NORTH EASTERN ELECTRICITY SUPPLY COMPANY OF ORISSA LTD.

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

North Eastern Electricity Supply Company of Orissa Ltd (NESCO), 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, Satyendra Kumar Singh, Son of Sri Ram Pratap Singh, aged about 64 years, residing at Balasore, presently at Bhubaneswar do hereby solemnly affirm and state as follows:-

I am the Chief Executive Officer of the North Eastern Electricity Supply Company of Orissa Limited (NESCO), 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 **DEPONENT**

Date 29th November-2008 **Chief Executive Officer.**

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1. Executive Summary

North Eastern Electricity Supply Company of Orissa Limited, Balasore,(NESCO), is the holder of The Orissa Distribution and Retail Supply License, 1999 (No 3/99) and has been carrying out the business of distribution and retail supply of electricity in the five districts of Orissa namely Balasore, Bhadrak, Jajpur, Keonjhar and Mayurbhanj. This submission is made by the licensee to the Honourable 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 letter no.1955 dt.03-11-2007 and 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 41 of 2007 wherein in addition to submissions of estimates for revenues and costs, strategies for a business turnaround has been suggested to the Honourable 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 441 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.16 Crore under deposit works and Rs 34 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 474.72 Crore. The licensee submits that the revenue gap of FY 2009-10 includes Amortisation of regulatory assets amounting to Rs 184.39 Crore and uncovered revenue gap for FY 2008-09 on account of truing up as Rs 71.87 Crore.

Table 1 : Revenue Gap

Particulars	Rs Crore
Expenditure including Special Appropriation in FY 2009-10	**1031.38**
Reasonable return for FY 2009-10	**12.23**
Amortisation of Regulatory Assets	**184.39**
Truing up of Revenue Gap for FY 2008-09	**71.87**
Sub Total	**1299.87**

Revenue from sale of power at existing tariffs in FY 2009-10	**815.20**
Non Tariff Income	**9.95**
TOTAL REVENUE GAP WITH EXISTING TARIFF	**474.72**
ADDITIONAL REVENUE WITH PROPOSED RST HIKE	**89.81**
NET REVENUE GAP AT 2008-09 RST	**384.91***

If the power cost would be taken at 2008-09 BSP, the Revenue Gap shall increase by Rs.24.84 crore, detail of which is as under;

	Rs. Crore
Revenue GAP as above	**384.91**
Power cost as proposed	**611.35**
Power cost at 2008-09 BSP	**636.19**
Higher Power Cost	**24.84**
REVENUE GAP with existing BSP & Revised RST	**409.75**

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 submitted 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 and truing up of uncovered gap for FY 2008-09.

- Bridge the Revenue Gap through combination of increase in Retail Supply Tariff, Reduction in Bulk supply Tariff and Government Subsidy etc.

- Allow the Licensee to submit additional documents, modify the present petition, if so required during the course of hearing

- **Issue suitable directives to the Govt of Orissa for separation and creation of 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

North Eastern Electricity Supply Company of Orissa Limited (NESCO) is the holder of license No.3/99 granted by OERC under Section 15 of the OERA vide their order dated 31st 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. 23 of 1999 on 30.12.99, case No.32 of 2000 on 19.01.2001 and case No.56 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 56/2001 & 7/2002 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.63/2002 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 26th February, 2005 (Order passed in Case No 140 of 2004). The Commission on 26th 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 24th November 2004 and the Hon'ble Commission issued its Order on the said Petition on 22nd

March 2005 (Order passed in Case No. 141 of 2004). The Commission on 26th 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 24th 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. 45/2005.

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 license 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 licencees of these DISCOMs and appoint an Administrator for each such licencee 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 NESCO. 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 extent 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 2-3 years.
- 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 judgement and order on 13th December 2007 allowing the Appeals no 29 to 31 of 2006 filed by the DISCOMs and set aside the OERC order dated 27th January 2006.

The Hon'ble Commission preferred a Civil Appeal before the Hon'ble Supreme Court, challenging the Hon'ble Tribunal order dated 13th 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 NESCO for FY 2006-07 (Case No 44, 45, 46 & 47 of 2005) on 23rd March, 2006. In the said Order, the Hon'ble Commission approved the Revenue Requirement of NESCO as Rs 773.00 Crore and Expected Revenue of Rs 765.22 Crore while considering the various expenditure and revenue items and hence approved a Revenue Gap of Rs 7.78 Crore for the year 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 23rd March 2006.

NESCO filed an appeal against the OERC Orders dated 23rd March 2006 on ARR and Tariff Petition of NESCO for FY 2006-07 being the Appeal no. 77, 78 and 79 of 2006 before the

Hon'ble Appellate Tribunal for Electricity (ATE) on 1st May 2006. The major issues highlighted in the Appeal filed with Hon'ble ATE, along-with its financial impact on NESCO 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 NESCO in the Appeal submitted to ATE summarised the total adverse financial impact of above four issues as Rs Rs 214.77 Crore.

The Hon'ble ATE has issued order in the said matter of Appeal No. 77, 78 & 79 dated 13th December, 2006 and communicated the same on 15th 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 23rd March, 2006.

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

In view of the said ATE Order, NESCO submitted an Application on 5th January 2007 before the Hon'ble Commission to re-determine ARR of NESCO 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 26th 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 NESCO for FY 2007-08 was issued on 23rd March, 2007. In the said Order, the Hon'ble Commission approved the Revenue Requirement of NESCO as Rs.903.39 Crore and Expected Revenue of Rs. 903.48 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, NESCO (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 59 of 2006. The matter is pending with the Hon`ble Commission.

The licensee has also made "**Submissions in the Clarification Order No 1105 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. <u>The matter is pending with the Hon`ble Commisison</u>.

NESCO, 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. <u>The matter is being heard and is pending with the hon`ble Commission</u>.

2.1. Revenues and Costs

Existing tariffs of NESCO 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 NESCO is important to maintain continuity in business and stability in supply of electricity.

b. Sound financial health of NESCO would be essential to enable it to raise funds 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 4655 MU which was higher by 16.41 % as compared to the input of previous year 2006-07 as per Table below. However, the sale during this period reached a figure of 3203.777 MU which was 19.98 % 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 31.17 % as compared to 33.22 % for the year 2006-07.

Considering the actual performance till September 2008, the Licensee has estimated distribution loss of 30.84 % in FY 2008-09 which reflects a reduction of more than 0.33 % with respect to actual distribution loss in FY 2007-08. Though NESCO has proposed to reduce the distribution losses by more than 0.33 % during FY 2008-09, the distribution loss target of 25.5% 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 5 places are in NESCO 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
(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.

- **<u>Progress of Energy Police Stations –</u>**

	WESCO	NESCO	SOUTHCO
FIRs filed during 2007	1001	28	22
FIRs filed during 2008	228(upto	7	

	WESCO	**NESCO**	**SOUTHCO**
	5/2008)		
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
*NESCO receieved a demand notice to pay Rs 43.36 lakhs towards staff salaries for the period from 13.2.2004 to 31.3.07 despite the requisite support not being provided. –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)			

- **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 –**
    - o **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.
    - o **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.
    - o **Conducting joint workshops at District level** – involving Discom staff and Police Officials on anti theft legislations

- **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

	WESCO	NESCO	SOUTHCO
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

- 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 in previous years 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 with repeated pursuance by the licensee.

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 rigors 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, NESCO 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	2670.177	3203.777	2971
Energy Purchased in MU	3998.686	4654.929	4296
Overall Distribution Loss%	33.22%	31.17%	30.84%

2.3. Performance Estimates in FY 2009-10

During FY 2009-10, the sale of energy has been estimated at 4357 MU. During FY 2009-10, the Licensee proposes to reduce the distribution losses by around 2.07% from estimated 30.84 % in FY 2008-09 to 28.77% in FY 2009-10.

Distribution Loss of FY 09-10

	FY 2009-10
Energy Sales in MU	3104
Energy Purchase in MU	4357
Overall Distribution Loss %	28.77

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 11th 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 collection efficiency of NESCO during FY 2008-09 is expected to be expected to be 95 % . During FY 2009-10, NESCO proposes to increase the collection efficiency of 96 %.

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	31.17 %	25.50 %	30.84 %	28.77 %
Collection Efficiency	93.22 %	95.00 %	95.00 %	96.00 %
AT & C Loss	35.84 %	29.23 %	34.30 %	31.62 %

The Hon'ble Commission may appreciate that the reduction target of AT&C Loss of around 2.68 % 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, NESCO requests the Hon'ble Commission to consider the actual AT&C losses for FY 2007-08 and FY 2008-09 (upto Sept 08) as base losses and set the loss reduction target with respect to actual AT&C losses for FY 2007-08.

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. Inspite 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, NESCO has made substantial progress in metering. During FY 2003-04, NESCO 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 NESCO 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 NESCO covering around 3.61 lakh consumers. By the end of FY 2009-10, NESCO 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. NESCO is deploying the recently recruited ITI s in this exercise but is playing to scale uo operations by deploying specialised agencies. NESCO has completed the metering of 237 feeder meters and 11,625 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, Balasore, 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 56). 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

NESCO 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 alphanumerical 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	214546	Rs 45/ Cons	96.55
Total no of Poles	155768	Rs 15/ pole	23.37
Total No of DTRs	8961	Rs 200/DTR/Month	215.06
Total			**334.98**

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 Balasore. 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 9th 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 Balasore Revenue District is operating in NESCO area.

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

Designation	Manning	Pay Scale
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	1	2550-3200
Total	**20**	

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. 13.2.2004 having the following Officer & staff. in Balasore.

Inspector of Police	-	1
Orderly	-	1
Constables	-	8
	Total	**10**

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 5 nos are coming under NESCO jurisdiction as under :-

	Name of Police Station	Headquarters	Territorial Jurisdiction
1	Special Police Station (Energy) Jajpur	Panikoili	Revenue District Jajpur
2	Special Police Station (Energy) Bhadrak	Bhadrak	Revenue District Bhadrak
3	Special Police Station (Energy) Mayurbhanj	Baripada	Revenue District Mayurbhanj except Rairangpur & Karanjia Revenue Sub-Division
4	Special Police Station (Energy) Rairangpur	Rairangpur	Revenue Sub-Division of Rairangpur & Karanjia
5	Special Police Station (Energy) Keonjhar	Keonjhar	Revenue District Keonjhar

Assuming the above 5 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

Sl No	Headquarter	Proposed km p.m.	Monthly Estimated Expenses.##

Sl No	Headquarter	Proposed km p.m.	Monthly Estimated Expenses.##
1	Balasore (Existing)	3000	18500
2	Panikoili	3000	18500
3	Bhadrak	3000	18500
4	Baripada	3000	18500
5	Rairangpur	3000	18500
6	Keonjhar	3000	18500
		Total	**111000**
##Expenses includes fixed cost ,cost of diesel 13kn/ltr & cost of mobil 500km/ltr			

Yearly Expenses estimated is Rs 111000 X 12 = Rs 13,32,000
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 6 x 12 =**Rs 72,000/-.**

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
Followed Orderly	1	9868
Total	**20**	**295902**

The estimated costs for 6 police stations is Rs 2.13 Crs per annum (taking into consideration the effect of the 6th 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	0.13
Telephone	0.01

Salary	2.13
Total in Crs	**2.27**

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 NESCO. 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 Yojana. The growth in the LT Category has been estimated in FY2009-10 to be 24 %. 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 24 % as against the actual growth of around 7 % during FY 2007-08 and estimated a growth of 21 % 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 81200 nos of BPL (Below Poverty Line) and 45675 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 6% considering the past trends except irrigation, Agro industrial consumers and public water works. The growth in irrigation categories has been estimated to be around 44 % 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 3.663 MU as compared to estimates of 3.158 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 16% over current year (in absolute term 12.949 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 NESCO has proposed an increase of 6% on the basis of past trends. Further NESCO has considered an increase of sales of 176 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

Sales	FY 2008-09	FY 2009-10
Domestic	721.073	897.293
General Purpose<100 kw	123.079	142.772
Specified public purpose	10.259	11.900
Irrigation	51.008	73.459

LT Industrial	70.039	81.246
Public water works	11.163	12.949
Public Lighting	8.592	9.967
Agro Industries	3.158	3.663
Total	**998.372**	**1233.249**

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

Due to melting down of global economy and based of declining consumption by the steel industries and shifting of Brajamunda Railway from HT to EHT category there will be lesser consumption in the ensuing year and an average fall of around 11.27 % for HT category consumers in comparision to the current year 2008-09 which is also based on the trend of the FY 2007-08 and actual load for the half year ending Sept'08.

MU

Sales	FY 2007-08	FY 2008-09 (Est)	FY 2009-10
Large Industry	469.671	441.519	394.764
Mini Steel Plant	46.255	0.000	0.000
Railway Traction	44.202	17.023	0.000
Others	127.827	118.326	117.084
Total	**687.955**	**576.868**	**511.848**

Consumption in Large industry will decrease by around 11.00 %, because of load reduction by the industries on account of recession.

EHT Category

The average decline in sales rate of 3% 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 reduction in load by the EHT consumers is due to the recession in the steel market, attributes to decline in sales rate in the ensuing year. The EHT consumers have already applied for reduction of their contract demand have been taken into consideration in projecting the load and consumption in the ensuing year.

Power Intensive Industry

M/s TISCO, Bamnipal has submitted the application for enhancement of CD from 28 MVA to 52 MVA with effect from October'2009. Though the operating load factors of other three Power Intensive Industries under EHT Category have declined due to market recession, there is an expectation of overall increase of 1.00 % of consumption over 2008-09 due to drawal of TISCO.

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

MU

Sales	**FY 2007-08**	**FY 2008-09 (Estt)**	**FY 2009-10**
LT	832.438	998.372	1233.249
HT	687.955	576.868	511.848
EHT	1683.384	1395.408	1358.564
Total	**3203.777**	**2970.648**	**3103.661**

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 4357.483 MU has been estimated based on the estimated consumption of 3103.661 MU and Distribution Loss of 28.774 %.

The licensee had filed a review petition against BSP Order of 2008-09 for reduction in BSP at around 5.70 paise per unit. Accordingly, the BST the FY 2008-09 ought to have been revised @119.30 paise p.u with transmission charges of 21 paise p.u. The anticipated reduction of 5.70 paise p.u. has been provided as contingency for power purchase cost. Based on the above, power purchase cost for the current year is Rs.602.67 crs and the contingency amount is Rs. 24.48 crs. In the same line for the year 2009-10 power purchase cost has been estimated at Rs. 611.35 crores with BST @ 119.30 paise p.u. and transmission charges @ 21 paise p.u. Purchase of energy has been estimated as 4357.483 MU with average monthly simultaneous maximum demand of 710 MVA.

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 Gujurat, 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 710 MVA for the FY 2009-10.

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

FY 2008-09		**Nesco**	**Other Discoms**	**Total**
E.S.O from Generators	Mu	4882	13578	18460
Approved Energy Sales to Discoms	Mu	4660	12960	17620
Input in EHT	Mu	1694	2760	4454
Sale at EHT	Mu	1618	2636	4254
Input at HT	Mu	737	2661	3399
Sale at HT	Mu	678	2449	3127
Balance at LT	**Mu**	**2451**	**8146**	**10597**
Approved Merit Order Dispatch			**Paise/Unit**	**Cost in Crs**
Orissa Hydro	Mu	3677	46	169
Indravati	Mu	1942	67	131
Machakund	Mu	265	25	7
State Hydro	Mu	**5884**	**52**	**306**
CGPs	Mu	352	108	38
TTPS	Mu	3162	143	452
OPGC	Mu	2947	154	452
State Thermal	Mu	**6461**	**1.45**	**943**

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
Total EREB	Mu	**5740**		**1021**
GRAND TOTAL	Mu	**18460**	**127.4**	**2352**
ALLOCATION OF LEAST COST POWER TO LT				
Total Requirement of LT Cons	**MU**	**2451**	**8146**	**10597**
Less				
Orissa Hydro	MU	850	2877	3677
Indravati	MU	450	1492	1942
Machakund	MU	61	204	265
State Hydro	MU	1361	4523	5884
CGPs	MU	81	271	352
TTPS	MU	732	2430	3162
OPGC-Part 1	MU	277	922	1199
Sub Total		***2451***	***8146***	***10597***
Power Purchase Cost for LT Allocn	**Rs Cr**	**227**	**754**	**981**
Total Requirement for HT & EHT Cons	**MU**	**2431**	**5422**	**7853**
Less				

OPGC-Part		541	1207	1748
Renewables		116	259	375
EREB		1774	3956	5730
Sub Total		2431	5422	7853
Power Purchase Cost for HT & EHT Allocation	**Rs Cr**	**423**	**946**	**1369**
TOTAL POWER PURCHASE COSTS	**Rs Cr**	650	1700	**2350**
Approved Expenses net of Miscellaneous Receipts	**Rs Cr**	(29.04)	(75.96)	(105)
Approved Revenue Requirement of GRIDCO	**Rs Cr**	**620.96**	**1,624.04**	**2,245**
(Less) Regulatory Assets allowed		**65.00**		
Net ARR of GRIDCO		**555.96**	**1624.04**	
Proposed BSP as per approved ARR	**Paisa/unit**	**119.30**	**113.36**	
Expected Revenue from Discoms	Rs Cr	582.50	1569.73	2152.23
Approved BSP as per approved ARR	**paisa/un**	**125.00**	**121.12**	
Excess/(Deficit) BSP per Unit		**5.70**	**7.74**	

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 6TH 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. 5th Pay commission was declared on

1.01.96 and 6th 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 6th Pay commission has already pronounced the pay hike of central govt employees during 1st week of sep-08 which is w.e.f from 1st Jan 06. Accordingly the licensee has calculated the arrear on account of 6th pay revision for Executives and the arrear towards wage board for non executives in the following norms.

No of Employees as on March 08

	Executive	**Non-Executive**	**Total**
Technical	340	3040	3380
Non-Technical	65	549	614
Total	**404**	**3589**	**3994**

Employees in different cardre and grarde serving in NESCO

Sl No	**Rank**	**Designation**	**Existing Pay**
1	**E-9**	Sr. General Manager	15100-400-19500
2	**E-8**	General Manager	14300-400-18300
3	**E-7**	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. Chargeman **Semi Skilled-A** includesDafadar,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

NORTH EASTERN ELECTRICITY SUPPLY COMPANY OF ORISSA LTD.

New Structure As per the recommendation of 6th 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
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 6th Pay Comm. Recommendation

DA =Calculated Rate as per the Commission's recommendation with '0' on 1st 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 %	23 %

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 6th Pay Commission.

iv) The effect of annual increment has been given on the 1st 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 6th Pay Commission and Wage Board is as under:-

				Rs. in lakhs
Executive		**Non-Executive**		
Technical	**Non-Tech.**	**Technical**	**Non-Tech.**	**Total**
488.14	108.48	4122.07	705.09	5423.78

After unbundling of GRIDCO and formation of NESCO as per OER Transfer Scheme Rules, 1998, all the personnel deployed in Distribution business were transferred from erstwhile GRIDCO . Initially at the time of NESCO, the nos. of personnel on roll was around 4558 nos which was 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 .

FY	**Category**	**Nos. to be recruited**	**Financial impact (Rs lacs)**	
2008-09	Executive	100	72	
	Non Executive	369	55	
2009-10	Executive	50	44	Include second year trainee of employees recruited during 08-09
	Non Executive	125	23	

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

FY	**Category**	**Nos. of employees retiring**	**Saving on account of retirement (Rs lacs)**
2008-09	Executive	21	
	Non Executive	189	53
2009-10	Executive	3	
	Non Executive	172	42

Hon'ble Commission had approved Rs.102.33 crores for the year 2008-09. However taking into consideration the 6th Pay Commission and Wage Board revision, an amount of 40% of arrear salary amounting to Rs.21.70 crs is required to be disbursed during the current year. Accordingly, the licensee has estimated an amount of Rs.122.05 crs as costs to be incurred during FY 2008-09. Therefore the revised estimate of employee cost of Rs.122.05 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 6th Pay Commission/Wage revision w.e.f 1st Jan 06. 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 6th pay commission DA as on 01.07.08 is 16%, the same has been estimated as 23% on 01.01.2009, 29% as on 01.07.09 and 35% 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 175 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.

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. 39.81 Crore is stated in the following table.

The total employee expenses after capitalisation projected for FY 2009-10 is Rs.163.12 crores including the contribution required for the Terminal Benefits of the Trusts amounting to Rs.39.81 crores, detail computation is as under.

Statement of Provision of Employees Terminal Benefits (Pension & Gratuity) *Rs. In lakh*

	Valuation as on 31/03/2009 by Bhudev	Valuation as on 31/03/2010 by Bhudev	Diff in 2009-10	Investment as on 01-04-2008	Interest on Investment during 2008-09 @ 8.5%	Estimated payment during 2008-09	Approval of OERC for 2008-09	Fund Receivable from NESCO & GRIDCO	Trust Corpus as on 31-03-2009
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10=(5+6-7+9)**
Pension	24705	25693	988.00	7331	623.14	1918.22	2200.0	17157.04	23192.95
Gratuity	2403	2688	285.00	1425	121.13	558.72	316.0	771.56	1758.97
Leave encashment	2719	2985	266.00						
Provident fund	0								

Estimated Investment available as on 01-04-2009	Estimated Interest on Investment during 2009-10 @ 8.5%	Estimated payment during 2009-10	Estimated Trust Corpus as on 31-03-2010	Provision for 2009-10
11(5+6-7+8)	**12**	**13**	**14(9+12+13-14)**	**16(4-15)**
8235.91	700.05	2685.51	23407.49	2285.51
1303.41	110.79	798.96	1386.80	1301.20
				266.00
				128.16

4.4. Administrative and General Expenses

The A&G expenses for FY 2008-09 is estimated at Rs.16.40 Crore based on actual expenses till September 2008 as against the approved A&G expenses of Rs 14.52 Crore including special additional expenditure of Rs.5.87 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 1 nos customer care centre is operating in Balasore.
- 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.1.39 crore and estimated for the expenditure of Rs.1.89 and Rs. 4.17 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.1.39 Crores during 2007-08 and Rs 0.85 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 8961 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 ensuring year and the consumer indexing of Balasore, Basta, Jaleswar & Keonjhar division has already completed and in the division Japur Road and Jajpur Town 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 for payment of the incentives for the collection of the Arrears in the ensuing year.

Franchisee Expenses

At present 36269 numbers of LT consumers (below 110 KVA) under Dharmasala and JajpurTown Sub-Divisions of Jajpur Circle have given under Input Based Franchise system. Another two nos. of Sub-Divisions namely Khaira and Tihidi under Bhadrak Circle will be given under franchisee within the current year. We have proposed Rs. 2.47 crores towards franchisee expenses for 1,00,000 nos. of consumers in the ensuing year.

Additional A&G Cost.

S.No	Description	Amount (Rs Lacs)
1	Energy Audit, consumer indexing and pole scheduling	334.97
2	Spot Billing	416.75
3	Fringe Benefit Tax	40.00
4	Expense of Customer Care	60.61
5	Energy Police Station	227.09
6	IT Automation Center	200.00
7	Manpower Assessment	5.00
8	Input Based Franchise	247.16
9	Arrear Collection Incentive	240.00
10	Customer Satisfaction Survey	5.00
	Total	**1776.58**

The total A&G expenses for FY 2008-09 is projected at Rs 30.66 Crore considering the additional A&G expenses of Rs 17.77 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 NESCO for the period FY00 to FY08 is Rs 96.96 Cr against Rs 166.17 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 69.21 Crs (Rs 166.17 Cr less Rs 96.96 Cr) is being proposed to recovered in FY 10.

In FY 2008-09, the R&M expenses is estimated to be incurred at Rs. 29.47 crores as against Rs.25.87 Crore as approved by the Hon'ble Commission. Necessary directive may be issued to GRIDCO for allowing escrow relaxation for reimbursement of the estimated 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 671.39 crores, based on which the proposed R&M expenses is to the tune of Rs.36.25 crores. The licensee proposes to recover the shortfall of the past period FY00 to FY08 Rs 69.21 Cr. along with the estimates for FY10 (Rs 36.25 Cr). Accordingly the licensee proposes to incur Rs.105.47 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.105.47 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.105.47 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% for FY 2009-10, the bad debts equivalent to 4.00 % of the estimated revenue billed i.e. Rs 36.20 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.24.11 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 28th 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, NESCO did not pay the BST bills in full, however NESCO started making monthly current BST payments in full from Feb-2003 onwards. With all receivables from sale of power being deposited by NESCO in the Escrow Account, no amounts remained with NESCO despite full payment of BST. Under such circumstances, NESCO 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 NESCO. 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.

NESCO 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 instalments 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 8th year onwards.

The Hon'ble Commission heard the said review petition on 16th 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 securitisation 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 11.57 Crore and the repayment liability is estimated at Rs.9.13 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 1st 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 31st 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 31st 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 31st March 2007.*

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

A. Original value of Bond *Interest accrued from 01.10.2000 to 31.03.07*	*Rs 400 crore* *Rs 295 crore*
Total (A)	*Rs 695 crore*
B. Settlement *1) Interest paid by DISTCOMs directly to NTPC* *2) NTPC adjusted the refund amount the DRIDCO* *3) Direct payment by GRIDCO to NTPC*	 *Rs 110.80 crore* *Rs 276.70 crore* *Rs 216.00 crore*

Total (B)	***Rs 603.50 crore***
C. Interest relief (A-B)	*Rs 91.50 cr .(Rs 695 cr.-Rs 603.50 cr.)*

It is observed from the above table that the interest actually paid to NTPC amounts to Rs.203.50 crore from 01.10.2000 to 31.03.2007 over a bond value of Rs 400 crore. The effective rate of interest computed is arrived at 7.83% whereas the Commission has been allowing interest @ 8.5%
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
The Commission is aware that the matter is listed in Supreme Court (Civil Appeal filed by GRIDCO in BSP matter). The Commission therefore will take a final decision in this regard, after pronouncement of the judgment of Hon'ble Supreme Court in the said matter. As such, the Commission for the time being does not consider any interest on Rs.400 crore of bond to be included as a part of revenue requirement of DISTCOs so as not to burden the consumer as GRIDCO is being allowed interest on the loans taken for payment to NTPC."

The licensee submits that the matter of Power Bond is not an issue in the BSP Appeal filed by GRIDCO before the Hon'ble Supreme Court. The licensee submits that GRIDCO may be directed to give the details of the settlement amount which shall be reimbursed by the DISCOMs to GRIDCO after adjustment of past payments/adjustments. Further, it is submitted that the amount of rebate availed by the GRIDCO are to be reduced from the dues of Power Bond. In view of the facts that the DISCOMs have already paid excess 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 1st October 2000 to March 2007 in the ARR for FY 2008-09. Accordingly, the Licensee has estimated the total interest of Rs.32.80 Crore towards the differential interest.

4.11. APDRP Assistance

For the ensuing year, no amount has been estimated to be expended under APDRP Scheme during the ensuing year. 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 0.76 Cr.

4.12. Interest on System Improvement Schemes

For funding of System Improvement Schemes, the Licensee estimated to avail long term loans of Rs.11.41 Cr for FY09 and Rs 34.36 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 3.86 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 10.52 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.1.93 crores has been capitalized.

4.15. Total Interest for Financial Year FY 2009-10

The total interest expenses estimated for FY 2008-09 is given in following Table:

Table 7: Summary of Interest Expenses

1	World Bank	11.57
2	Power Bonds-Differential amount	32.80
3	APDRP	0.76
4	REC-Counterpart & SI Scheme	5.16
5	Interest on Security Deposit	10.52
6	**Total Interest**	**60.81**
7	Less Interest Capitalised	1.93
8	**Net Interest for ARR**	**58.88**

The total interest chargeable to revenue proposed by the licensee for the year FY 2009-10 is Rs.58.88 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 24.07.2007and 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 ARRs 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 ARRs.

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-realisable 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 31st March 2008 is Rs 166.26 Crore including interest liability and liability towards pension and gratuity trust. In addition, payment could not be made towards inspection fees to the extent of Rs 18.13 Cr due to poor financial conditions. The Licensee requests the Hon'ble Commission to allow the same in the ARR for FY 2009-10.

The total estimated amount towards amortisation of the Regulatory Assets during FY 2009-10 amounts to Rs 184.39 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	103.56

2.	Inspection Fees	18.13
3	Interest Liability (World Bank & APDRP)	62.70
	Total	**184.39**

The Licensee humbly requests the Hon'ble Commission to allow amortisation of Regulatory Asset to the extent of Rs 184.39 Crore for FY 2009-10.

4.18. Non Tariff Income

The Licensee has proposed Rs 9.95 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.2.52 Crore towards provision for contingency for FY 2009-10.

4.20. Truing up of Revenue Gap for FY2008-09

The Licensee would like to submit that 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 works out to Rs 71.87 Crore as against the revenue deficit of Rs.0.84 Crore approved by the Commission as under :

Truing up of FY 2008-09

Particulars	Estimated	OERC approval	Difference
Sale – MU	2970.65	3471.7	-501.05
RST Per unit(Paise)	270.22	271.53	-1.31
Sales - (Rs Crore)	802.72	939.94	-137.22
Less - Bad debts	40.14	23.5	16.64
Net Sales	762.58	916.44	-153.86

Other Income	16.06	26.08	-10.02
Total	778.64	942.52	-163.88
Distribution Loss	30.84%	25.50%	3.99%
Purchase –MU	4295.58	4660	-364.42
BST per unit(Paise)	140.30	147	-6.70
Energy Charges(Rs. Crore)	602.67	685.01	-82.34
Contingent Power Purchase	24.48		24.48
Employee Cost	121.36	102.33	19.03
Repair & Maintenance	29.47	25.87	3.60
A& G Expenses	16.40	14.52	1.88
Interest & Finance Charges	23.94	22.91	1.03
Depreciation	19.58	17.18	2.40
Special Appropriation	2.05	0	2.05
Total	839.96	867.82	-27.86
Reasonable Return	10.55	10.54	0.01
Excess/(Deficit) before amortisation	-71.87	64.16	-136.03
Amortisation of Regulatory Asset	0.00	65	-65.00
Net Excess/(Deficit)	-71.87	-0.84	-71.03

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.71.87 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.12.23 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 815.20 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

Particulars	Rs Crore
Expenditure including Special Appropriation in FY 2009-10	**1031.38**
Reasonable return for FY 2009-10	**12.23**
Amortisation of Regulatory Assets	**184.39**
Truing up of Revenue Gap for FY 2008-09	**71.87**
Sub Total	**1299.87**
Revenue from sale of power at existing tariffs in FY 2009-10	**815.20**
Non Tariff Income	**9.95**
TOTAL REVENUE GAP WITH EXISTING TARIFF	**474.72**
ADDITIONAL REVENUE WITH PROPOSED RST HIKE	**89.81**
NET REVENUE AT 2008-09 RST	**384.91***

If the power cost would be taken at 2008-09 BSP, the Revenue Gap shall increase to Rs.24.84 crore, detail of which is as under;

	Rs. Crore
Revenue GAP as above	**384.91**
Power cost as proposed	**611.35**
Power cost at 2008-09 BSP	**636.19**
Higher Power Cost	**24.84**
REVENUE GAP with existing BSP & Revised RST	**409.75**

5. Sector Surplus and Truing 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 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

	ARR based on Audited Accounts	ARR Considered for Truing Up	Total Revenue considered for truing up	Truing up Requirement
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)

Pre-Privatization Total				(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
Post Privatization Total				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- drawls 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 thief functioning. Therefore, the licensee requests the Hon'ble Commission to consider the income earned by GRIDCO through trading/UI as part of truing 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**
Income								
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	
Total	**2350**	**2734**	**2734**	**1811**	**2746**	**3174**	**2446**	**3356**
Expenditure								
Power PurchaseCosts	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							

	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**
Other Expenses	2	1	1	1	1	1	1	1
Less expenses capitalised	1							
Total	**2322**	**2714**	**2661**	**1966**	**2635**	**2421**	**2266**	**2387**
Special Appropriation								
Payment of Principal				480				
Others	12						644	
Sub-total	**12**	**0**	**0**	**480**	**0**	**0**	**644**	**0**
Total ARR	**2334**	**2714**	**2661**	**2446**	**2635**	**2421**	**2911**	**2387**
Surplus / (Gap)	**16**	**20**	**73**	**-635**	**111**	**754**	**-465**	**969**

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. Similiarly in the subsequent years Hon'ble commission alos 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 GRIDOC 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

NESCO proposes to invest Rs 511.62 Crore on capital expenditure schemes in the ensuing year including new schemes and ongoing schemes that have been carried forward from the earlier years.

NESCO 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 improved. NESCO 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, NESCO is committed to adopt modern technologies and innovative initiatives in many areas of distribution to ensure improvement in efficiency, reduction is 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 NESCO. 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 NESCO 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

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

Rs Crore

Particulars	FY 2009-10
RGGVY	**440.81**
New schemes	
-APDRP Scheme	**Nil**
- Deposit Work	**16.00**
-Biju Gramya Yojana	**17.00**
-System Improvement	**34.36**
Others	**3.45**
Total Distribution	**511.62**

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, NESCO 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 NESCO 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 NESCO 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 10th Plan has been short closed and that in the 11th 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 NESCO is 68. Per block the expenditure will be Rs.50 lakhs. Accordingly the licensee has considered Rs 17 Cr and Rs 17 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 7.12 Cr up to Oct 08 and are expecting another Rs 4.29 Cr in the current year. For the ensuing year the quantum of loan proposed is Rs 34.36 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 89.81 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. LT CATEGORY

LT	**Kutir Jyoti < 30U/month**	**Agro Industrial Consumers (S) <22 KVA**	**Agro Industrial Consumers (M) >=22 KVA**
	Proposed	Proposed	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)			
Energy Charge (P/kWh)		**170**	**350**
Customer Service Charge (Rs./Month)			
Monthly Minimum Fixed Charge for first KW or part (Rs.)	50	**30**	**80**
Monthly Fixed Charge for any additional KW or part (Rs.)		**15**	**50**
Rebate (P/kWh)/ DPS		**10**	**10**
LT	**Domestic**		
	(Consumption <= 100 units/month)	**(Consumption >100, <=200 units/month)**	**(Consumption >200 units/month)**
	Proposed	Proposed	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)			
Energy Charge (P/kWh)	160	230	310
Customer Service Charge (Rs./Month)			
Monthly Minimum Fixed Charge for first KW or part (Rs.)	30	30	30
Monthly Fixed Charge for any additional KW or part (Rs.)	15	15	15
Rebate (P/kWh)/ DPS			
LT			
	(Consumption <=100 units/month)	**(Consumption >100, <=300 units/month)**	**(Consumption >300 units/month)**
	Proposed	Proposed	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)			
Energy Charge (P/kWh)	350	410	450
Customer Service Charge (Rs./Month)			
Monthly Minimum Fixed Charge for first KW or part (Rs.)	40	40	40

Monthly Fixed Charge for any additional KW or part (Rs.)	25	25	25
Rebate (P/kWh)/ DPS			
LT	**Irrigation Pumping & Agriculture**	**Public Lighting**	**L.T. Industrial (S) Supply**
	Proposed	Proposed	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)			
Energy Charge (P/kWh)	150	350	350
Customer Service Charge (Rs./Month)			
Monthly Minimum Fixed Charge for first KW or part (Rs.)	30	30	80
Monthly Fixed Charge for any additional KW or part (Rs.)	15	15	50
Rebate (P/kWh)/ DPS	10	DPS/Rebate	10
LT	**L.T.Industrial (M) Supply**	**Specified Public Purpose**	**Public Water Works and Swerage Pumping<110 KVA**
	Proposed	Proposed	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)			
Energy Charge (P/kWh)	350	350	350
Customer Service Charge (Rs./Month)			
Monthly Minimum Fixed Charge for first KW or part (Rs.)	80	80	80
Monthly Fixed Charge for any additional KW or part (Rs.)	50	50	50
Rebate (P/kWh)/ DPS	DPS/Rebate	DPS/Rebate	**10**
LT	**Public Water Works and Swerage Pumping >=110 KVA**	**General Purpose >= 110 KVA**	**Large Industry**
	Proposed	Proposed	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	250	250	250
Energy Charge (P/kWh)	350	350	350
Customer Service Charge (Rs./Month)	30	30	30
Monthly Minimum Fixed Charge for first KW or part (Rs.)			

Monthly Fixed Charge for any additional KW or part (Rs.)			
Rebate (P/kWh)/ DPS	**10**	DPS/Rebate	DPS/Rebate

7.2. HT CATEGORY

HT	**Bulk Supply - Domestic**	**Irrigation**	**Agro Industrial Consumers (S) <22 KVA**
	Proposed	Proposed	**Proposed**
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	30	30	**30**
Energy Charge (P/kWh)	230	100	**140**
Customer Service Charge (Rs./Month)	250	250	**250**
Monthly Minimum Fixed Charge for first KW or part (Rs.)			
Monthly Fixed Charge for any additional KW or part (Rs.)			
Rebate (P/kWh)/ DPS	10	10	**10**
HT	**Agro Industrial Consumers (M) >=22 KVA**	**Specified Public Purpose**	**General Purpose < 110 KVA**
	Proposed	Proposed	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	**100**	100	100
Energy Charge (P/kWh)	**Note**	**Note**	**Note**
Customer Service Charge (Rs./Month)	**250**	250	250
Monthly Minimum Fixed Charge for first KW or part (Rs.)			
Monthly Fixed Charge for any additional KW or part (Rs.)			

Rebate (P/kWh)/ DPS	**10**	DPS/Rebate	10
HT	**H.T.Industrial (M) Supply**	**General Purpose >= 110 KVA**	**Public Water Works & Swerage Pumping**
	Proposed	**Proposed**	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	100	250	250
Energy Charge (P/kWh)	**Note**	**Note**	
Customer Service Charge (Rs./Month)	250	250	250
Monthly Minimum Fixed Charge for first KW or part (Rs.)			
Monthly Fixed Charge for any additional KW or part (Rs.)			
Rebate (P/kWh)/ DPS	DPS/Rebate	DPS/Rebate	10
HT	**Large Industry**	**Power Intensive Industry**	**Ministeel Plant**
	Proposed	**Proposed**	**Proposed**
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	250	250	250
Energy Charge (P/kWh)			
Customer Service Charge (Rs./Month)	250	250	250
Monthly Minimum Fixed Charge for first KW or part (Rs.)			
Monthly Fixed Charge for any additional KW or part (Rs.)			
Rebate (P/kWh)/ DPS	DPS/Rebate	DPS/Rebate	DPS/Rebate

HT	**Emergency Supply to CPP**	**Railway Traction**	**Colony Consumption**
	Proposed	Proposed	**Proposed**
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	250	250	0
Energy Charge (P/kWh)			230
Customer Service Charge (Rs./Month)	250	250	0
Monthly Minimum Fixed Charge for first KW or part (Rs.)			
Monthly Fixed Charge for any additional KW or part (Rs.)			
Rebate (P/kWh)/ DPS	DPS/Rebate	DPS/Rebate	DPS/Rebate
Energy Charges for HT & EHT Consumers	**PROPOSED**		
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	

7.3. EHT CATEGORY

EHT	**General Purpose**	**Large Industry**	**Railway Traction**
	Proposed	Proposed	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	250	250	250
Energy Charge (P/kWh)			
Customer Service Charge (Rs./Month)	700	700	700
Monthly Minimum Fixed Charge for first KW or part (Rs.)			
Monthly Fixed Charge for any additional KW or part (Rs.)			

Rebate (P/kWh)/ DPS	DPS/Rebate	DPS/Rebate	DPS/Rebate
EHT	**Heavy Industry**	**Power Intensive Industry**	**Ministeel Plant**
	Proposed	Proposed	Proposed
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	250	250	250
Energy Charge (P/kWh)			
Customer Service Charge (Rs./Month)	700	700	700
Monthly Minimum Fixed Charge for first KW or part (Rs.)			
Monthly Fixed Charge for any additional KW or part (Rs.)			
Rebate (P/kWh)/ DPS	DPS/Rebate	DPS/Rebate	DPS/Rebate
EHT	Emergency Supply to CPP	Colony Consumption	
	Proposed	Proposed	
Demand Charge (Rs./KW/ Month)/ (Rs./KVA/ Month)	250	0	
Energy Charge (P/kWh)		230	
Customer Service Charge (Rs./Month)	700	0	
Monthly Minimum Fixed Charge for first KW or part (Rs.)			
Monthly Fixed Charge for any additional KW or part (Rs.)			
Rebate (P/kWh)/ DPS	DPS/Rebate	DPS/Rebate	
Energy Charges for HT & EHT Consumers	**PROPOSED**		
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	

The licensee proposes to continue with the DPS/ Rebate as applicable in the previous tariff orders

7.4. Tariff Rationalization Measures

7.4.1. Category Clarification

Agro Industrial Consumer:

"A new category, namely 'Agro-Industrial Consumers' has been introduced vide OERC Distribution (Condition of Supply)(4th 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.. 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

7.4.2. 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 drawn 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.

7.4.3. 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 exisitng tariff.

Although the Hon`ble Commission has initiated DSM measures, in flattening the load curve by introducing TOD tariff for all three phase consumers that encourages consumers for more energy drawl during off peak period, but does not put any restrictions on reactive energy drawl is limited. 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.

7.4.4. 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

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

7.4.5. 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.

7.4.6. 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.

7.4.7. 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.

7.4.8. 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:

Class of Consumers	Existing Rate	Proposed Rate
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/-

7.4.9. Tariff for Medium Industries Consumers

Most of the Medium Industries in NESCO 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.

7.4.10. 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.

7.4.11. 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.2.57 crores and Rs.2.21 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.10.02 crores and Rs.4.66 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.

7.4.12. 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.118.42 crore for the ensuing year at the existing tariff. The fixed distribution cost is around Rs.489.38 crore, which approximately four times 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. Overdrawal Penalty for Drawal 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 overdrawal. 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 22nd 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, IIITs 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. Conflict of interest -same management of 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
Details as required by Hon'ble Commission vide letter no.1955 dt.3-11-2007

9.3. 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

- **Issue 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 29th November 2008

Bhubaneswar