

**ORISSA ELECTRICITY REGULATORY COMMISSION
BIDYUT NIYAMAK BHAWAN
UNIT-VIII, BHUBANESWAR - 751 012

**Present : Shri B. K. Das, Chairperson
 Shri K.C. Badu, Member
 Shri B.K. Misra, Member**

Case Nos. 109, 110 & 111 of 2010

IN THE MATTER OF: For approval of Investment to the tune of Rs.679.99 cr.
Rs.664.74 cr. & Rs.660.72 cr for system improvement, IT &
metering of RIL managed DISCOMs respectively.

M/s NESCO, WESCO & SOUTHCO

.... **Petitioners**

Vrs.

The Commissioner-cum-Secretary, DoE, GoO

.... **Respondent**

For the petitioners : Shri G B Swain, DGM (F), CSO, Shri A K Bohra, CEO, CSO,
Shri P K Pradhan, Sr (GM) (T), CSO, Shri R K Behera, VP,
NESCO, Shri D Sahoo, GM, NESCO, Shri B K Patnaik, VP,
WESCO Shri T K Mishra, VP, SOUTHCO.

For the respondent: Shri S C Mohanty, Legal Consultant, DoE, GoO

Date of Hearing: 10.11.2010

Date of Order:10.11.2010

ORDER

1. WESCO, NESCO and SOUTHCO have submitted investment proposal for Rs.661.74 crore, Rs.679.99 crore and Rs.660.72 crore respectively totaling Rs.2005.45 crore to be undertaken within a span of four year i.e. 2010-14. This was registered as Case No. 109, 110 and 111 of 2010 and the Commission heard the matter on 20.08.2010. The Commission in its interim Order admitted the case and accorded in-principle approval of the investment proposal of the three Reliance managed DISCOMs for Rs.2005.45 crore. Further, the Commission directed the DISCOMs to submit the detailed project report with cost benefit analysis and its impact on tariff.

2. Based on the above direction of the Commission the DISCOMs have submitted the integrated investment plan for 2010-11 and 2011-12 along with cost-benefit analysis. The matter was heard on 10.11.2010.
3. The representative of three Reliance managed DISCOMs stated that the Dept. of Energy, Govt. of Orissa vide Lr. No. R&R-I-06/2010(PT)-7991/En dtd. 09.09.2010 read with Lr. No. R&R-I-06/2010-9230/En dtd. 21.10.2010 have circulated the investment pattern of Four DISCOMs in the following manner.

(Rs. in crore)

Financial Year	2010-11	2011-12	2012-13	2013-14	Total
A. State Govt.					
FC Grant	0.00	200.00	150.00	150.00	500.00
SS to FC grant	0.00	66.67	50.00	50.00	166.67
Loan to GRIDCO for counterpart funding to FC grant	0.00	66.67	50.00	50.00	166.67
States own contribution	300.00	66.66	0.00	0.00	366.66
Total Govt. Fund	300.00	400.00	250.00	250.00	1200.00
B. DISCOMs					
Counterpart DISCOM share for FC grant	0.00	66.67	50.00	50.00	166.67
DISCOMs contribution	0.00	133.33	350.00	550.00	1033.33
Total Counterpart Fund	0.00	200.00	400.00	600.00	1200.00
Total CAPEX (A +B)	300.00	600.00	650.00	850.00	2400.00

4. Accordingly, the three DISCOMs filed an integrated investment plan for the two years i.e. 2010-11 and 2011-12 for approval of the Commission as part of the original proposal of Rs.2005.45 crore originally envisaged during the period of four years from 2010-11 to 2013-14. The amount to be spent during the two years period along with source of funding as projected by the DISCOMs are depicted in the table below:

For WESCO

Financial Year (1)	Total amount to be spent in four DISCOMs (2)	Share allocation to NESCO out of column 2 (3)	Support by Govt.		Counterpart by DISCOM (6)	Total amount to be spent as per the present proposal (7) (4+5+6)
			Loan with 0% interest (4)	Soft loan with 4% interest (5)		
2010-11	300.00	58.50	-	58.50	10.00	68.50
2011-12	600.00	117.00	52.00	26.00	39.00	117.00
Total	900.00	175.50	52.00	84.50	49.00	185.50

For NESCO

Financial Year (1)	Total amount to be spent in four DISCOMs (2)	Share allocation to NESCO out of column 2 (3)	Support by Govt.		Counterpart by DISCOM (6)	Total amount to be spent as per the present proposal (7) (4+5+6)
			Loan with 0% interest (4)	Soft loan with 4% interest (5)		
2010-11	300.00	63.00	-	63.00	12.3775	75.3775
2011-12	600.00	126.00	56.00	28.00	29.6225	113.6225
Total	900.00	189.00	56.00	91.00	42.00	189.00

For SOUTHCO

Financial Year (1)	Total amount to be spent in four DISCOMs (2)	Share allocation to NESCO out of column 2 (3)	Support by Govt.		Counterpart by DISCOM (6)	Total amount to be spent as per the present proposal (7) (4+5+6)
			Loan with 0% interest (4)	Soft loan with 4% interest (5)		
2010-11	300.00	61.50	-	61.44	5.81	67.25
2011-12	600.00	123.00	53.32	26.70	42.98	123.00
Total	900.00	184.50	53.32	88.14	48.79	190.25

5. To sum up WESCO, NESCO and SOUTHCO proposed investment of Rs.68.50 cr., Rs.73.38 crore, and Rs.67.25 crore respectively for 2010-11 and Rs.117.00 crore, Rs.113.62 crore and Rs.123.00 crore respectively for 2011-12. Total investment for 2010-11 and 2011-12 works out to Rs.185.50 Cr., Rs.189.00 crore, and Rs.190.25 crore for WESCO, NESCO and SOUTHCO respectively.
6. The licensees explained the details scope of work during the two year period and advance action taken by them to execute the projects in time as soon as the fund is available. The three DISCOMs proposed investment under the following areas.
 - (i) Feeder metering for Energy Audit.
 - (ii) Metering of distribution transformer
 - (iii) Conversion of existing LT overhead line with XLPE ABE cable.
 - (iv) Up-gradation of distribution and power transformer.
 - (v) To have new HVDS system.
 - (vi) Up-gradation of existing 33 KV and 11 KV lines with suitable conductor.
 - (vii) Construction of New Primary sub-stations.
 - (viii) Installation of 33 and 11 KV breakers.
 - (ix) Installation of Pillar boxes/new consumer meters.
 - (x) IT activities.

7. The project report submitted by the licensee contains information on scope of work quantified in monetary terms division-wise as well as subdivision-wise.

WESCO's proposed Capex- 2010-11

Name of Proposed Works	Amount (In Rs. Cr.)
HVDS	9.69
Upgradation of 11 KV Line	0.00
New 11 KV Line	0.06
LT XLPE AB cable	14.94
Upgradation of 33 KV Line	1.23
New 33 KV line	0.09
Feeder metering Units	1.34
Feeder Meters	6.55
DT Meters	0.00
Consumer Metering	13.94
Boundary Wall	0.00
Replacement of Old LT Line	2.66
New Primary S/S	3.75
IT Implementation	4.24
Setting of DSOCC- 1 No.	
Customer Care Center – 2 Nos.	
AMR for DT Meter – 500 nos.	
AMR for High Value Consumers – 500 Nos.	
AMR for 33 KV Feeders – 85 nos.	
AMR for 11 KV Feeders – 50 nos.	
Consumer Indexing – 100000 nos.	1.65
500 KVA Dist. S/S – 30 Nos.	
315 KVA Dist. S/S – 75 nos.	
100 KVA Dist. S/S – 332 Nos.	4.98
Total for WESCO	68.51

WESCO's proposed Capex- 2011-12

Name of Proposed Works	Amount (In Rs. Cr.)
HVDS	9.57
Upgradation of 11 KV Line	0.00
New 11 KV Line	0.00
LT XLPE AB cable	9.61
Upgradation of 33 KV Line	18.04
New 33 KV line	0.00
Feeder metering Units	0.00
Feeder Meters	9.38
DT Meters	23.46
Consumer Metering	11.15
Boundary Wall	0.00
Replacement of Old LT Line	5.56
New Primary S/S	0.00
11 KV, 36 KVAR Capacitor Bank	0.53
IT Implementation	
Upgradation of DSOCC- 1 No.	
Customer Care Center – 4 Nos.	
AMR for DT Meter – 7500 nos.	

AMR for High Value Consumers – 2000 Nos.	12.38
AMR for 11 KV Feeders – 50 nos.	
Consumer Indexing – 250000 nos.	
Construction of 33/11 KV SS at Khutlipalli, Upgradation of 33 KV Line Bargarh to Bhatil, Tusura-Dudvela line, RKL feeder at Rajgangpur SS and Biramitrapur feeder from Chend SS	5.06
Electrical Testing Equipments like Test Bench, Primary injection kits, filter Machine etc.	2.27
WESCO Total	117.00

NESCO's proposed Capex- 2010-11 & 2011-12

Sl. No.	Name of Proposed Works	Amount (In Rs. Cr.)	
		2010-11	2011-12
1.	Construction of new 33/11 KV sub-station.	1.94	8.92
2.	Upgrading of 33 KV line		
	(a) With 100 mm ²	4.53	7.20
	(b) With 232 mm ²	6.06	5.25
3.	New 33 KV line		
	(a) With 100 mm ²	1.09	0.00
	(b) with 232 mm ²	0.36	0.00
4.	Requirement of VCB/CT/PT.		
	33 KV VCB	1.14	2.52
	11 KV VCB	1.40	2.40
	33 KV PT	0.29	0.69
	11 KV PT	0.26	0.40
5.	Up-gradation of Power Transformer		
	(a) 3.15 MVA	0.00	0.00
	(b) 5 MVA	0.60	3.00
	(c) 10 MVA	2.50	1.00
6.	Upgrading of 11 KV line	11.94	14.42
7.	Provision of HVDS		
	No. of Sub-station	12.30	8.18
	HVDS Line	1.37	3.30
8.	Consumer metering		
	(a) 1-Ph Meter	15.15	15.15
	(b) 3-Ph Meter	0.80	2.40
9.	Replacement of bare conductor with AB Cable.	12.80	14.78
10.	Replacement of damaged Pole		
	(a) 9 Mtr PSC Pole	0.65	0.65
	(b) 8 Mtr PSC Pole	0.87	0.87
11.	Feeder Metering		
	(a) 33 KV Feeder Metering	0.04	0.00
	(b) 11 KV Feeder Metering	0.04	0.21
12.	DTR Metering	0.75	7.25
13.	Installation of Capacitor Bank	0.75	0.50
14.	Earthing of the sub-station	0.56	1.25
15.	Procurement of Accu-check, Earth Tester, Oil Testing Kit, Meggar, Red Phase Tester, Filter Machine, etc.	1.05	0.90
16.	IT Implementation (Computers, Lap Top, MRL, etc.)	0.13	12.38
	Total	75.38	113.62

SOUTHCO's proposed Capex- 2010-11

Name of Proposed Works	Amount (In Rs. Cr.)
HVDS (16 KVA & 125 KVA)	4.33
Upgradation of 11 KV Line	5.83
LT XLPE AB cable	12.49
Upgradation of 33 KV Line	2.04
New 33 KV line (excluding for new primary S/S)	6.78
Feeder metering (33 KV)	1.23
DT Meters	1.74
Consumer Metering	6.75
New Primary S/S	13.92
Installation of 33 KV VCB	4.80
Installation of 11 KV VCB	0.96
Conversion of 33/0.4 KV transformer to 11/0.4 KV transformer	0.31
IT Implementation	3.88
Replacement of joist pole with PSC pole	0.40
T&P material for MRT work	0.40
Shifting of 11 KV/LT Line with re-erection	1.39
Grand Total for SOUTHCO	67.25

SOUTHCO's proposed Capex- 2011-12

Name of Proposed Works	Amount (In Rs. Cr.)
HVDS (16 KVA & 125 KVA)	5.24
LT XLPE AB cable	17.97
Upgrading of 33 KV Line	8.75
Upgrading of 11 KV line	13.32
New 33 KV line (excluding for new primary S/S)	0.70
Feeder metering (11 KV)	0.71
DT Meters	1.07
Consumer Metering	39.46
New Primary S/S	15.04
Installation of VCB	3.58
IT Implementation	11.18
Renovation of damaged lines & S/S	1.27
Construction of project building	1.00
Improvement at store site	0.30
Procurement of T&P for MRT work	1.10
Replacement of joist pole/rail pole with PSC pole	0.52
Strengthening of Distribution system (up-gradation of DTR, new S/S)	1.15
Improvement of earthing at Primary S/s	0.62
Grand Total for SOUTHCO	123.00

8. As regards the cost-benefit analysis of the proposed project, the three DISCOMs viz. WESCO, NESCO and SOUTHCO stated that the details of cost-benefit analysis for each specific projects area has been calculated and the overall return on investment works out to more than 15% per annum. The reduction in AT&C loss is projected at 3% per year. The DPRs have been prepared to ensure reduction of AT&C loss level @ 3% per annum on the average for the respective division as a whole although the

reduction of AT&C loss would be more than 3% in the identified project area which would be ring fenced.

9. The Commission during hearing questioned the authenticity of the Baseline data and urged that the Baseline data submitted by the licensees shall under no circumstances be changed. The CEOs of DISCOMs replied that the base-line data pertained to the financial year 2009-10 submitted to the Commission in the performance review meeting.
10. Further, the Commission enquired about their capitalization plan and its impact on tariff. The Commission directed that DISCOMs shall submit the information on scheduled date of commencement of the proposed work, scheduled date of completion along with interest during construction, employees cost and overhead allocation to capital works. In reply the licensee explained the manner in which investment would be capitalized and its impact on tariff has been duly considered as indicated below:

Manner of capitalization

- (i) The proposed capital expenditure shall be ascertained on the basis of actual expenditure incurred along with capitalization of interest, employee cost and other overhead expenses.
- (ii) The expenditure so made shall be booked under Capital Work in progress (CWIP) scheme-wise.
- (iii) Date of completion of the asset shall be obtained from the field units.
- (iv) The sub-category of the asset shall also be ascertained like Land, Building, Network Asset (line, cable, substation etc.), office equipments and vehicles etc.
- (v) The asset put to use shall be booked as completed asset registered in the ARR and uncompleted asset shall be shown under CWIP head.

Impact on Tariff:

- i) Depreciation – The depreciation on the GFA to be added shall be computed @ 3.7% p.a as per the prevailing practices of the Commission.
- ii) Interest – the grant portion of the CAPEX shall not carry any interest. The GoO loan and GRIDCO loan carry 4% interest. The counterpart loan of DISCOMs are arranged for Rs.58 cr. and Rs.40 Cr from REC and IDBI bank respectively which carry interest @13% p.a and @ 11% p.a respectively.

- iii) Repair and Maintenance expenses – the R&M expenses shall carry @ 5.4% p.a on the Gross Fixed Assets to be added.
 - iv) Return in Equity – NIL.
 - v) Performance Improvement – Reduction in Distribution Losses.
11. The licensee further replied that details of capitalization plan in the defined area shall be submitted to the Commission in their ARR filing of 2011-12.
 12. The Commission stated that the efficiency gain due to investment should earn extra revenue so as to cover the establishment cost, interest depreciation, R&M resulting in least impact on tariff.
 13. Regarding resource mobilization and financial plans for meeting the investment, the licensees in reply to the query raised by the Commission stated that the DISCOMs are expected to get the funding under 13th Finance Commission grant and State Govt. as grant/loan and part of the same may be converted to grant on achieving loss reduction parameters set out by State Govt. @3% per annum. DISCOMs are also raising counterpart funding from financial institutions based on first charge over existing immovable asset as security and escrow on receivables. The Commission advised that the fund should be arranged by mortgaging the asset and the first charge on the receivables of the DISCOMs can not be accepted as the receivables are meant to discharge other liability like purchase of power, employee cost, R&M etc. The counter part funding to be arranged by the DISCOMs should be over and above the amount approved for Repair and Maintenance expenditure every year. There should be no compromise on full utilization of R&M expenditure and clear demarcation should be done so far as repair and maintenance work and Capex under taken by the licensee.

Commission's observations and Directions:

14. After hearing the representatives of three Reliance managed distribution companies at length and in view of the urgency of investment for upgradation, renovation and expansion of the sagging distribution network the Commission hereby approves the DPRs submitted by WESCO, NESCO & SOUTHCO for the year 2010-11 and 2011-12 as summarized in Para -7 with the following directions and stipulations:-
 - i. The guidelines/procedure outlined by Energy Dept. in their Lr. No. R&R-I-06/2010-9230/En dtd. 21.10.2010 in the matter of procurement materials, third party verifications etc. shall be followed.

- ii. The capital expenditure to be incurred out of the budgetary assistance from the State Govt. and the loan/resource to be arranged by WESCO, NESCO & SOUTHCO would be over and above the approved O & M expenditure for them for the year 2010-11 and O & M expenditure to be approved for the subsequent years. The O & M expenditure shall not be considered towards counter funding by WESCO, NESCO & SOUTHCO.
- iii. Discrimination should not be made between franchisee and non-franchisee area for utilization of fund under O&M as well as capital investment programme keeping in view the terms and conditions agreed to in the agreement with the franchisees.
- iv. In order that the distribution companies should ensure full utilization of the amount approved for O & M expenditure, concerted efforts should be made to increase substantially the present level of billing and collection so that enough money is deposited in escrow account for enabling GRIDCO to release the required fund as per the priority fixed by the Commission in their order dated 12.4.2010 in case No. 3/2010 read with their order dated dtd. 02.11.2010 in case No. 34/2010.
- v. For correct comparison of the improvement achieved over the base line data for the year 2009-10 the distribution companies are to correctly workout the base line data for 2009-10 division-wise as a whole and for the specified project area within the division separately. At the end of the project period the improvement achieved for the division as a whole and for the project area specified shall be compared with the base line data thus worked out correctly.
- vi. State Govt. in the initial stage is proposing to release fund as loan which can be subsequently converted to grant depending on actual fulfillment of the target of the AT&C loss. Hence in order to reduce the impact on tariff on account of the proposed investment, distribution companies are to closely monitor the actual implementation at the field level. The man and materials should be provided in time through appropriate re-deployment and re-allocation so that in no way there is cost over run and time over run leading to higher impact on tariff. In otherwords additional liabilities, if any, arising out of cost over run or time over run or failure by the licensee to achieve the performance parameters fixed by the Monitoring Committee/ State Govt. shall

not be considered by the Commission for the purpose of their revenue requirement for the relevant years.

- vii. Advance action should be taken for procurement of materials and awarding the contract for implementation of capex programme so that the work is taken up in time and the payment is released as soon as fund is passed on by GRIDCO after receiving the same from the State govt.
- viii. While the investment is expected to improve the quality of supply and reduce the distribution loss, concurrent action should be taken for implementation of various anti-theft measures including strong and regular enforcement activities through Energy Police Stations and Vigilance Wing, MRT squad of the distribution companies.
- ix. Initially the State govt. is proposing investment of Rs.2400 crore for the four distribution companies out of which State Govt. would provide Rs.1200 crore. Therefore, it is necessary for the distribution companies to take all possible measures to ensure that target fixed on different parameters particularly with reference to distribution loss and AT&C loss are achieved by them at any cost so that govt. may consider further investment over and above Rs.2400 crore now decided. This is an opportunity which the distribution companies must avail and create an enabling situation for the State Govt. to extend further support to the distribution companies in their efforts to reduce the AT& C loss and improve the quality of supply. However, for the purpose of truing up, the parameters fixed by the Commission in the Tariff Orders of the respective years shall be taken as the basis but not the target fixed for the purpose of achieving budgetary support from the State Govt.
- x. The distribution companies are to furnish quarterly progress report on actual implementation of the project in specified area to the Commission by 15th of the month following the end of the quarter i.e. 15th January, 15th April, 15th July and 15th October
- xi. The estimated cost of the project, the date of commencement of the work, the scheduled date of completion and progress of the work should be displayed in website of distribution companies as well as that of GRIDCO for information of the general public.

15. The Commission further directs that the copy of this Order be forwarded to Energy Department, GRIDCO and CESU for their information and following up action on the stipulations /observations made in Para 14.
16. With these observations and directions the above cases are disposed of.

(B.K. Misra)
Member

(K.C. Badu)
Memer

(B.K. Das)
Chairperson