE FROM 1st APRIL, 2009

Sl. No.	Category of Consumers	Voltage of Supply	Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	Energy Charge (P/kWh)	Customer Service Charge (Rs./Month)	Monthly Minimum Fixed Charge for first KW or part (Rs.)	Monthly Fixed Charge for any additional KW or part (Rs.)	Rebate (P/kWh)/ DPS
<b>LT Category</b>								
1	Domestic							
1.a	Kutir Jyoti < 30U/month	LT	FIXED MONTHLY CHARGE ---->			50		
1.b	Others							10
	(Consumption <= 100 units/month)	LT		160		30	15	
	(Consumption >100, <=200 units/month)	LT		230		30	15	
	(Consumption >200 units/month)	LT		310		30	15	
2	General Purpose < 110 KVA							10
	(Consumption <=100 units/month)	LT		350		40	25	
	(Consumption >100, <=300 units/month)	LT		410		40	25	
	(Consumption >300 units/month)	LT		450		40	25	
3	Irrigation Pumping and Agriculture	LT		150		30	15	10
	<b>Agro Industrial Consumers &lt;22 KVA</b>	<b>LT</b>		<b>170</b>		<b>30</b>	<b>15</b>	<b>10</b>
	<b>Agro Industrial Consumers &gt;=22 KVA</b>			<b>350</b>		<b>80</b>	<b>50</b>	<b>10</b>
4	Public Lighting	LT		350		30	15	DPS/Rebate
5	L.T. Industrial (S) Supply	LT		350		80	50	10
6	L.T. Industrial (M) Supply	LT		350		80	50	DPS/Rebate
7	Specified Public Purpose	LT		350		80	50	DPS/Rebate
8	Public Water Works and Swerage Pumping<110 KVA	LT		350		80	50	<b>10</b>
9	Public Water Works and Swerage Pumping >=110 KVA	LT	250	350	30			<b>10</b>
10	General Purpose >= 110 KVA	LT	250	350	30			DPS/Rebate
11	Large Industry	LT	250	350	30			DPS/Rebate

<b>HT Category</b>								
12	Bulk Supply – Domestic	HT	30	230	250			10
13	Irrigation	HT	30	100	250			10
	<b>Agro Industrial Consumers</b>	<b>HT</b>	<b>30</b>	<b>140</b>	<b>250</b>			<b>10</b>
14	Specified Public Purpose	HT	100	As indicated in the notes below.	250			DPS/Rebate
15	General Purpose < 110 KVA	HT	100		250			10
16	H.T .Industrial (M) Supply	HT	100		250			DPS/Rebate
17	General Purpose >= 110 KVA	HT	250		250			DPS/Rebate
18	Public Water Works & Swerage Pumping	HT	250		250			<b>10</b>
19	Large Industry	HT	250		250			DPS/Rebate
20	Power Intensive Industry	HT	250		250			DPS/Rebate
21	Ministeel Plant	HT	250		250			DPS/Rebate
22	Railway Traction	HT	250		250			DPS/Rebate
23	Emergency Supply to CPP	HT	250		250			DPS/Rebate
24	Colony Consumption	HT	0	230	0			DPS/Rebate
<b>EHT Category</b>								
25	General Purpose	EHT	250	As indicated in the notes below.	700			DPS/Rebate
26	Large Industry	EHT	250		700			DPS/Rebate
27	Railway Traction	EHT	250		700			DPS/Rebate
28	Heavy Industry	EHT	250		700			DPS/Rebate
29	Power Intensive Industry	EHT	250		700			DPS/Rebate
30	Ministeel Plant	EHT	250		700			DPS/Rebate
31	Emergency Supply to CPP	EHT	250		700			DPS/Rebate
32	Colony Consumption	EHT	0		230	0		
<b>D.C. Services</b>				RATE FOR D.C. SUPPLY				
34	<b>Domestic</b>	LT			SAME AS RATE AT SL. 1			<b>10</b>
35	General Purpose < 110 KVA	LT			SAME AS RATE AT SL. 2			10
36	L.T. Industrial (S) Supply	LT			SAME AS RATE AT SL. 5			10

**Note:**

**Energy Charges for HT & EHT Consumers**

Load Factor (%)	HT	EHT
up to 50%	310 p/u	300 p/u
>50% = <60%	235 p/u	212 p/u
>60%	230 p/u	212 p/u

## 7.2. Tariff Rationalization Measures

### 7.2.1. Category Clarification

**Agro Industrial Consumer:**

“A new category, namely ‘Agro-Industrial Consumers’ has been introduced vide OERC Distribution (Condition of Supply)(4<sup>th</sup> Amendment) Code, 2007. As per Regulation 80 (5)(1) of the said Supply Code, this category relates to supply of power for Pisciculture, Horticulture, Floriculture, Sericulture and other allied agricultural activities including animal husbandry, poultry and cold storage (i.e. temperature controlled storage where flowers, fruits, vegetables, meat, fish and food, etc. can be kept fresh or frozen until it is needed).”

The licensee submits that there have been a lot of subjective interpretations of the aforesaid amendment leading to consumer unrest and litigations in the near future. Accordingly it proposes that amendment/clarification may be made which are as under.-

(i) **Cold Storage :**

The licensee seeks further clarification on the applicability of the “cold storage ‘ category to those consumers who are involved in the production process and keeping the agro products in the cold storage till usage occurs or as to whether it will be applicable to a commercial establishment having cold storage facility in the form of a deep freezer / refrigerator such as ice parlours selling frozen vegetables, processed meat and fish and uses to store products to sell the same to the consumer and ice factories. The licensee is of the opinion that the parlours selling frozen meat, fish and ice making plants do not qualify as cold storage and requests the Hon`ble Commission to clarify the conditions which needs to be satisfied to avail the cold storage category status.

(ii) Allied agricultural Activities – The licensees submit that it has been receiving applications from **Rice/Flour/Oil Mills/Cattle & Poultry Feed Units** currently billed under different categories for reclassification as “ Agro Industrial Consumers” claiming to be under the allied agricultural activities category. The licensee is of the opinion that allied agricultural activities implies only to those products of the land involving human labour where the producing capacity of the land is the primary factor. Therefore Rice Mills, Milk Chilling Centers owned by Milk Cooperative Societies and Milk Processing Units ( like OMFED) in the opinion of th licensee do not qualify as agro industrial consumers. Accordingly it seeks the intervention of the Hon`ble Commission for direction and clarifications..

The licensee submits that a Supreme Court judgement in Civil Appeal Nos 6465-6467 of 1998 in the matters of Tamil Nadu State Electricity Board Vs Maheshwari Fish Seed Farm, has decreed that Pisciculture is not covered under the definition of ‘Agriculturist’. Hence this should not be applicable for Pisciculture Farm. By following this ruling it can be established that Poultry Farm and Animal Husbandry are not covered under “Agro-Industrial Consumer”.as well

### **7.3. Delayed Payment Surcharge**

Hon`ble Commission ordered in the RST order for 2005-06 and 2006-07 that Delayed Payment Surcharge (DPS) is applicable in respect of the following categories only. Hon`ble Commission decided that if payment is not made within the due date, Delayed Payment Surcharge is chargeable for every day of delay at 1.25% per month on the amount remaining unpaid

(excluding arrears on account of DPS) in respect of categories of consumers as mentioned below:

- i) Large industries
- ii) LT/HT Industrial (M) Supply
- iii) Public Water Works
- iv) Railway Traction
- v) Public Lighting
- vi) Power intensive industries
- vii) Heavy industries
- viii) General Purpose Supply
- ix) Specified Public Purpose
- x) Mini Steel Plants
- xi) Emergency supply to CPP

It is submitted that the Licensee is required to pay the Delayed payment Surcharge for all the units which may or may not draw for the above categories if the BSP bill is not paid to GRIDCO and Transmission Charges to OPTCL. Mostly the bills which are not paid relate to the LT consumers and the aforementioned consumers for whom the DPS is applicable. The DPS is the instrument to encourage the consumers for payment of the electricity dues in time. If the DPS shall not be applicable to the consumers who are defaulting or deliberately not making payment, shall not yield the anticipated.

Therefore, the Licensee requests the Hon'ble Commission to order for applicability of DPS be levied to all the Consumers without any discrimination.

#### **7.4. KVAH Billing for LT Industrial Consumers**

The licensee envisages that one of the attributor for causing more MVA demand is because of the drawal of more reactive load specifically by the LT consumers who are drawing energy at a poor power factor and for whom no power factor penalty is applicable in the existing tariff.

Although the Hon`ble Commission has initiated DSM measures, in flattening the load curve by introducing TOD tariff for all three phase consumers and allowing to draw 120% of the CD in off peak hours without penalty in HT & EHT category has encouraged consumers for more energy drawl during off peak period, but does not put any restrictions on reactive energy drawl. The power factor penalty/incentive is limited to only large consumers having a contract demand of more that 100 KVA while medium and other three phase consumers are exempt. The billing of such consumers for energy consumption is on kWh basis only. A few advantages of KVAH billing is as under

The licensee submits for introduction of KVAH system of billing in view of the following advantages

- i) It will incentivise the consumers to improve the power factor by installation of capacitors at the load point itself, which would be the right practice
- ii) With the better power factor, the line loading shall be lower for the same KW requirement leading to lower transmission as well as distribution losses
- iii) KVAH system of billing will avoid manipulations whatsoever

Although the licensee in the present tariff application has proposed imposition of PF penalty on all the industrial consumers but it would be more appropriate if KVAh base tariff for energy drawl is made applicable for all the three phase industrial consumers receiving supply in LT and HT and for which presently no PF penalty is provided in the Tariff and whose meter is capable of reading KVAh component of energy. KVAh being a combination of both active and reactive load components can be a better reference to measure loads efficiently.

It is also pertinent to mention here that similar Tariff is already in-force in few states since last 6-7 years.

As far as licensee's preparedness is concerned for measuring the KVAh energy, it is submitted that the licensee have already provided meters at the consumers premises for reading KVAh component directly and thus would not require to compute the KVAh from KWH and KVArh.

Thus licensee proposes for inclusion of KVAh base tariff in its present tariff application for these consumers with the same rate presently applicable for per KWH consumption.

### **7.5. Applicability of Power factor Penalty**

The Hon'ble Commission ordered for continuance of the power factor penalty as a percentage of monthly Demand Charge and Energy Charge on the following categories of consumers:

- i) Large Industries
- ii) Public Water Works (110 KVA and above)
- iii) Railway Traction
- iv) Power Intensive Industries
- v) Heavy Industries
- vi) General Purpose Supply
- vii) Specified Public Purpose (110 KVA and above)

- viii) Mini Steel Plants
- ix) Emergency supply to CPP

Till such time the KVAH billing approach is adopted, the Licensee proposes for applicability of the power factor penalty and Power factor incentive for the following category of consumers in order to bring more efficiency in power system operations

<b>LT Category</b>	
1	L.T. Industrial (M) Supply
2	Public Water Works and Swerage Pumping >22 KVA
<b>HT Category</b>	
3	Specified Public Purpose
4	General Purpose < 110 KVA
5	H.T. Industrial (M) Supply

#### **7.6. Demand Charges for Consumers having Contract Demand >70 KVA through HT Voltage Supply**

Under the existing tariff structure approved by the Commission, the consumers having contract demand of 70 kVA and above and below 110 kVA are being charged under the category HT Industrial (Medium Industry) and HT General (Commercial). The tariff applicable for this category is Rs 50/kVA towards demand charges and 300 paise/kWh towards energy charges under HT voltage of supply. Whereas a consumer having contract demand of above 110 kVA supplied through HT voltage are being charged under the category Large Industry and tariff applicable for this category is Rs 200/kVA towards demand charges (with minimum 80% contract demand charges) alongwith 300 paise/kWh towards energy charges which makes disparity between the consumers with contract demand above 110 kVA and connected load 70 kVA having same voltage of supply

To make it in non-discriminatory, the Licensee proposes that the same demand charges shall be applicable for the consumers having contract demand 70 kVA and above. However, at this stage the Licensee has calculated the Revenue based on the existing tariff. In case the Licensee's proposal is accepted the impact of the same should be considered while approving the revenue for the ensuing year FY2009-10.

It is further proposed that the provisions of the tariff applicable to Large Industries should be made applicable to the above consumers.

### **7.7. Payment of Demand Charges by Captive Power Plants (CPP)**

Under existing Retail Supply Tariff (RST) the CPPs are allowed to draw power under single part Tariff which is higher than normal Energy Charges of same industry as they are not paying Demand Charges. In several occasions, there are additional burden on account of payment of overdrawl beyond the approved Simultaneous Demand Charges (SMD) by the Distribution Licensee due to drawl of Power by CPPs without any load management on emergency basis during peak hours. Hence the Distribution licensee is paying additional Demand Charges for the whole month to Gridco @ Rs.200 per KVA without charging the same to the concerned CPPs. Ultimately the burden is borne by the poor consumers to cover-up the Cost due to additional demand charges.

To avoid such unforeseen Cost, It is proposed that Hon`ble Commission may kindly consider the energy charges applicable to the respective tariff category on the energy consumption alongwith demand charges for CPPs as applicable in the respective category. The minimum demand charge concept i.e 80% of the Contract Demand is also applicable to CPPs as a standby charge for infrastructure provided to the CPPs.

### **7.8. Fixed Charges for LT Industrial (S), LT Industrial (M), Specified Public Purpose and Public Water Works**

Currently the Monthly Minimum Fixed Charges /Demand Charges for LT Industrial (S) and LT Industrial (M) is fixed on the basis of connected load in terms of kW, However as per Regulation 80(8) and (9) of OERC Distribution (Conditions of Supply) Code, 2005 , the Contract Demand for these consumers is to be treated in kVA. These consumers having motive loads are maintaining low power factors and as per Regulations the Licensee can disconnect power supply if the Power Factor falls below 60%, which imposes a burden to Licensee in terms of increase in Demand Charges. Therefore, the Licensee is of the view that the Fixed Charges for these categories should be levied on the basis of Contract Demand in terms of kVA instead of kW for arresting the low power factor as well as for compensating for higher drawl in kVA demand.

### **7.9. Reconnection Charges**

The Licensee collects reconnection charges from different classes of consumers at the time of reconnection. The reconnection charges shall be in commensuration with that of the labour component involved in reconnecting supply of consumers. The charges should be based on the

amount of work involved, cost of manpower engaged for such work as the workman/officers are to disconnect the supply once on default and reconnect the supply on payment. The commission has framed time frames for rendering such service and Licensee can be sued for any deficiency in service also. The reconnection charges were last revised in 2004. The Licensee proposes to increase the Reconnection Charges considering the inflation for four years as follows:

<b>Class of Consumers</b>	<b>Existing Rate</b>	<b>Proposed Rate</b>
Single Phase Domestic Consumers	Rs. 50/-	Rs. 75/-
Single Phase Other Consumers	Rs. 100	Rs. 150/-
3 Phase Line	Rs. 200/-	Rs. 300/-
HT & EHT Lines	Rs. 1000/-	Rs. 1500/-

#### **7.10. Tariff for Medium Industries Consumers**

Most of the Medium Industries in WESCO are Ice factories, Plastic Industries, Rice Mills and Crusher units which are situated in suburban as well as in costal areas. Lengthy L.T lines are extended to cater the needs of the consumers. There are huge transmission losses in the L.T system apart from frequent occurrence of electrical accidents. The Licensee is also restrained for changing the mode of supply as the consumers usually do not come forward for installation of their own substations. Hence the tariffs for Medium Industries may be considered at par with general purpose. Consumers so that it will indirectly incentivise them to take connection at HT to avail the benefit of tariff. In such a situation the Licensee will be absolved from the responsibility of maintaining L.T network and it will also help in providing quality supply to consumers.

#### **7.11. MMFC for Consumers with Contract Demand <110 KVA**

As per the current tariff structure, the Monthly Minimum Fixed Charges are to be levied to consumers with contract demand less than 110 kVA on the recorded demand rounded to nearest 0.5 kw requiring no verification irrespective of the agreement .This adversely affects the Licensee in case of the recorded demand is lower than the contract demand/connected load. The Licensee proposes that the Monthly Minimum Fixed Charges for such consumers shall be levied at Contract Demand or Maximum Demand whichever is higher.

#### **7.12. Applicability of Power Factor Incentive**

Power factor incentive is given to all the HT & EHT consumers for maintaining Power Factor more than 95%, previously which was 97%. Similarly power factor penalty is levied for the

power factor below 90%. The licensee has received Rs.5.10 crores and Rs.3.25 crores towards power factor penalty during 2007-08 & 2008-09 (up to sep-08) and during the same period the revenue foregone on account of PF incentive is Rs.8.98 crores and Rs.5.13 crores. There are more revenues forgone by the Licensee than what is being recovered from the penalty. This also indicates that the consumers are already achieved a level where the standard Power factor needs to be raised. **The licensee proposes to consider PF incentive for the PF more than 97% in place of 95% and the Power factor penalty may be chargeable on the consumers if the power factor is less than 95%.** This will help to make the power system more reliable and efficient. The above proposal may be considered if the KVAh billing system as proposed by the Licensee is not considered.

### **7.13. Demand Charges and Monthly Minimum Fixed Charges**

The Licensee submits that 90% of the Distribution costs are fixed cost in nature. The distribution cost of the License which is a fixed cost has increased many folds during the recent years, the said cost normally required to be recovered from the Demand Charges. The fixed cost of the power procurement by way of payment towards capacity charges has also increased during last few years. The revenue recovery on account of the demand charges and monthly minimum fixed charges is approximately Rs.185 crore for the ensuing year at the existing tariff. The fixed distribution cost is around Rs.434 crore, which is more than double the amount recovered as is fixed revenue in the Tariff.

**In view of the above, the Licensee proposes to recover the full fixed distribution costs by suitably revising the Demand charges and monthly minimum fixed charges as proposed in earlier section , as applicable to the respectively category during the ensuing year.**

## **8. Other Issues**

### **8.1. Compliance to Directives of Hon`ble OERC**

The licensee has complied with the directives of the Hon`ble Commission which is mentioned in **Annexure 1**

### **8.2. Overdrawl Penalty for Drawl Over and Above OERC Approved Quantum (MU) and MVA**

The Hon`ble Commission has initiated the process of implementation the Availability Based Tariff (ABT) as a balancing mechanism for the State of Orissa. In this regard the Commission

has issued a draft paper dated 26th October, 2006 for making the Intra-State ABT Regulations. The Intra State ABT will be in place when the infrastructure required for ABT implementation is in place. Analysing the present scenario it is assumed that it will take some time for the ABT implementation. In the meantime, till the Intra State ABT is implemented the Licensee proposes that the overdrawl of energy shall be considered on cumulative basis for all DISCOMs together instead of considering the DISCOM wise overdrawl. The balancing of the overdrawal can be settled in the following manner

In case the one or two licensee are overdrawing but the combined drawal of the four licensee is equal or less than as approved by the Commission, the applicable overdrawal penalty charge should be payable by the Licensees overdrawing the energy to the Licensee those are underdrawing licensee to reduce the cost of power to the end consumers

In case the combined drawal of the four Licensee is observed more than as approved by the Hon'ble Commission, the Licensees shall pay the penalty for overdrawal of energy to GRIDCO in proportion of overdrawal by each Licensee.

Hon'ble Commission directed that the licensee has to pay the marginal cost of power procurement of the GRIDCO which would be drawn by GRIDCO because of the overdrawal of Licensee. While the total power cost is already passed thru and the additional cost of power because of the DISCOMs overdrawal is recoverable from the DISCOMs, the payment of Demand Charges if the actual Demand (MVA) is more by 10% of the allowed Demand (MVA), is not necessary and Licensee submits that this may be done away with. Extending the same logic when the drawl is less at low frequency, the Discoms should also benefit.

### **8.3. Rebate on Prompt Payment**

The Hon'ble Commission in its BSP Order dated 22<sup>nd</sup> March 2007 vide clause 5.38 approved that the Licensee can avail a rebate of 2% for prompt payment of BST bill within two working days of presentation of BST Bills. Further, the Hon'ble Commission had directed to pay the rebate to all consumers except domestic, general purpose, irrigation and small industry category, if payment was made within three days of bill presentation and seven days in case of others.

Considering the above, it is prayed before the Hon'ble Commission to approve the rebate of 2% to the licensee for prompt payment towards BST bills including part payment or on account payments within three working days from the date of presentation of the BST bill.

#### **8.4. Bulk Energy Billing Software Audit**

The licensee understands that modifications have been made to the Bulk Energy Billing Software currently used by Energy Billing Center of Gridco to bill the Discoms at the various interface points, which has led to abnormal billing increases. The Discoms have several times communicated their apprehensions to Gridco and humbly submit that the Hon`ble Commission to direct for an “ Audit of the Bulk Energy Billing Software’ by an independent agency of repute like the IIT`s, IITs and etc.

#### **8.5. Service Charges for Door Collection**

The licensee for the convenience of the consumers have been conducting door to door collections for which it incurs a cost. To inculcate a sense of commercial discipline and encourage payment at collection counters / customer care centers, **the licensee proposes to introduce a service charge of Rs 10 per bill for door to door collection.**

#### **8.6. Negative Cash Flow approved in Wesco RST 08- 09**

In the regulatory regime Hon`ble Commission had approved cash flow statement of WESCO 1st time for the year 2008-09. Incidentally the cash flow so approved was for the year as a whole considering only the source and application for the year only. However opening cash balance was not considered. Unfortunately, WESCO's cash balance was negative on 1st April 08 as WESCO was not able to clear its monthly BSP bill on account of higher BST. Hence with the negative cash balance of around Rs.70 crores as on 1st April 08, WESCO is not able to clear its monthly BST bill within 48 hours and not able to get 2% rebate on BST bill till date. The negative cash flow as approved for FY 08-09 is as under:

## CASHFLOW STATEMENT FOR FY 2008-09 (As approved by OERC with OB)

<b>SOURCES</b>	<b>(Rs in crs)</b>
Total revenue from sale of power	1,251.08
Collection efficiency(%)	96.56
Revenue -collectible(current year)	1,208.04
Collection from arrear	
Miscellaneous receipts	25.65
<b>Total cash inflow</b>	<b>1,233.69</b>
	<b>MU</b>
	<b>5,680.00</b>
<b>APPLICATION BSP rate(Paise/kwh)</b>	157.25
Cost of power purchase	893.18
Transmission cost (21 Paise/Kwh)	119.28
Employees cost	109.97
Repair & maintenance	25.66
A & G expenses	20.91
Interest payment	25.72
Principal payment Gridco	-
Carrying cost	1.18
<b>Total cash outflow</b>	<b>1,195.90</b>
<b>Surplus allowed by Hon'ble Commission</b>	<b>37.79</b>
<b>Opening cash balance (Negative)</b>	<b>(70.00)</b>
<b>Gap ought to be</b>	<b>(32.21)</b>

Further the licensee is also facing financial crisis in the current year & unless substantial relief is being extended the cash flow position will not improve for the ensuing year. The cash flow position for FY 09 and with proposed tariff for FY 10 is as under:-

### Cash Flow Statement

	08-09	Rs. In Lacs. 09-10
<b>SOURCE</b>		
Opening with SD (OB-SD Rs.10556 lacs)	<b>15738.14</b>	<b>5737.87</b>
Revenue collection	120300.12	135798.50
Security Deposit from Consumers	6424.54	2000.00
Consumer contribution including RGGVY &BGJ	29607.00	71464.00
Loan from REC-S.I.Scheme	2242.00	3150.00
Total	<b>174311.81</b>	<b>218150.37</b>
<b>APPLICATION</b>		
Payment against purchase of Power	109099.60	99539.25
Employee cost	13543.76	18279.20
Administrative & General Exp	2377.38	3704.64
Repair & Maintenance	2566.00	9491.02
Repayment of Loan Principal	958.85	1008.11
Repayment of Loan Int.	1532.62	4826.68
Interest on security deposit	839.40	1695.74
Refund of Security Deposit	1600.00	2500.00
Installments of Securitisation	3572.33	3572.33
Capital Expenditure	32384.00	75459.00
Loans & Advances	100.00	200.00
Total	<b>168573.93</b>	<b>220275.98</b>
<b>Closing Balance with Security Deposit</b>	<b>5737.87</b>	<b>(2125.61)</b>
Less :-Amount of Security Deposit included above	15380.54	19880.54
Closing Balance without Security Deposit	<b>(9642.67)</b>	<b>(22006.15)</b>

Therefore the licensee is humbly submitting for kind consideration of the above negative cash flow and providing of necessary relief.

#### **8.7. Conflict of interest being the same management in GRIDCO and OPTCL:**

The Discoms strongly plead to the Hon. Commission to make a distinct, separate and independent management of GRIDCO and OPTCL. This is well defined in the provisions of EA,2003. Until this is done, there is going to be conflict of interest and sufferers are the Discoms and the consumers.

To illustrate this, whatever the Discoms make payment through escrow arrangement are first adjusted against the dues of OPTCL and thereby depriving the Discoms to avail the rebate on the larger amount of bulk supply payments, consumers suffer. In fact the Discoms have signed the escrow agreement with GRIDCO for Bulk supply purchase. Pending separation and compliance of independent management between GRIDCO and OPTCL, the **Hon. Commission may give**

**directives the DISCOMs should have choice to make payment either to OPTCL or GRIDCO considering the availability of funds.**

**Licensee submits to give suitable directives to the GoO to separate and create an independent management of GRIDCO and OPTCL where there is no conflict of interest.**

## **9. Formats**

The following filled in formats will form a part of the ARR and Tariff Application for FY 2008-09 as annexures

### **9.1. Commercial Formats T1-T8**

### **9.2. Financial Formats F1-F39**

Cash flow statement

Summary of Proposed tariff

### **9.3. Details Performance Formats (P1-P15) in Vol II**

## **10. Prayer**

In the aforesaid facts and circumstances, the Licensee prays that the Hon'ble Commission may be pleased to:

- Take the accompanying ARR and Tariff Petition on record.
- Approve the Annual Revenue Requirement for FY 2009-10 including amortisation of regulatory assets, truing up of uncovered gap upto FY 2007-08 based on expenses and revenue approved by the Commission.
- Bridge the Revenue Gap through combination of increase in Retail Supply Tariff, Reduction in Bulk supply Tariff, Government Subsidy etc.
- Allow the Licensee to submit additional documents, modify the present petition, if so required during the course of hearing
- Reconsideration of revised estimates of the licensee for the FY 2008-09 with respect to power purchase of 6102 MU with SMD of 960 MVA

- **Suitable directives to the GoO to separate and create an independent management of GRIDCO and OPTCL without conflict of interest.**
- **Direct GRIDCO to relax Escrow in this priority keeping in view the interest and better services to the consumers of Orissa**
  - Payment of current Bulk Supply Tariff bills
  - Employee Expense
  - R&M Expense
  - A&G Expense
  - Remaining 50% to be utilised for past dues of GRIDCO and rest 50% for system improvement
- Any other relief, order or direction which the Hon'ble Commission deems fit be also issued.

**By the Applicant  
Through its Chief Executive Officer**

Dated 29<sup>th</sup> November 2008

Bhubaneswar