

<i>Distribution</i>	109.95	109.95	109.95
Rate of Return			
<i>Generation</i>	14.00%	14.00%	14.00%
<i>Transmission</i>	14.00%	14.00%	14.00%
<i>Distribution</i>	16.00%	16.00%	16.00%
Approved ROE	43.82	43.82	43.82
<i>Generation</i>	15.16	15.16	15.16
<i>Transmission</i>	11.07	11.07	11.07
<i>Distribution</i>	17.59	17.59	17.59

...”

2.3.4. The petitioner claims that the combined GFA approved for Transmission and Distribution at the end of First control period (FY 2008-09 to FY 2010-11) is Rs. 2605.95 Cr. (Rs. 1044.73 Cr. + Rs. 1561.22 Cr.). Further, the Petitioner claimed that the closing loan of HPSEBL considering the funding of Scheme capitalized in FY 2010-11 is Rs. 86.60 Cr. and the combined closing equity of Transmission and Distribution for FY 2010-11 is Rs. 189.00 Cr. (Rs. 79.05 Cr. + Rs. 109.95 Cr.).

2.3.5. The petitioner also submitted that during the Midterm Performance Review of HPSEBL for the period FY2014-15 to FY 2018-19, the Commission in order dated 17-4-2017 has adjusted the GFA of HPSEBL for FY 2011-12 as Rs. 2503.31 Cr. by reducing the amount equivalent to the cost of assets transferred to HPPTCL amounting to Rs. 102.63 Cr. from the combined GFA approved for Transmission and Distribution at the end of first control. The extracts of the same are reproduced below:

“5.4.2 It is observed that the Commission had trued-up the GFA for the First Control Period (FY09-FY11) in the Order for First APR of the Second MYT Control Period (FY12-FY14) dated 24.04.2012. The Commission has therefore considered the transmission and distribution assets as per the approved closing GFA for FY11. Adjustment on account of assets transferred to HPPTCL has been considered to arrive at the opening GFA for FY12.

...

5.4.4 The revised depreciation now approved by the Commission is as below:

Table 76: Trued-up GFA & Depreciation for the Second Control Period (Rs. Cr.)

Particulars	FY 12	FY 13	FY 14
<i>Opening GFA</i>	2503.31	3069.28	3678.50
<i>Addition</i>	565.97	609.22	286.58
<i>Closing GFA</i>	3069.28	3,678.50	3,965.08
<i>Depreciation on Total Assets @ 2.50%</i>	69.66	84.35	95.54

Particulars	FY 12	FY 13	FY 14
Less: Depreciation on Assets created out of grants/deposit works	19.61	29.20	36.19
Approved Depreciation	50.04	55.15	59.36

However, with regard to interest on loan and equity for the second control period, the Hon'ble Commission in the above referred Order dated April 17, 2017 has ruled as follows:

"5.5.4 The revised interest on loans for funding capitalization for First and Second Control Period is provided below:

Table 78: Trued-up Interest on Capital Loans for the Second Control Period (Rs. Cr.)

Particulars	FY 12	FY 13	FY 14
Loans for Capitalisation (FY 09-11)			
Opening	86.60	75.42	64.25
Addition	-	-	-
Repayment	11.18	11.18	11.18
Closing	75.42	64.25	53.07
Interest rate	10.25%	10.25%	10.25%
Interest	8.30	7.16	6.01
Loans for Capitalisation (FY 12-14)			
Opening	-	190.14	309.55
Addition	211.27	156.16	146.90
Repayment	21.13	156.16	146.90
Closing	190.14	309.55	405.02
Interest rate	12.00%	12.00%	12.00%
Interest	11.41	29.98	42.87
Approved Total Interest Cost	19.71	37.14	48.89

5.6.1 The Commission had not considered equity addition during the Second Control Period in the MYT Order. As per the funding pattern approved for the capitalization discussed in the previous section, the Commission has recomputed the return on equity towards the distribution business of HPSEBL which is as below:

Table 79: Approved Return on Equity for the Second Control Period (Rs. Cr)

Particulars	FY 12	FY 13	FY 14
Opening Equity	189.00	213.14	230.13
Addition	24.14	16.99	16.55
Closing Equity	213.14	230.13	246.69
Rate of Return	16%	16%	16%
RoE	32.17	35.46	38.15

..."

- 2.3.6. The petitioner has submitted that the opening loan of HBSEBL for FY 2011-12 is Rs. 86.60 Cr. and the opening equity is Rs. 189.00 Cr. The petitioner claims that the Commission has only adjusted the GFA of HPSEBL for the year FY 2011-12 by reducing the amount equivalent to the cost of assets transferred to HPPTCL amounting to Rs. 102.63 Cr. and has not considered a similar adjustment for the Equity. This condition has resulted in a situation where the GFA is owned by HPPTCL but the RoE on the assets owned by HPPTCL is allowed to HPSEBL.
- 2.3.7. As the true up for the period FY 2014-15 to FY 2018-19 is yet to be carried out by the Commission, the Petitioner has prayed to allow RoE for FY 2014-15 to FY 2018-19 on the assets re-vested in HPPTCL by the Government of Himachal Pradesh as per the Transfer Scheme dated 10-6-2010.

2.4. Approach for Filing of Petition

- 2.4.1. The Petitioner stated that it has adopted approach for filling the petition as per the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011 as amended, and True up across various controllable parameters shall be performed as specified in:

" 10. True Up

(1) The true up across various controllable parameters shall be conducted by the Commission, for the previous years for which the actual/audited accounts are made available by the Transmission Licensee, at the times and as per principles stated below; -

(a) at the times-

(i) for the previous years of the previous control period: - along with the petition for determination of ARR cum transmission tariff for the control period;

(ii) for the previous years of the control period and for the previous control period: - along with the mid-term performance review during the control period;

(iii) for the control period true up: - along with the mid-term performance review of the next control period

(b) as per principles-

(i) the Commission shall review actual capital investment vis-à-vis approved capital investment;

(ii) depreciation and financing cost, which includes cost of debt including working capital (interest), cost of equity (return) shall be trued up on the basis of actual/audited information and prudence check by the Commission;

(iii) any surplus and deficit on account of O&M expenses shall be to the account of the Transmission Licensee and shall not be trued up in ARR; and

(2) The gain or loss on account of other controllable factors, unless otherwise specifically provided by the Commission shall be to the account of the Transmission Licensee.

(3) Notwithstanding anything contained in these regulations, the gains or losses in the controllable items of ARR on account of force majeure, change in law and change in taxes and duties shall be passed on as an additional charge or rebate in ARR over such period as may be laid down in the order of the Commission."

2.4.2. The Petitioner has further quoted the Regulation 39 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, as amended from time to time, that HPPTCL has to file an application for Comprehensive Review after the end of the third Control Period on availability of audited accounts for each year of the Control Period, as follows:

"39. Mid-term Performance Review and Review at the End of the Control Period

....

(2) Review at the end of control period - The transmission licensee shall also make an application for Comprehensive Review after the end of the third Control Period on availability of audited accounts for each year of the control period. The comprehensive review shall be based as per the principles laid down under these Regulations for various parameters of ARR:

Provided that the transmission licensee shall submit to the Commission information in such format as may be stipulated by the Commission, together with the audited account statements, extracts of books of account and such other details as the Commission may require to assess the reasons for and extent of any variation in financial performance from the approved forecast of Aggregate Revenue Requirement and expected revenue from tariff and charges.

(3) Towards the end of the control period, the Commission shall review if the implementation of the principles laid down in these regulations has achieved their intended objectives. While doing this, the Commission shall take into account, among other things, the industry structure, sector requirements, consumer and

other stakeholder expectations and the licensee's requirements at that point in time. Depending on the requirements of the sector to meet the objects of the Act, the Commission may revise the principles for the next control period.

(4) The end of the control period shall be the beginning of the next control period and the licensee shall follow the same procedure, unless required otherwise by the Commission. The Commission shall analyze the performance of the licensee with respect to the targets set out at the beginning of the control period and based on the actual performance, expected efficiency improvements and other factors prevalent, determine the initial values for the next control period."

2.5. Summary of the petition for True-Up of ARR for FY 2014-15 to FY 2018-19

Operation & Maintenance expenses

2.5.1. The petitioner has calculated the O&M expenses in line with the Regulation 12 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, as amended, for the transmission utilities as below:

"13. Operation and Maintenance (O&M) Expenses

(1) Operation and Maintenance (O&M) expenses shall comprise of the following: -

- (a) Salaries, wages, pension contribution and other employee costs;*
- (b) Administrative and general expenses including insurance charges if any;*
- (c) Repairs and maintenance expenses;*
- (d) Other miscellaneous expenses, statutory levies and taxes (except corporate income tax)*

(1-a) O&M Norms -

(i) The transmission licensee shall propose separate trajectories of norms for each of the components of O&M expenses viz., employee cost, R&M expense and A&G expense;

(ii) Norms shall be defined in terms of combination of number of personnel per long/ medium term consumer, number of personnel per MW of capacity handled for long/ medium term consumers or number of personnel per transmission circuit kilometer line length and number of substations along with annual expenses per personnel for Employee expenses, combination of A&G expense per personnel and

A&G expense per long/ medium term consumer (or per MW of capacity handled) for A&G expenses and R&M expense as percentage of gross fixed assets for estimation of R&M expenses;

.....

(3) The O&M expenses for the nth year of the control period shall be approved based on the formula given below: -

$$O\&M_n = R\&M_n + EMP_n + A\&G_n;$$

Where -

$$'EMP_n' = [(EMP_{n-1}) \times (1+G_n) \times (CPIinflation)] + Provision (Emp);$$

$$'A\&G_n' = [(A\&G_{n-1}) \times (WPIinflation)] + Provision(A\&G);$$

$$'R\&M_n' = K \times (GFA_{n-1}) \times (WPIinflation);$$

'K' - is a constant (could be expressed in %). Value of K for each year of the control period shall be determined by the Commission in the MYT Tariff order based on licensee's filing, benchmarking of repair and maintenance expenses, approved repair and maintenance expenses vis-à-vis GFA approved by the Commission in past and any other factor considered appropriate by the Commission;

'CPIinflation' – is the average increase in the Consumer Price Index (CPI) for immediately preceding three years before the base year;

'WPIinflation' – is the average increase in the Wholesale Price Index (WPI) for immediately preceding three years before the base year;

'EMP_n' – employee's cost of the transmission licensee for the nth year (employee cost for the base year would be adjusted for provisions for expenses beyond the control of the licensee and one time expected expenses, such as recovery/ adjustment of terminal benefits, implication of pay revisions, arrears and interim relief.);

'Provision(Emp)'- Provision corresponding to clauses (iii), (iv) and (v) of subregulation (1-a) of regulation 13, duly projected for relevant year for expenses beyond control of the Transmission Licensee and expected one-time expenses as specified above;

'A&G_n' – administrative and general costs of the transmission licensee for the nth year;

'Provision(A&G)'-Cost for initiatives or other one-time expenses as proposed by the Transmission licensee and approved by the Commission after prudence check;"

'R&Mn' – Repair and Maintenance costs of the transmission licensee for the nth year;

'GFAn-1' – Gross Fixed Asset of the transmission licensee for the n-1th year;

'Gn' - is a growth factor for the nth year. Value of Gn shall be determined by the Commission in the MYT tariff order for meeting the additional manpower requirement based on licensee's filings, benchmarking, approved cost by the Commission in past and any other factor that the Commission feels appropriate;

Provided that, repair and maintenance expenses determined shall be utilized towards repair and maintenance works only;

Provided further that, the impact of pay revision (including arrears) shall be allowed on actual during the mid-term performance review or at the end of the control period as per actual/ audited accounts, subject to prudence check and any other factor considered appropriate by the Commission.

...."

2.5.2. The petitioner has submitted the O&M expenses based on the approach followed by the Commission while approving the tariff from period FY 2019-20 to FY 2023-24 in the Order dated June 29, 2019. As per the approach, 25% of the Total Employee cost and A&G Expenses respectively have been allocated for Expenses towards Intra-state business. The R&M expenses submitted by HPSEBL were adjusted by deducting the expenses incurred on account of Inter-state Lines. The O&M Expenses computed for the period FY 2014-15 to FY 2018-19 are as under:

Table 6: O&M Expenses claimed for Third Control Period (Rs. Crore)

Particulars	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Employee Cost	2.64	2.74	3.69	4.08	4.16
A&G Cost	1.58	1.92	2.05	1.93	2.09
R&M Cost	1.75	1.64	1.91	1.71	1.87
Total O&M Expense	5.97	6.30	7.65	7.72	8.12

Depreciation

2.5.3. HPPTCL has calculated the depreciation as per the Regulation 23 of HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011.

“23. Depreciation

(1) The value base for the purpose of depreciation shall be the capital cost of the asset admitted by the Commission.

(2) The salvage value of the asset shall be considered as 10% and depreciation shall be allowed up to maximum of 90% of the capital cost of the asset.

(3) Depreciation shall be calculated annually based on Straight Line Method and at rates specified in Appendix-I to these regulations for the assets of the transmission system:

Provided that, the remaining depreciable value as on 31st March of the year closing after a period of 12 years from date of commercial operation shall be spread over the balance useful life of the asset.

(4) For transmission project which are in operation for less than 12 years, the difference between the cumulative depreciation recovered and the cumulative depreciation arrived at by applying the depreciation rates specified in this regulation corresponding to 12 years, shall be spread over the period up to 12 years, and the remaining depreciable value as on 31st March of the year closing after a period of 12 years from date of commercial operation shall be spread over the balance useful life of the asset.

(5) For the project in operation for more than 12 years, the balance depreciation to be recovered shall be spread over the remaining useful life of the asset.

(6) Depreciation shall be chargeable from the first year of commercial operation. In case of commercial operation of the asset for part of the year, depreciation shall be charged on pro rata basis.”

2.5.4. The Petitioner has submitted that the depreciation has been calculated based on the methodology adopted by Commission while approving the depreciation for the period FY 2014-15 to FY 2018-19 in the Mid Term Review Order dated October 6, 2017. The depreciation for the period FY 2014-15 to FY 2018-19 is shown below:

Table 7: Depreciation (Rs Cr.) claimed for Third Control Period

Particulars	FY15	FY16	FY17	FY18	FY19
Depreciation	0.76	0.76	0.76	0.75	0.69

Interest on Loan Capital

2.5.5. The Petitioner has claimed Interest on Loan capital based on Regulation 20 of the HPERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2011, as amended, for Transmission utility as below: