



TAMIL NADU ELECTRICITY REGULATORY COMMISSION

**Approval of True Up of SLDC
for FY 2020-21**

Order dated 10 October 2024 on M.P. No. 13 of 2024



TAMIL NADU ELECTRICITY REGULATORY COMMISSION

(Constituted under Section 82(1) of Electricity Act, 2003)

(Central Act 36 of 2003)

PRESENT:

Thiru. K. Venkatesan – Member

Thiru. B. Mohan – Member (Legal)

Order dated 10 October 2024 on M.P. No. 13 of 2024

In the matter of: Approval of True Up of SLDC for FY 2020-21

In exercise of the powers conferred by Section 62 and Clause (a) of sub-section (1) of Section 86 of the Electricity Act 2003 (Central Act 36 of 2003) and all other powers hereunto enabling in that behalf and after considering suggestions and objections received from the public, as per sub-section (3) of Section 64 of the said Act, the Tamil Nadu Electricity Regulatory Commission hereby passes this Order for Approval of True-Up of SLDC for FY 2020-21.

**Sd/-
(B. Mohan)
Member (Legal)**

**Sd/-
(K. Venkatesan)
Member**

(By Order of the Commission)



**(Dr. C. Veeramani)
Secretary**

LIST OF ABBREVIATIONS

A&G	Administration and General
APR	Annual Performance Review
APTEL	Appellate Tribunal for Electricity
ARR	Aggregate Revenue Requirement
CEA	Central Electricity Authority
CERC	Central Electricity Regulatory Commission
CIP	Capital Investment Plan
COD	Commercial Operation Date
CPS	Contributory Pension Scheme
CWIP	Capital Work in Progress
DA	Dearness Allowance
DSM	Deviation Settlement Mechanism
EA	Electricity Act
FY	Financial Year
GFA	Gross Fixed Assets
G.O.	Government Order
GPF	General Provident Fund
GoTN	Government of Tamil Nadu
HT	High Tension
IDC	Interest During Construction
IoWC	Interest on Working Capital
IRR	Internal Rate of Return
kWh	kilo-Watt hour
LDCD Fund	Load Despatch Centre Development Fund
LT	Low Tension
MU	Million Units
MW	Mega-Watt
MYT	Multi-Year Tariff

O&M	Operation & Maintenance
R&M	Repair & Maintenance
RoE	Return on Equity
SBI PLR	State Bank of India Prime Lending Rate
SLDC	State Load Despatch Centre
T&D	Transmission & Distribution
TANGEDCO	Tamil Nadu Generation and Distribution Corporation Ltd.
TANTRANSCO	Tamil Nadu Transmission Corporation Ltd.
TNEB	Tamil Nadu Electricity Board
TNERC	Tamil Nadu Electricity Regulatory Commission
ToD	Time of Day
TP	Tariff Policy

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1 INTRODUCTION

1.1 PREAMBLE

- 1.1.1 Consequent to the enactment of the Electricity Regulatory Commissions Act, 1998 (Central Act 14 of 1998), the Government of Tamil Nadu (GoTN) constituted the Tamil Nadu Electricity Regulatory Commission (TNERC or Commission) vide G.O.Ms. No.58, Energy (A1) Department, dated March 17, 1999.
- 1.1.2 The Commission issued its first Tariff Order under Section 29 of the Electricity Regulatory Commissions Act, 1998, on March 15, 2003 based on the Petition filed by the erstwhile Tamil Nadu Electricity Board (TNEB) on September 25, 2002.
- 1.1.3 The Electricity Regulatory Commissions Act, 1998 was repealed and the Electricity Act, 2003 (Central Act 36 of 2003) (hereinafter referred as “the EA, 2003” or “the Act”) was enacted with effect from June 10, 2003.
- 1.1.4 The Commission notified the Tamil Nadu Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2005 (herein after called Tariff Regulations) on August 3, 2005, under Section 61 read with Section 181 of the Act.
- 1.1.5 The Commission issued its **first Order** (Order No. 2 of 2006) on Transmission Charges, Wheeling Charges, Cross Subsidy Surcharge (CSS) and Additional Surcharge on May 15, 2006, based on the Petition filed by the erstwhile TNEB on September 26, 2005, under Section 42 of the Act.
- 1.1.6 The Commission notified the TNERC (Terms and Conditions for Determination of Tariff for Intra-State Transmission/Distribution of Electricity under MYT Framework) Regulations, 2009 (herein after called MYT Regulations) on February 11, 2009.
- 1.1.7 Subsequently, TNEB filed an Application for determination of Aggregate Revenue Requirement (ARR) with Tariff for all functions on January 18, 2010, which was admitted by the Commission after initial scrutiny on February 9, 2010. The Commission issued its second Retail Tariff Order on July 31, 2010 (Order No. 3 of 2010).
- 1.1.8 The erstwhile TNEB was formed as a statutory body by GoTN on July 1, 1957, under the Electricity (Supply) Act, 1948. TNEB was primarily responsible for generation, transmission, distribution and supply of electricity in the State of Tamil Nadu.
- 1.1.9 GoTN, vide G.O (Ms.) No. 114 Energy Department, dated October 8, 2008 accorded in-principle approval for the re-organisation of TNEB by establishment of a holding Company, namely TNEB Ltd. and two subsidiary companies, namely Tamil Nadu Transmission Corporation Ltd. (TANTRANSCO) and Tamil Nadu Generation and

Distribution Corporation Ltd. (hereinafter referred as TANGEDCO) with the stipulation that the aforementioned Companies shall be fully owned by the Government.

1.2 REGULATORY FRAMEWORK

- 1.2.1 TNERC notified its MYT Regulations, which specifies the factors that will guide the Commission in determination of True-up, the relevant extract of which is reproduced below:

“3(vii). True up of variations in revenue and cost

The variations on account of controllable factors like sales and power purchase shall be reviewed at the end of each year of the Control Period based on audited accounts of the licensee and prudence checks by the Commission.”

1.3 TARIFF FILING

- 1.3.1 TANTRANSCO was incorporated on June 15, 2009 and started functioning as such with effect from November 1, 2010. Post restructuring, TANTRANSCO was provided with the function of transmission of electricity in the State of Tamil Nadu. Being STU, TANTRANSCO has been vested with the functions of State Load Dispatch Centre till further orders of the GoTN from the date of transfer.
- 1.3.2 Subsequent to the filing of Tariff Petition by TANTRANSCO for determination of Intra-State Transmission Tariff for FY 2012-13, the Commission scrutinized and reviewed the same. After a thorough review, **the second Order** (Order No. 2 of 2012) of the Commission on Intra-State Transmission Tariff and other related charges was passed on March 30, 2012.
- 1.3.3 TANTRANSCO filed its Application before the Commission for determination of Intra-State Transmission Tariff for FY 2013-14. Based on the Petition and after considering views of the State Advisory Committee and the public, the Commission passed **the third Order** on June 20, 2013 and directed TANTRANSCO to file a separate Petition for SLDC's ARR in accordance with the Tariff Regulations.
- 1.3.4 Subsequently, in the event of TANTRANSCO not filing the ARR and Tariff Petition for FY 2014-15, the Commission initiated Suo-motu proceedings for tariff determination in accordance with Section 64 of the Act. After a thorough review of the available information, **the fourth Order** of the Commission on determination of Intra-State Transmission Tariff and other related Charges was passed on December 11, 2014. The Commission reiterated the direction to TANTRANSCO to file a separate Petition for approval of SLDC's ARR in accordance with the Tariff Regulations in this Tariff Order also.

- 1.3.5 TANTRANSCO filed a Petition for True-up for the period from FY 2011-12 to FY 2015-16 and approval of Aggregate Revenue Requirement (ARR) for the Control Period from FY 2016-17 to FY 2018-19 and determination of Intra-State Transmission Tariff for FY 2017-18. Thereafter, SLDC filed the Petition for determination of ARR for SLDC for FY 2017-18 and 2018-19. Based on SLDC's Petition, the Commission approved ARR for FY 2017-18 and FY 2018-19 and SLDC charges for FY 2017-18. That was the first time Commission approved a dedicated Tariff Order for SLDC.
- 1.3.6 SLDC filed a Petition for True-up for the period from FY 2017-18 to FY 2020-21 and Annual Performance Review for FY 2021-22, Approval of Aggregate Revenue Requirement for the period from FY 2022-23 to FY 2026-27, and Determination of SLDC Charges for the period from FY 2022-23 to FY 2026-27. The Commission issued Order No. 09 of 2022 dated September 09, 2022 for the determination of SLDC Charges w.e.f. September 10, 2022.
- 1.3.7 In this instant Order, the Commission has undertaken the final true-up for FY 2020-21 based on audited accounts, in accordance with the provisions of the Tariff Regulations and MYT Regulations, and their subsequent amendments.
- 1.3.8 Based on the Petition and after considering views of the public, the Commission hereby passes the Order on the true-up of SLDC for FY 2020-21.

1.4 PETITION FILING

- 1.4.1 On March 20, 2024, SLDC filed the Petition for True-Up for FY 2020-21 and the same was admitted as MP No. 13 of 2024. In the Petition, SLDC has stated that the True-Up for FY 2020-21 has been submitted based on audited accounts for FY 2020-21 prepared based on the Ind AS principles.
- 1.4.2 The approved figures considered for FY 2020-21 are in line with the TNERC's Order No. 09 of 2022 dated September 09, 2022.
- 1.4.3 The Commission has reviewed the data available thoroughly regarding the Petition filed by SLDC. After undertaking due process, the Commission hereby passes this Order on True-Up of ARR for FY 2020-21 for SLDC.

1.5 PROCEDURE ADOPTED

- 1.5.1 In the Commission's Daily Order dated June 27, 2024, the Commission directed SLDC to host the Petition for seeking comments from the Stakeholders with a time limit of 30 days. The Commission further directed SLDC to file the comments received from the Stakeholders along with the replies by way of an affidavit.
- 1.5.2 SLDC has published the copy of the Petition on its website on July 8, 2024, inviting comments from Stakeholders.

- 1.5.3 The Commission has provided sufficient time to Stakeholders for submission of written comments and suggestions on the Petition filed by SLDC. No Comments/ Objections from Stakeholders were received.
- 1.5.4 In the Commission's Hearing dated September 19, 2024, arguments of all sides were heard and the Order was reserved.

1.6 TRANSFER SCHEME

- 1.6.1 The Assets Transfer and Employee Transfer called as Tamil Nadu Electricity Board (Reorganization and Reforms) Transfer Scheme, 2010 was notified by GoTN vide G.O. (Ms) No.100 Energy (B2) Department dated October 19, 2010 with the effective date of implementation as November 1, 2010. Based on the above notification, TNEB was re-organized with effect from November 1, 2010.
- 1.6.2 As per the Transfer Scheme, the provisional period for transfer of assets and employees was 1 year and 3 years, respectively. From November 1, 2010 onwards, the services of all the employees of the erstwhile TNEB stood transferred to and absorbed in TANGEDCO on a provisional basis and assigned to the services of the relevant transferee, viz., TANTRANSCO, on deputation on "as-is-where-is" basis until further notice for permanent absorption into respective entities.
- 1.6.3 At the time of issue of Suo-Motu Tariff Order dated December 11, 2014, the Transfer Scheme was not finalised. Therefore, the Commission had stated the following regarding the provisional Transfer Scheme:

"This Transfer Scheme is provisional and addresses various issues like transfer of assets, revaluation of assets and partly addresses the issue of accumulated losses. This Transfer Scheme envisages deployment of staff of the erstwhile TNEB to TANGEDCO and TANTRANSCO. The Commission in its earlier Tariff Order No. 3 of 2010 dated 31-07-2010 had suggested in line with the National Electricity Policy (para 5.4.3) and Tariff Policy that the accumulated losses should not be passed on to the successor entities and financial restructuring has to be resorted to clean up the Balance Sheet of the successor companies and allow them to start on a clean slate so that the successor entities could start performing better. The statutory advices that have been sent to the Government of Tamil Nadu in this regard are appended as Annexure V. The Commission has also issued a statutory advice with regard to the establishment of a separate Generating Company and establishment of four Distribution Companies so that the performance of these companies can be improved and efficiently monitored, which will enable proper investments and growth of the individual company. This document is appended as Annexure VI.

Subsequently, as per the request of TNEB Limited, the second provisional transfer scheme was notified by the State Government vide G.O. (Ms.) No.2, Energy (B2) department, dated 2nd January 2012 with amendment in the restructuring of Balance Sheet of TNEB for the successor entities i.e. TANGEDCO and TANTRANSCO, considering the audited balance sheet of TNEB for FY 2009-10 and it had extended the provisional time for final transfer of assets and liabilities to the successor entities of erstwhile TNEB up to 31st October 2012. The same has been appended as Annexure VII.

This Transfer Scheme is also provisional and is subject to revision. The transactions for 7 months i.e. from 1st April 2010 to 30th October, 2010 do not get reflected in the opening balance sheet of the TANGEDCO as specified in the Transfer Scheme. ”

- 1.6.4 GoTN vide the Gazette Notification G.O. (Ms) No. 49 dated August 13, 2015, issued the final Transfer Scheme. The relevant extracts of the final Transfer Scheme are reproduced below:

“In the Government order first read above, Government have notified the Tamil Nadu Electricity (Re-organisation and Reforms) Transfer Scheme, 2010. The erstwhile Tamil Nadu Electricity Board has been reorganized with effect from 01.11.2010, as per the provisions of the Electricity Act, 2003. In the above transfer scheme, the assets and liabilities were segregated based on the available unaudited balance sheet of erstwhile Tamil Nadu Electricity Board as on 31.03.2009 instead of balance sheet as on 31.10.2010 which was not ready at that time and stated that this shall be provisional for a period of one year from the respective date of transfer as per the clause 9(1) of the said scheme (i.e., upto 31.10.2011).

Now, the Chairman and Managing Director, Tamil Nadu Generation and Distribution Corporation Limited has stated that as the audited balance sheet as on 31.10.2010 is ready, it is essential to issue notification for the final amendment to the earlier transfer scheme notified in Government Order 2nd read above for giving effect to the transfer of assets and liabilities to successor entities of erstwhile Tamil Nadu Electricity Board as on 01.11.2010.

Amendment to the existing Tamil Nadu Electricity (Reorganisation and Reforms) Transfer Scheme, 2010 notified in G.O.Ms.No.100, dated 19.10.2010, subsequently amended in G. O. (Ms.) No. 2, Energy (B2) Department, dated 02.01.2012 by issuing Notification for giving effect to transfer of assets and liabilities to successor entities of erstwhile Tamil Nadu Electricity Board Limited

as on 01.11.2010 be issued.

The Notification appended to this order will be published in the Tamil Nadu Government Gazette, Extraordinary, dated 13.08.2015.”

- 1.6.5 The transfer value of the Fixed Assets forming part of Schedules A, B and C of the respective Transferees have been done at book values, excluding the land, buildings, plant and machineries, lines, cables and network, which are revalued based on the guideline value resulting into Revaluation Reserve of Rs. 7164 Crore for TANTRANSCO.
- 1.6.6 Post restructuring, TANTRANSCO as per the Notification was provided with the function of transmission of electricity in the State of Tamil Nadu. TANTRANSCO has been vested with the State Load Despatch functions till further orders of the State Government from the date of transfer.
- 1.6.7 As per Section 31(1) of the Act, the State Government shall establish a State Load Despatch Centre (SLDC). Section 31(2) also provides that the said SLDC shall be operated by a Government company / authority / corporation constituted by or under any State Act and that until such company / authority / corporation is notified by the State Government, the State Transmission Utility (STU) shall operate the SLDC.
- 1.6.8 The Load Dispatch Centre of Tamil Nadu is divided into three control areas, viz., Chennai, Madurai and Erode and the area Load Despatch Centres in each area takes care of the operation of the respective area.
- 1.6.9 SLDC is functioning at Chennai with three Sub-Load Despatch Centres at Chennai, Erode and Madurai carrying out the grid management and taking care of the overall reliability, security, economy and efficiency of the power system function for smooth evacuation of power from generating stations to the consumers.

1.7 IND AS CONVERSION

- 1.7.1 It may be noted that when Transfer Scheme for TANGEDCO and TANTRANSCO were finalized in 2015, the Commission in its subsequent Orders had decided to ignore the revaluation of assets, as the process of revaluation pertains only to book entry and has no material significance in regulatory process. Using this logic, the Commission has previously considered only book values, after removing the impact of revaluation, while undertaking True-Up.
- 1.7.2 A similar question has arisen due to the impact of various revaluation and adjustments undertaken by SLDC in its accounts, for the conversion from I-GAAP to Ind AS. While the Commission is fully mindful of the need for standardization, book level revaluation of assets, which were already being financed by consumers of the State cannot be used to load additional burden on the consumers, and has hence, not been considered for the purpose of ARR and Tariff determination.

1.8 APPLICABILITY OF ORDER

- 1.8.1 This Order will come into effect on and from the date of issue.

1.9 LAYOUT OF THE ORDER

- 1.9.1 This Order is organized into following Chapters:
- a. **Chapter 1** provides introduction, process and the approach of the Order;
 - b. **Chapter 2** provides details / analysis of the True-Up of ARR of SLDC for FY 2020-21;
 - c. **Chapter 3** provides a list of directives issued by the Commission to SLDC.

1.10 APPROACH OF THE ORDER

- 1.10.1 The Commission has referred to the Audited Accounts of TANTRANSCO for truing up the expenses for FY 2020-21 in accordance with the Tariff Regulations, 2005 and MYT Regulations, 2009. Based on the prudence check of the expenses and revenue reported in the Audited Accounts of TANTRANSCO, the Commission has trued-up the allowable ARR and revenue recovered by the utility.

2 APPROVAL OF FINAL TRUE-UP FOR FY 2020-21

2.1 Background

- 2.1.1 SLDC, in its Petition, has sought approval for True Up for FY 2020-21. In this Section, the Commission has analysed all the elements of expenses and revenue for FY 2020-21 as per Audited Accounts and has undertaken the truing up of expenses and revenue after due prudence check.
- 2.1.2 The Commission asked TANTRANSCO and SLDC to reconcile the various expenses/income claimed in the Petition with the amount reported in the Audited Accounts. TANTRANSCO has submitted that the Audited Accounts in respect of TANTRANSCO is inclusive of annual accounts of both TANTRANSCO and SLDC. Hence, the bifurcated figures of annual accounts for FY 2020-21 (after adjusting the TANTRANSCO figures) for SLDC is the basis for the True-up of FY 2020-21.

2.2 Employee Expenses

SLDC's Submission

- 2.2.1 SLDC has stated that employee expenses comprise Basic Salary, Dearness Allowance, Bonuses, Medical expense reimbursement, Terminal Benefits, etc.
- 2.2.2 SLDC submitted that employee expenses fall under the category of uncontrollable costs in line with the provisions of sub-clause 5 of Regulation 14 of the Tariff Regulations. SLDC submitted that the variation in employee expenses from previously approved values is primarily on account of terminal benefits. Hence, the actual employee expenses incurred are in excess of the value approved by the Commission.
- 2.2.3 The audited Annual Accounts for FY 2020-21 are as per Ind AS. SLDC submitted that the employee expenses claimed in the Petition are based on the actuals as per the audited accounts as shown in the table below:

Table 2-1: Employee Expenses submitted by SLDC for FY 2020-21 (Rs. Crore)

Particulars	Approved earlier in Provisional True-Up	SLDC filing
Salary and DA		
Salaries (Basic)	32.78	35.02
DA	2.33	2.33
Total	35.11	37.35
Terminal benefits and pension contribution		
Terminal Benefits	8.12	20.56
Board's Contribution to CPS	0.30	0.30

Particulars	Approved earlier in Provisional True-Up	SLDC filing
Total	8.42	20.86
Other expenses		
Overtime	0.03	0.03
Other Allowances	1.00	1.00
Bonus	0.06	0.06
Reimbursement of Medical Expenses	0.01	0.01
Leave Travel Assistance	-	-
Earned Leave Encashment	0.22	0.22
Staff Welfare Expenses	0.02	0.02
Total	1.34	1.34
Grand Total	44.87	59.55

Commission's View

- 2.2.4 The Commission does not agree with the contention of SLDC that employee costs are “costs on account of inflation”, which is covered as an uncontrollable cost under sub-clause 5 of Regulation 14 of the Tariff Regulations. The Tariff Regulations provides specific guidance on how O&M expenses are to be dealt with, which are applicable to employee expenses also, as reproduced below:

TNERC (Terms and conditions for determination of tariff) Regulations, 2005

25. Operation and Maintenance Expenses

(1) The operation and maintenance expenses shall be derived on the basis of actual operation and maintenance expenses for the past five years previous to current year based on the audited Annual Accounts excluding abnormal operation and maintenance expenses, if any, after prudence check by the Commission. The Commission may, if considered necessary engage Consultant / Auditors in the process of prudence check for correctness. (2) The average of such normative operation and maintenance expenses after prudence check shall be escalated at the rate of 5.72% per annum to arrive at operation and maintenance expenses for current year i.e. base year and ensuing year. (3) The base operation and maintenance expenses so determined shall be escalated further at the rate of 5.72% per annum to arrive at permissible operation and maintenance expenses for the relevant years of tariff period.”

The Commission has approved the Salary expenses including Dearness Allowance, Terminal Benefits, Pension Contribution on actual basis. The Other Employee Expenses have also been allowed at actuals, as the same are lower than the amount arrived at after escalating the previous year's amount.